Chairman's Statement

Full Year Results

The Power Assets Group's diversified operating model combined with our low-risk asset base enabled us to deliver operating profits in line with expectations for the year ended 31 December 2019. The Group's audited profit attributable to shareholders amounted to HK$7,131 million (2018: HK$7,636 million). The decrease was primarily attributable to weak exchange rates for various currencies and lower contributions from the Group's UK and Hong Kong portfolios.

Our stable underlying performance is an endorsement of the strength of our robust and diverse portfolio of assets that deliver predictable long-term income streams. Today we have investments in power generation, transmission and distribution, gas transmission and distribution as well as oil storage and transmission in 10 markets across the globe – namely the UK, Australia, Mainland China, the Netherlands, Portugal, New Zealand, Thailand, Canada, the United States, and our base Hong Kong.

Dividends

The Board of Directors has recommended a final dividend of HK$2.03 (2018: HK$2.03) per share, payable on 28 May 2020 to shareholders whose names appear in the Company's Register of Members on 19 May 2020. This, together with the interim dividend of HK$0.77 per share, takes the total dividend for the year to HK$2.80 (2018: HK$2.80) per share.

Operations

United Kingdom Portfolio

As the Group's largest market, our businesses in the UK recorded a total profit contribution of HK$3,489 million (2018: HK$4,045 million). Uncertainties surrounding Brexit during the year did not affect business performance, as output is regulated or governed by long-term offtake contracts. However, currency fluctuations and UK Power Networks (UKPN)'s cessation to recognise certain non-cash revenue impacted the profit contribution to overall earnings.

UKPN, Wales & West Utilities (WWU) and Northern Gas Networks (NGN) all continued to lead in reliability and customer service. Seabank Power met expectations, with its income governed by an offtake contract based on availability.

Hong Kong Portfolio

In our home market Hong Kong, HK Electric Investments made a profit contribution of HK$777 million (2018: HK$1,018 million). The decrease was primarily due to a reduction of the rate of permitted return under the new Scheme of Control Agreement which commenced on 1 January 2019.

The operating company, HK Electric, is transitioning smoothly into the new regulatory period. A new gas-fired generation unit, L10, was synchronised in October 2019 and commissioned in February 2020. The company is progressing with other capital works under the 2019-2023 Development Plan which will not only increase its assets base but also increase gas-fired generation further to about 70% of total output by 2023. At the same time, HK Electric achieved a reliability rating of more than 99.999% for the 23rd year in a row, despite the city-wide social unrest since June 2019.

Australian portfolio

The Australian portfolio delivered a profit contribution of HK$1,445 million (2018: HK$1,451 million) to the Group. The underlying performance was strong, but results were partly affected by unfavourable exchange rates.

The electricity distribution networks, SA Power Networks (SAPN), Victoria Power Networks (VPN) and United Energy (UE) engaged with the regulator and stakeholders to determine acceptable outcomes in regulatory resets. The reset for SAPN will be in 2020 while the resets for both VPN and UE will be in 2021. In addition, our electricity distribution networks in Australia have been minimally impacted by the bushfires. In the State of Victoria, neither VPN nor UE has been affected. The bushfires did cause damages to homes in the State of South Australia; nonetheless, SAPN recorded minimal damage to our assets given our electricity poles are constructed of concrete and steel.

The gas distribution networks, Australian Gas Networks and Multinet Gas, progressed the construction of a 1.25-MW hydrogen electrolyser plant at the Tonsley Innovation District in South Australia for the Hydrogen Park SA project. This will be used to analyse and develop business models for the use of "green" hydrogen utilising excess solar energy in the day time and the excess wind energy in the night time to progressively decarbonise gas supply. Our gas transmission pipeline, Dampier Bunbury Pipeline completed and commenced operation of the Tanami Gas Pipeline ahead of schedule. Energy Developments Pty Ltd (EDL) acquired two additional landfill sites capable of generating approximately 65 MW in the United States. Australian Energy Operations connected the Moorabool and Elaine Wind Farms to the grid in 2019 and started contribution to the Group.

Mainland China portfolio

The Chinese portfolio comprising wind farms and coal-fired power plants made a profit contribution of HK$415 million in 2019 (2018: HK$469 million). The transfer of ownership of the Siping cogeneration plant to the mainland joint venture partner under the respective co-operative agreement was completed in 2019. The operation rights of Zhuhai power plant also expired in 2019 and the transfer of its ownership to our mainland partners is in progress. This is aligned with the Group's global decarbonisation goals and will have reduced our total installed coal-fired generation capacity by 1,600 MW upon completion.

