Chairman's Statement

Solid Full Year Results

2021 saw the Power Assets Group deliver steady performance based on its diversified portfolio of long-term investments in the power generation, transmission and distribution; gas transmission and distribution; and oil storage and transmission sectors. This model of investing in low-risk energy infrastructure has helped to insulate us from the lingering macroeconomic impact of the global COVID-19 pandemic and fluctuations in fuel prices.

The Group's audited profits attributable to shareholders amounted to HK$6,140 million (2020: HK$6,132 million). Excluding the non-cash deferred tax related charges for the operating companies in the United Kingdom in 2020 and 2021 as well as the disposal gain from the sale of Portugal investment, Iberwind, in 2020, the adjusted profits attributable to shareholders would have increased by 10%.

The Group's financial position remained solid with funds received from operations for 2021 totalling HK$5,300 million (2020: HK$5,533 million).

The Power Assets Group is a strategic investor in the global energy sector. Our portfolio includes primarily regulated businesses across stable energy markets: the UK, Australia, Hong Kong, Mainland China, the Netherlands, New Zealand, Thailand, Canada and the United States. In 2021, our operating companies kept their focus on providing uninterrupted, reliable energy to our commercial and residential customers while continuing to digitalise and upgrade our operations as well as observe due precautions associated with the COVID-19 pandemic.

The energy sector is seeing a dramatic transformation as all players seek to supply energy needs with minimal impact on the environment. Most of our operating markets have committed to supporting zero-carbon targets within the coming decades. Transformative innovation from every energy player is essential to enable this to be realised, and many of our operating companies are at the vanguard of change through research and innovation in collaboration with cross-sector stakeholders.

Dividends

The Board of Directors has recommended a final dividend of HK$2.04 (2020: HK$2.04) per share, payable on 7 June 2022 to shareholders whose names appear in the Company's Register of Members on 24 May 2022. This, together with the interim dividend of HK$0.78 per share, takes the total dividend for the year to HK$2.82 (2020: HK$2.81) per share.

International Energy Investment Portfolio

Regulatory resets were completed for several operating companies in the UK and Australia, ensuring a stable environment for smooth operations in the coming years.

United Kingdom portfolio

The Group's portfolio in the UK, our largest market of operation, made a profit contribution of HK$2,819 million (2020: HK$2,460 million). All our operating companies once again delivered market-leading performance in reliability, safety and customer service. Appeals to the Competition and Markets Authority to challenge the final determinations for Northern Gas Networks (NGN) and Wales & West Utilities (WWU) have been completed; thus offering stable and predictable cash flow for the five-year regulatory period of 2021-2026.

In 2021, the Group recorded non-cash transactions on a tax credit in respect of deferred tax liabilities on intangible assets of a joint venture and a higher deferred tax charges as a result of the 6% increment in UK corporate tax rate.

UK Power Networks (UKPN) was the best in class for performance, safety and customer satisfaction, beating regulatory targets. The company remains focused on innovations to drive improved performance as well as initiative to facilitate Net Zero. Its market-leading innovation projects have delivered benefits since 2015, with 50 innovative solutions deployed to business.

NGN conducted extensive engagements with the regulator and its stakeholders, and received an incentive payment for having the best business case for the new regulatory period. It also successfully progressed the future use of hydrogen as an energy source, by supplying a blended gas containing 20% hydrogen by volume to 668 homes, a school and some small businesses in Gateshead in North East England. In support of the government's Ten Point

Plan, NGN has further developed, and officially opened to public, two semi-detached homes with all household appliances fuelled 100% by hydrogen - our gas network's vision towards zero-emission home heating.

WWU was recognised by the Institute of Customer Service for customer satisfaction, and ranked as a leader in this area amongst national household brands, not just within the utility business sector. In addition, WWU has connected 19 biomethane plants to the network since 2013, enabling decarbonised heating for 151,000 homes.

Seabank Power completed its scheduled overhaul and exceeded targets for operational efficiency and starting performance.

Australian portfolio

The Australian portfolio delivered a profit contribution of HK$1,283 million (2020: HK$1,329 million) to the Group. In light of the massive growth in roof top solar and distributed battery energy systems, the Australian Energy Regulator is conducting a comprehensive process to review the regulatory regime for energy companies and our operating companies have been collaborating with the regulator through this process.

Victoria Power Networks (VPN) has invested in widespread network improvements and vegetation management techniques with a view to significantly improving bushfire safety, while United Energy (UE) achieved incentive payments from the regulator for customer service and reliability. As for SA Power Networks (SAPN), its IT systems, including billing and customer relationship management were upgraded to provide improved functionality and system stability over the coming years.

Australian Gas Networks (AGN) exceeded regulatory targets on customer and emergency call response times, repairs, and customer service. AGN and Multinet Gas are at the forefront of gas network innovation and made encouraging progress on the hydrogen park projects for blending green-hydrogen into the natural gas distribution network to decarbonise the gas supply.

Dampier Bunbury Pipeline delivered satisfactory performance, while Energy Developments was named one of Australia's Most Innovative Companies by the Australian Financial Review following its development of groundbreaking techniques in hybrid energy solutions. Australian Energy Operations initiated planning for augmentation of two terminal stations to advance a state-wide network infrastructure enhancement initiative.

Other portfolios

The Canadian portfolio progressed with decarbonisation and delivered stable performance. Canadian Power acquired two wind farms in Okanagan in June 2021, marking its entry into renewable energy generation. With a capacity of 30 MW of green power, the assets have met expectations and started to contribute to the Group's revenues and green portfolio. The Sheerness power station completed its conversion from coal-fired to gas-fired during the year, signifying the end of the Group's coal-fired generation portfolio in OECD countries. Husky Midstream, having completed a number of major expansion projects in 2020, has placed its focus on safety, reliability and efficiency optimisation of its system, facilitating future growth.

