Chairman's Statement

Full Year Results

During 2020, the low-risk, diversified business model of the Power Assets Group, with regulated businesses or outputs governed by long-term purchase contracts delivered strong income streams. The funds received from operations in 2020 was HK$5,533 million, increased from 2019's HK$5,368 million.

Our business model insulated us to a great degree from the macroeconomic impact of the global COVID-19 pandemic. For the year ended 31 December 2020, operating profits were in line with expectations.

The Group's audited profits attributable to shareholders amounted to HK$6,132 million (2019: HK$7,131 million). The decrease was primarily due to the one-off non-cash charges on the remeasurement of deferred tax liabilities in the UK (HK$780 million); other factors include (1) a lower contribution from our Mainland China portfolio following the expiry of co-operative joint venture agreements of two coal-fired power stations; and (2) limited adverse impacts of the COVID-19 pandemic. It was partially offset by a one-off gain on disposal of our Portugal investment, Iberwind, during the year.

The Group's financial position remained strong, with a net cash of approximately HK$1.8 billion at 31 December 2020, increased from 2019's HK$1.6 billion. During the year, Standard & Poor's has reaffirmed the Group's credit rating of "A / Stable".

Increase in Dividends

The Board of Directors has recommended a final dividend of HK$2.04 (2019: HK$2.03) per share, payable on 1 June 2021 to shareholders whose names appear in the Company's Register of Members on 18 May 2021. This, together with the interim dividend of HK$0.77 per share, takes the total dividend for the year to HK$2.81 (2019: HK$2.80) per share.

Operations

The Power Assets Group is a global investor in power generation, transmission and distribution, gas transmission and distribution, as well as oil storage and transmission in nine markets spread across four continents – namely the UK, Australia, Hong Kong, Mainland China, the Netherlands, New Zealand, Thailand, Canada and the United States. As suppliers of essential services across the world, our focus in 2020 was to provide reliable energy to all our customers, support our colleagues and our communities and push forward with decarbonisation efforts.

Throughout the year, we maintained business continuity with an emphasis on organisational resilience from our operating companies. The majority of office-based staff were equipped to work from home, all customer contact centres remained operational, and field support staff were provided with personal protective equipment. Digital capabilities were enhanced with faster access and improved security.

Lockdowns in many parts of the world affected our revenues from the commercial segments, which were offset by increased revenues from the residential sectors. Our proactive investments in resilience paid off with all companies maintaining high reliability and customer service standards. We also participated in local efforts to help residential and small business customers, for instance by supporting catering establishments in Hong Kong, providing tariff relief packages in Australia and a cash flow relief programme for energy suppliers in the UK.

United Kingdom portfolio

The UK portfolio made a profit contribution of HK$2,460 million (2019: HK$3,489 million) to the Group. The results were affected by the COVID-19 pandemic and a one-off non-cash adjustment resulting from the UK corporate tax remaining at 19% instead of reducing to 17%, as previously enacted under UK Law. This necessitated a one-off adjustment to the deferred tax balances of our operating companies there.

Uncertainties surrounding the UK's departure from the EU in January 2021 did not affect business performance, as output is mostly regulated. Contingency measures were put into place from an operational perspective to ensure business continuity after the withdrawal. Extensive preparations were made for regulatory resets that would affect the Group's two gas distribution networks, Northern Gas Networks and Wales & West Utilities, commencing April 2021. The final determinations for both companies were released in December 2020 and they have decided to appeal to the CMA.

Our UK operating companies in electricity and gas distribution maintained their leading positions for reliability and customer service, securing incentive payments from the regulator Ofgem. UK Power Networks began a programme of network enhancement to prepare for a major increase in the number of electric vehicles on UK roads in the coming years. Northern Gas Networks enhanced its IT systems to streamline operations, and together with Wales & West Utilities continued to progress projects to demonstrate the viability of hydrogen-based gas networks. Seabank Power maintained a predictable income stream for the Group, with an offtake contract based on availability.

Hong Kong portfolio

HK Electric Investments continued to provide stable income to the Group and delivered a profit contribution of HK$912 million (2019: HK$777 million).

In 2020, our flagship company HK Electric stepped up its proportion of gas-fired electricity generation to 50% with the commissioning of L10, a new gas-fired generating unit. Despite the restrictions caused by COVID-19, the company pushed forward with its five-year development plan which will see gas-fired generation grow further to 70% of total output by the end of 2023. Construction of two other new gas-fired units, L11 and L12, progressed satisfactorily. The offshore liquefied natural gas terminal using Floating Storage and Regasification Unit technology will be launched in 2022.

Despite these extensive capital development works and social distancing measures, the company maintained its standards of reliability and customer service. It has set a new supply reliability record, achieving an impeccable rating of over 99.9999% for 2020 with customers experiencing power interruption of less than 0.5 minute for the whole year. HK Electric also supported the community with a series of relief measures to residential and commercial customers most seriously affected by the economic slowdown during the year.

The smart meters deployment programme progressed on track with 40,000 smart meters installed during the year. The programme, being rolled out in stages, is scheduled for completion by 2025 after which all customers will be able to access their electricity consumption data online. Another ongoing initiative is the connection of renewable energy installations to the grid under the Feed-in Tariff Scheme. During the year, 72 installations were connected to the grid.

Australian portfolio

The Australian portfolio delivered a profit contribution of HK$1,329 million (2019: HK$1,445 million) to the Group. Our operating companies reported good underlying performance, though it was partly offset by the adverse effects of the COVID-19 pandemic. Securing advantageous outcomes in regulatory resets while transforming distribution networks to support increased green energy were the twin priorities during the year.

