

# GROUP MANAGING DIRECTOR'S REPORT



**H L KAM**  
Group Managing Director

## CKI – STRONG RESILIENCE IN CHALLENGING TIMES

The challenges brought by COVID-19 are unprecedented in nature and scale. Nevertheless, our operations around the world showed great resilience and continued to deliver uninterrupted essential services to our customers at a time when these services were needed most. The defensiveness of our infrastructure portfolio is clearly demonstrated by the stable cash flow generation from our businesses as a whole.

Our profit attributable to shareholders in 2020 was HK\$7.3 billion, a decrease of HK\$3.2 billion or 30% compared to 2019. However, the majority of the decrease was attributable to non-cash items including the deferred tax provisions in the United Kingdom (amounting to HK\$1.4 billion) and higher depreciation charges for UK Rails and EDL (amounting to HK\$0.4 billion), as well as the COVID-19 impact, which was approximately HK\$0.6 billion. Excluding the items above, the profit decrease is around 7% compared to 2019.

Incidentally, the operating cash flows may reflect a more accurate picture of the steadiness and healthiness of the Group's financial performance. Funds from operations ("FFO") in 2020 increased to HK\$7.8 billion from HK\$7.6 billion in 2019. The FFO mainly comprise cash proceeds, i.e. dividends from our business units around the world. As most of our businesses are either regulated businesses or businesses protected by long-term contracts, they are able to generate strong cash flow to the Group despite the operating challenges presented this year. The strong cash flows are one of the key pillars that have allowed CKI to sustain continuous dividend growth to our shareholders over the past 24 years.

## RESILIENT OPERATIONAL PERFORMANCE

Our infrastructure portfolio mainly comprises essential services including electricity distribution networks, gas transmission and distribution networks, water utilities, energy infrastructure, transportation infrastructure, household infrastructure and waste management.

The performance of CKI's regulated utility companies, such as electricity distribution networks, water utilities, gas transmission and distribution networks, remained steadfast and strong during the period. Utility companies were deemed essential services. Frontline staff continued to provide efficient and uninterrupted services to customers during the pandemic.

Many of our unregulated businesses also performed satisfactorily in the year. The performance of our British rolling stock company, UK Rails as well as Canadian Midstream Assets were not affected by the pandemic, given they are backed by long-term contracts. Likewise, Dutch Enviro Energy continued to run its waste-to-energy business and delivered on-budget performance. Reliance Home Comfort and ista, the household infrastructure businesses in Canada and Continental Europe, respectively, delivered solid performance as demand in home equipment and sub-metering services remained strong despite lockdown measures.

Two businesses were severely impacted by the pandemic. As their size are relatively small in the Group's overall infrastructure portfolio, their impact to the overall financial performance is manageable. Park'N Fly in Canada, an off-airport parking business, which is almost entirely dependent on air traffic, was severely affected in 2020. EnviroNZ's waste management business in New Zealand also suffered as the nationwide lockdown in 2020 led to a halt of waste collection in commercial areas. In both businesses, the management responded quickly, focusing on cost management and seeking alternative revenue streams where possible. They are expected to rebound strongly once the COVID-19 situation improves.

## COVID-19 IMPACT ON STAFF HEALTH

The pandemic presented many obstacles at the operational level. Amidst the crisis, our companies remained vigilant, took stringent measures and observed extensive safety protocols. Group companies worked together to ensure scarce Personal Protective Equipment ("PPE") was distributed and delivered to those who had the greatest or most urgent need for such PPE. This helped us to deliver uninterrupted services to customers. Despite this, it is unfortunate that some of our employees were infected. Out of around 30,000 employees of the global CKI family, there were 1,101 confirmed COVID-19 cases recorded as of 17th March, 2021, an infection rate of roughly 3% of our global workforce. Of these, four cases proved fatal. I hereby express my deepest sympathy and condolences to the affected families.