In the Netherlands, AVR-Afvalverwerking B.V. (AVR) installed a new back pressure steam turbine, thereby substantially increasing cycle efficiency, which will supply low-carbon heat and power to 60,000 households in the Rotterdam region. During the year, the company was successfully named preferred bidder for AEB, a waste-to-energy business in the Netherlands; the acquisition is poised to extend AVR's core business.

Wellington Electricity completed a major three-year programme of works to enhance earthquake readiness across its network in New Zealand; the project included seismic strengthening of 91 buildings. In Thailand, Ratchaburi Power Plant delivered stable performance.

In Mainland China, the Jinwan co-generation power plant increased electricity sent out in response to strong industrial demand despite coal supply scarcities. The two wind farms in Dali and Laoting met targets and jointly offset 207,000 tonnes of carbon emissions.

Investment in HK Electric Investments

HK Electric Investments (HKEI) once again provided stable income to the Group and delivered a profit contribution of HK$979 million (2020: HK$912 million).

HKEI's wholly owned subsidiary HK Electric continues to work towards its goal of building a sustainable future. In support of the Government's "Hong Kong's Climate Action Plan 2050", which seeks to halve carbon emissions compared to the 2005 level before 2035 and achieve carbon neutrality before 2050, the company is undertaking a phased retirement of all coal-fired generating units and increasing support for renewable energy.

During the year, progress was made on its programme of capital works that will see the commissioning of two new gas-fired generating units in 2022 and 2023 respectively, together with an offshore liquefied natural gas (LNG) receiving terminal scheduled for commissioning in 2022. In addition, planning was under way for a large-scale offshore wind farm in Hong Kong waters.

The company's smart meter installation programme continued in 2021 with more than 120,000 smart meters already deployed. Through a new corporate mobile app, customers installed with smart meters can now access detailed energy consumption information which empowers them to optimise their energy use. Other customers will progressively enjoy this function under the smart meter installation programme, which is targeted for completion by 2025. HK Electric also offered technical consultancy to customers to facilitate wider adoption of electric vehicles (EVs) while also assisted the construction sector to reduce carbon emissions through a new "Smart Power for Construction Site" service.

A range of funds, services and schemes were implemented to support consumers and businesses which were facing difficulties in the wake of the economic slowdown resulting from the COVID-19 pandemic.

Initiatives to tackle climate change

We believe that climate change is a global challenge, and breakthrough solutions are essential to deliver clean, affordable energy to all. Many markets are on the route to carbon neutrality, reaffirming commitment to COP26 targets. Across the board, we are seeing exponential growth in rooftop solar, EV adoption, and more. Although this transition is placing unprecedented pressure on existing systems, this is a crucial stage in which customers, government and energy players can collaborate to create a greener planet.

We are evolving many of our electricity transmission and distribution networks to become "Distribution System Operators", placing us at the heart of the new renewable energy future. A case in point is that in South Australia, 34% of households have solar panels installed for rooftop solar generation. To facilitate this shift, SAPN has invested in digital technology to make the automated network more agile and dynamic, enabling the receiving and redistributing of electricity across the grid.

EVs are another essential part of a low-carbon future. UKPN has been investing systematically in readying their networks for large-scale charging requirements of EVs in the coming years. UKPN and UE are also conducting trials to investigate EV charging patterns and how they affect networks in real time to help identify affordable ways to promote their rollout and inform network and tariff planning.

In gas distribution, blending hydrogen with natural gas while utilising existing gas distribution network is an inexpensive but efficient way to transport and store energy as well as reduce carbon emissions. In May 2021, AGN opened the 1.25-MW Hydrogen Park South Australia, the first facility in Australia to produce renewable green-hydrogen. It is currently progressing a Hydrogen Park project in Gladstone, Queensland involving a 175-kW electrolyser. It has also commenced larger-scale plans to build a 10-MW renewable hydrogen electrolyser which will deliver hydrogen-blended gas to over 40,000 homes and businesses.

Outlook

We continue to maintain a strong financial position, in line with our prudent strategy of seeking out appropriately valued investments that meet our criteria for accretive growth. Though there is a strong likelihood of interest rate hikes in the coming months, our strong cash position allows us to continue to pursue our strategy and manage operating costs without negative impact.

Fluctuations in commodity prices – notably those of coal and natural gas – have affected the performance of all players in the energy space during the year. Our well-established strategy of investment diversification across the energy value chain with strategic focus on regulated infrastructure has ensured that our exposure to these fluctuations has been negligible, enabling us to deliver consistent returns to shareholders.

The global upsurge in fuel prices and a worldwide shortage in coal and gas supply mean energy price increase is inevitable for end consumers. In this context, we are making it a priority to support the energy-poor and underprivileged. HK Electric has set aside HK$63 million from three existing funds to assist those in need, promote energy efficiency and conservation, as well as strengthen outreach to the community regarding the advantages of and paths to low-carbon living.

Our approach to decarbonisation transcends our own operating companies. Under the leadership of our Sustainability Committee, we will continue to collaborate across the industry and with governments to deliver on societal decarbonisation goals. Areas like hydrogenising the gas supply, promoting EV rollout, increasing the grid's ability to optimise connections of renewables, and investing in renewables are all part of this effort.

While recent regulatory resets have been challenging, their conclusion has given us a stable platform on which to invest in decarbonisation and offer consumers the highest standards in reliability, safety, affordability and customer service while maintaining controls over operating costs.

In closing, I express my gratitude to our board, management and stakeholders, and all our employees around the world for your support, your flexibility in the face of societal change, and your dedicated efforts during the year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 16 March 2022