Other portfolios

The Group's two Canadian operating companies delivered earnings in line with expectations in 2019. Husky Midstream continued to expand its network footprint, delivering a reliable income stream for the Group devoid of commodity risk. Within the fleet of our Canadian power plants, the only coal-fired power station in Alberta, the Sheerness power plant, is currently undergoing progressive coal-to-gas conversion and ultimately becoming a 100% gas-fired generating unit.

Our continental Europe portfolio focuses on energy generation from waste and through renewables. AVR-Afvalverwerking B.V. (AVR) in the Netherlands designed, installed and is currently operating the first carbon capture and utilisation plant selling captured carbon dioxide to nearby greenhouses. Both AVR and Iberwind met expectations and made stable profit contributions to the Group.

Wellington Electricity Lines Limited in New Zealand and Ratchaburi Power Plant in Thailand operated smoothly and met customer services targets and performance expectation.

Supporting global efforts to decarbonise energy and heating

There is a non-stop momentum towards decarbonisation of energy around the world. To meet UK Government's Net-Zero initiative, our strategy is two-fold: to accelerate and support decarbonisation of home heating and electricity supply, and to ensure the requisite infrastructures are in place to support businesses and consumers' own efforts in this regard. In the electricity distribution sector, our networks are continuously upgraded to accommodate the projected influx of distributed renewable energy sources from solar and wind generation as well as the anticipated surge in the required charging networks to facilitate the massive uptake of electric vehicles.

In the gas distribution sector, NGN and WWU are founding members promoting the H21 (hydrogen in the 21st Century) concept and related projects. The series of projects embark on the safety case studies at the Health & Safety Laboratories in Buxton as well as hydrogen blending (into the natural gas network) trials at Keele University, with a full-scale pilot demonstrator planned for Gateshead in North East of England. In addition to the blending of hydrogen, our gas networks in the UK continue to take on additional bio-methane gas to reduce emissions in household heating.

In order to help reduce emissions in electricity supply, we generate renewable energy in Portugal, Mainland China, Australia and Hong Kong, as well as producing energy from waste in the Netherlands. Furthermore, through our investment in EDL, we also produce energy from landfill gas in Australia, North America and Europe. In our continuous efforts to phase out coal-fired units, HK Electric is building two more gas-fired generating units to increase gas-fired generation capacity to 70% of total output by 2023. Together with the relinquishment of 1,600 MW of coal-fired units in Mainland China and Canadian Power's coal-to-gas conversion of Sheerness Power Plant, the Group's carbon emissions will be significantly reduced going forward.

The Group is also supporting efforts by consumers and businesses to move towards greener lifestyles through adoption of electric vehicles (EVs), energy conservation, and consumer-side renewable generation. In the UK, WWU is making public transport in Wales and South West England greener by connecting and supplying gas to gas filling stations for bus and lorry fleets, while UKPN is powering a network of electric bus garages. In Hong Kong, UK and New Zealand, our operating companies built out EV charging facilities for private as well as public transportation.

We optimised our distribution systems to be more agile in order to support renewable installations by consumers. In Hong Kong, a Feed-in Tariff scheme where customers can sell electricity from their own installations back to the grid at advantageous tariffs drew an encouraging response from the community. A notable adopter of this scheme is Ocean Park, which has installed a 200-kW rooftop solar panel system that can generate approximately 200,000 kWh of green electricity every year.

Outlook

It is widely anticipated that global economic uncertainties will persist in 2020 with the challenge of the looming threat of global trade tensions, political disruptions, natural disasters and infectious diseases. In addition, lower allowed returns resulting from ultra-low interest rates globally and tough stances by regulators will inevitably result in lower revenues.

With a sound net cash position and good liquidity, the Group is strongly positioned to pursue large strategic acquisitions despite geopolitical and economic uncertainties. Our strategy is to achieve organic growth among our underlying businesses, with opportunities to expand their operational scale through acquisitions. At the same time we join our strategic partner, CK Infrastructure Holdings Limited, to vigorously pursue acquisition targets that offer assured, long-term returns in well-regulated and mature markets with financial discipline.

In closing I would like to thank our board, management and shareholders, as well as all our employees around the world for your unwavering loyalty, hard work and commitment.

Fok Kin Ning, Canning
Chairman
Hong Kong, 18 March 2020