## DEALING WITH REGULATORY RESETS

Since listing in 1996, CKI's regulated businesses have been through multiple reset procedures. In Hong Kong, HK Electric has experienced two resets. In the United Kingdom, our utility companies have been through a combined eight resets, in Australia 16, and in New Zealand three. Regulatory resets are invariably challenging processes, as the regulators balance the interests of different stakeholders, including operators and customers, and accordingly affordability of utility prices, efficiency of operations and sustainability of long-term investment.

As a global player in the energy infrastructure sector, CKI's management teams in different regions are not only familiar with local practices but are also diligent in maintaining robust engagement with stakeholders. Most importantly, they possess deep local reset knowledge and extensive experience; which are regularly shared amongst group companies both domestically and internationally.

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The Group's regulated businesses in the United Kingdom and Australia will be going through regulatory reset processes in the near future. We have observed that the regulators in general are becoming increasingly stringent towards the reset parameters amidst the challenging macro-economic environment.

The process for the 2020-2025 regulatory reset for Northumbrian Water is very close to completion. As the terms of the new determination set by the regulator were more stringent than in previous periods, Northumbrian Water elected to challenge the determination by appealing to the Competition and Markets Authority ("CMA"). The final terms of the CMA's redetermination showed improvements.

The final determinations for Northern Gas Networks and Wales & West Gas Networks were released in December 2020. Both companies have also lodged appeals with the CMA.

Moving forward, CKI's management teams will continue to address the reset challenges by working co-operatively to strike a healthy balance between the interests of customers, shareholders and other stakeholders, and to ensure that the overall financial, operational and environmental health of the respective businesses are sustainable.

Once the reset processes are complete, the final determinations for the new regulatory periods will provide a high degree of predictability of each company's income stream for the next five years.

Regulatory reset schedule of CKI companies is as follows:

Companies	Commencement of New Regulatory Period
<b>UK</b>	
Northumbrian Water	April 2020
Northern Gas Networks and Wales & West Gas Networks	April 2021
UK Power Networks	April 2023
<b>Australia</b>	
SA Power Networks	July 2020
Dampier Bunbury Pipeline	January 2021
Victoria Power Networks	July 2021
United Energy	July 2021
Australian Gas Networks' South Australian network	July 2021
Multinet Gas	July 2023
<b>New Zealand</b>	
Wellington Electricity	April 2021

## ORGANIC BUSINESS DEVELOPMENT IN 2020

Despite the pandemic, CKI's group companies around the globe have continued to achieve growth both organically and through targeted acquisitions, focusing on opportunities that are not only profitable but also environmentally sustainable. In particular, group companies have been engaged in developing solutions to achieve a sustainable and decarbonised environment.

In the United Kingdom, UK Power Networks began introducing amorphous steel core transformers at substations and using low carbon concrete at construction sites to reduce carbon dioxide emissions. Northumbrian Water is in the process of installing an ultraviolet light disinfection system for water treatment. Northern Gas Networks and Wales & West Gas Networks have been engaging in the research to add a portion of hydrogen in their gas distribution networks, enabling the reduction of greenhouse gas emissions; and UK Rails completed deliveries of its new Class 331 and 397 fleets and has renewed leases on 10 of its 22 fleets.

Operations in Australian Gas Networks were carried out smoothly despite challenges presented by the pandemic, and its initiatives in hydrogen were rolled out in South Australia and Queensland. Multinet Gas replaced its old cast iron mains ahead of schedule, and Dampier Bunbury Pipeline signed a contract for the Waitsia expansion project. EDL on the other hand, further extended its footprint in the United States by developing a renewable natural gas plant at the Indianapolis South Side Landfill in Indiana. Victoria Power Networks has recently completed the construction of the 62 MW Jemalong Solar Farm, the 106 MW Yatpool Solar Farm and the 12 MW Melbourne Airport solar farm. The SA Water Zero Cost Energy Future programme being delivered by SA Power Networks continues to progress extremely well, with construction completed on 30 of the 33 sites and the remainder to be completed by 30th April, 2021. The programme will see around 368,000 panels installed across SA Waters infrastructure and generate 154 MW of green electricity as well as providing storage capability of 35 MWh.

In New Zealand, Wellington Electricity's three-year Earthquake Readiness Programme is near completion, while EnviroNZ secured several new long-term municipal council contracts.