SA Power Networks, one of the electricity distribution networks in the Group's Australian portfolio, commenced a new regulatory reset period in 2020 which offers predictable earnings for the next five years. Two other electricity distribution networks, Victoria Power Networks and United Energy, are engaged with the regulator and stakeholders to determine acceptable outcomes in regulatory resets due to be enforced from 1 July 2021.

Our gas transmission and distribution businesses in Australia are also preparing for resets. Australian Gas Networks made commendable progress on the Hydrogen Park SA project for blending green hydrogen into its natural gas distribution network to decarbonise gas supply. Multinet Gas continued to work on relocating its network control centre from Pinewood in Victoria to the Dampier Bunbury Pipeline control room in Perth. Energy Developments Pty Ltd has delivered Australia's largest hybrid renewable energy microgrid - Gold Fields Agnew Renewable Hybrid Project. Australian Energy Operations continued to yield steady revenues by maintaining the connection of four wind farms to the grid.

Mainland China portfolio

In Mainland China, the Group now owns and operates two wind farms and one coal-fired co-generation power plant: the Jinwan electricity and heat co-generation power plant. The reduced portfolio followed our transfer of the operating rights of two other coal-fired plants to the respective joint-venture partners in 2019 in accordance with the terms of the respective co-operative joint venture agreement. Consequently, the profit contribution from our Mainland China portfolio declined to HK$98 million in 2020 (2019: HK$415 million). The Jinwan electricity and heat co-generation power plant achieved all its operating parameters, while the two wind farms in Dali and Laoting delivered stable and smooth operations during the year and jointly offset 199,000 tonnes of carbon emission.

Other portfolios

In Canada, Husky Midstream continued the second phase of expansion of the Saskatchewan Gathering System; the Spruce Lake Central phase of this programme was completed in the third quarter. The construction of the three long-term contracted crude oil storage tanks in Hardisty was completed and entered into service in the second half of 2020, adding 1.5 million barrels of incremental storage capacity. Canadian Power continued to migrate to 100% gas-fired generation, while the conversion of the second unit from coal to gas is on schedule. In February 2021, with the Group's support, Canadian Power entered into an agreement to acquire 100% interest of two wind farms in British Columbia in Canada, namely Pennask Wind Farm and Shinish Creek Wind Farm. This acquisition is in line with the Group's strategy to invest in power infrastructure globally and to expand on its renewable energy portfolio.

AVR-Afvalverwerking B.V. in the Netherlands maintained its success in generating energy-from-waste, meeting all operating parameters. It progressed with pioneering efforts in carbon capture for greenhouse cultivation and yielded a stable profit contribution to the Group. In Portugal, the Group disposed of its interest in Iberwind during the year. The proceeds from the sale further strengthen our financial capabilities for new investment opportunities.

In New Zealand, Wellington Electricity Lines achieved customer service targets with strong network reliability. In Thailand, Ratchaburi Power Plant met all its operating targets.

Continuing Investment to Combat Climate Change

As participants in the global energy sector, we are fully committed to fighting climate change and our operating companies continued to innovate and invest in infrastructure and technology to help reduce our collective impact on the environment.

We enhanced the network to support the charging infrastructure needed for mass uptake of electric vehicles (EV) in the UK and provided EV charging solutions to building owners in Hong Kong. Our power generation plants in Hong Kong and Canada moved to increase gas-fired operations in place of coal-fired generation, while we are divesting our coal plants in China. In order to become more agile and able to accept more power generated by renewable installations operated by our customers and store electricity when needed, we continued to invest in the digitisation of our electricity distribution networks.

Our gas distribution companies in the UK and Australia are testing and demonstrating the viability of incorporating green hydrogen into the natural gas supply. Working closely with the respective governments, they spearheaded the entire sector's efforts in the area of hydrogen integration.

Outlook

Despite our resilient business model, there is no doubt that the economic impact of the COVID-19 pandemic will continue to linger, affecting our performance in the months ahead.

Amid the current uncertainty, we will stay focused on our long-term investment principles – seeking out low-risk investments with assured revenue streams in stable, mature energy markets at appropriate costs. Prevailing low costs of capital have diminished credit premiums, with the result that asset prices are inflated. Nonetheless, with a strong liquidity position, we are always ready to seek appropriate investment opportunities of any scale that meet our criteria.

Sustainability remains a key focus across the Group with a new Sustainability Committee established to oversee our strategy and advise the Board on the development and implementation of our sustainability initiatives. We aspire to stay ahead of the curve, acting as beacons for the industry in hydrogenisation of the gas supply and decarbonisation of electricity through a range of tactics. All the markets we operate in have drawn up climate roadmaps and emissions targets. Most notably, the UK government has pledged to reduce greenhouse gas emissions to net-zero by 2050, while gas-fired power will increase to 70% of total output by the end of 2023 for HK Electric in Hong Kong. The Group will continue to support the achievement of these goals, contributing to global efforts to combat climate change.

Macroeconomic uncertainty, low weighted average costs of capital and aggressive climate change targets will render the upcoming round of regulatory resets challenging. We will closely engage with stakeholders to achieve acceptable outcomes, building upon our underlying strengths and overall market leadership in efficiency and green energy investment.

My heartfelt thanks, as always, go to our board, management and shareholders, as well as all our employees around the world for your unwavering loyalty, hard work and commitment in the challenging circumstances of the year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 17 March 2021