In Continental Europe, Dutch Enviro Energy secured a new contract with The Hague municipality and all municipalities in the Province of Utrecht to process residual waste. ista meanwhile launched a new heat meter module in the Netherlands, Italy, Poland and Germany.

In Canada, Canadian Power completed the first stage of coal-firing to gas-firing conversion at the Sheerness power station in Alberta. Park'N Fly implemented a series of cost reduction measures to address the challenges brought by the pandemic. Canadian Midstream Assets successfully completed various expansion projects, and Reliance Home Comfort made three acquisitions in 2020 to further expand its business portfolio.

In Hong Kong and Mainland China, HK Electric, the flagship company under Power Assets, stepped up its proportion of gas-fired electricity generation to 50% with the commissioning of L10, a new gas-fired generating unit. Green Island Cement commenced the operation of its new slag-grinding plant, and Alliance Construction Materials was granted the Platinum Label by Construction Industry Council Green Product Certification for its green concrete products.

## DISTINGUISHED OPERATIONAL PERFORMANCE

The pandemic-induced turbulence tested our resolve and resilience in weathering the storm. Despite the challenges in 2020, CKI member companies achieved distinguished performance in many aspects, including technological innovation, customer service, operational excellence, CSR and sustainability initiatives. These were recognised with multiple awards presented by prestigious organisations from around the world.

Altogether, 67 awards were presented to CKI member companies in 2020.

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## AWARDS

### CK INFRASTRUCTURE

#### Hong Kong Institute of Financial Analysts and Professional Commentators

- Outstanding Listed Company Award 2020

#### CAPITAL WEEKLY

- The Listed Enterprise Excellence Awards 2020 – Corporate Governance

#### InnoESG Prize 2020

- ESG Prize

### UK POWER NETWORKS

#### Network Awards 2020

- Network of the Year 2020
- Stakeholder Engagement Initiative of the Year

#### Investors in People

- Investors in People Platinum Award

#### The Sunday Times

- Top 25 Best Big Companies to Work For 2020

#### Charity Times Awards

- Corporate Social Responsibility Project of the Year

#### Engineering Talent Awards

- Best Project of the Year

#### Corporate and Financial Awards

- Best Online Report – Gold
- Best Printed Report Unlisted – Silver
- Best Corporate Website

#### Global Good Awards UK 2020

- Technology for Good Award

#### Energy Institute Awards 2020

- Innovative Technology Award

#### Utility Week Awards 2020

- Disruptor of the Year Award

### NORTHERN GAS NETWORKS

#### The Royal Society for the Prevention of Accidents Health and Safety Awards 2020

- Gold Award

#### Pipeline Industries Guild

- Best Land-based/ Onshore Pipeline Concept Award

#### National Site Awards 2020

- Most Considerate Site Under £500k
- Gold Awards
- Silver Awards
- Bronze Awards

### NORTHUMBRIAN WATER

#### Ethisphere Institute

- World's Most Ethical Companies List

#### Water Industry Awards 2020

- Water Company of the Year

#### Business in the Community

- The UPS Environmental Sustainability Award – Responsible Business Champion 2020

#### Chartered Institution of Water and Environmental Management – Urban Drainage Group

- WaPUG Prize

#### Utilities & Telecoms Awards

- Best Contact Centre Team

### WALES & WEST GAS NETWORKS

#### The Royal Society for the Prevention of Accidents Health and Safety Awards 2020

- Oil and Gas Industry Sector Winner
- Gold Award

#### Network Awards 2020

- Partnership Initiative of the Year

#### Business in the Community

- Responsible Business Champions Cymru 2020

### UK RAILS

#### The Golden Spanner Awards 2020

- Gold Spanners (The Most Reliable Train Fleet of its Class) for Class 455, IC225, Class 222, Class 171, Class 195
- Silver Spanners (The Most Improved Train Fleet of its Class) for Class 315
- Bronze Spanners (For the Fastest Incident Recovery) for Class 334

### AUSTRALIAN GAS NETWORKS

#### Energy Networks Australia

- Consumer Engagement Award

#### Engineers Australia

- Australian Engineering Excellence Award – South Australia Division

#### Australian Pipelines and Gas Association

- Environment Award

#### South Australian Premier's Awards for Energy and Mining 2020

- Commendation: Energy Sector – Innovation and Collaboration

## SA POWER NETWORKS

### Australian Training Awards 2020

- Large Employer of the Year 2020

### Energy Networks Australia

- 2020 Industry Innovation Award

### Digital Utility Awards 2020

- Best Use of New Technology Award

### 2020 AIPM Project Management Achievement Awards

- SA Project of the Year

## RELIANCE HOME COMFORT

### Greater Toronto Area Contact Centre Association Annual Award

- Rising Above Team Award

### Durham Region Home Builders' Association

- Supplier of the Year

### HomeStars 2020

- Best of Award

### United Way Alberta

- Best Small Business Campaign

## VICTORIA POWER NETWORKS

### 2020 AIPM Project Management Achievement Awards

- National PMAA for Small Projects
- Victorian Chapter PMAA – Project Winner

## GREEN ISLAND CEMENT

### Green Council

- Hong Kong Green Awards

### Environmental Campaign Committee

- Hong Kong Awards for Environmental Excellence – Silver Award (Manufacturing and Industrial Services)

### The Employees Retraining Board ERB Manpower Developer Award Scheme

- Manpower Developer (2014 – 2022)

### Bank of China (Hong Kong)

- Corporate Environmental Leadership Awards

## ENERGY DEVELOPMENTS

### Engineers Australia

- Australian Engineering Excellence Award – Western Australia Division

### Charlton Media Group Asian Power Awards

- Innovative Power Technology of the Year

### S&P Global Platts 2020 Global Energy Awards

- Engineering Solution of the Year

## ALLIANCE CONSTRUCTION MATERIALS

### Occupational Safety and Health Council

- Safety Performance Award

### Hong Kong Construction Association

- Proactive Safety Contractor Award
- Safe Person-In-Charge Award
- Safe Supervisor Award

### Build4Asia and PRC Magazine

- Outstanding Building Materials Award

### Hong Kong ESG Reporting Awards

- Recognition on ESG Disclosure

### Environmental Campaign Committee

- Hong Kong Awards for Environmental Excellence – Certificate of Merit (Manufacturing and Industrial Services)
- WasteWise Certificate

### The Hong Kong General Chamber of Small and Medium Business

- Partner Employer Award 2020

## ENVIRO (NZ)

### 2020 Australasian Fleet Champions Awards

- Safe Vehicles Award – Highly Commended

## WELLINGTON ELECTRICITY

### Volunteering Wellington

- Mahi Aroha Award

## ISTA

### Top Employers Institute

- Top Employer Award

### AUBI-plus

- Best Place to Learn

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## 2020 – A YEAR OF SIGNIFICANT ANNIVERSARIES

For CKI, 2020 will be remembered as a year of resilience. It is also a year which we marked the anniversaries of some of our businesses.

- Powercor in Australia, celebrated its 20th anniversary as a member of the CKI family;
- Northern Gas Networks in the United Kingdom, marked its 15th anniversary; and
- UK Power Networks in the United Kingdom, marked its 10th anniversary

They have all made great contributions to develop what CKI is today – dynamic, resilient, visionary, solid, secure, commitment to excellence... to name just a few of the characteristics.

## DEDICATE OUR ACCOMPLISHMENTS TO COLLEAGUES WORLDWIDE

I would like to take this opportunity to express my sincere gratitude and appreciation to each and every colleague at CKI. Their selfless contributions have enabled the provision of reliable and uninterrupted infrastructure services to their respective communities around the world. Their unwavering commitment to excellence and integrity in performing their duties has helped the Group to withstand the impact brought by the pandemic.

While it may take a while for societies around the world to return to normalcy, CKI is primed to prosper and achieve new heights in the years ahead. This is due in no small part to our dedicated colleagues who have built a solid foundation for our success. It is fitting for me to dedicate the Group's accomplishments to our colleagues – the most important asset of CKI.

**H L KAM**

Group Managing Director

17th March, 2021