

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the first Environmental, Social and Governance (“ESG”) Report (“Report”) on Cheung Kong Infrastructure Holdings Limited (the “Company”) and its subsidiaries or business units (the “Group”) for the year ended 31st December, 2016.

The scope of this Report covers the Group’s core businesses, including energy infrastructure, transportation infrastructure, water infrastructure, waste management, waste-to-energy, as well as infrastructure related business. This Report aims to provide an overview of the Group’s ESG performance and its representative initiatives, based on the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited (“Reporting Guide”) in 2015.

This Report has been organised into four chapters focusing on environment, employment and labour practices, operating practices and community. Key initiatives undertaken by the respective business units are featured in their relevant chapters which we believe best demonstrate our commitments in generating sustainable values to our stakeholders.

Approach to ESG and Reporting

The Group’s ESG philosophy is to create long-term value for its stakeholders that aligns with the growth and sustainability of its business and the environment it is in. The Group aspires to be a responsible corporate citizen and believes that transparency and accountability are important foundations for building the trust with its stakeholders.

As a leading player in the global infrastructure arena, the Group is cognizant of the significance of effective ESG practices and the importance of integrating ESG systems in the key business decision-making. The Group tackles ESG issues both at the Group and business levels. While the Board oversees the direction for our ESG practices, the Group’s business units set up individual ESG programmes and regularly measure their performances to identify opportunities for improvement and create sustainable values for our stakeholders. The management will then confirm that appropriate and effective ESG risk management and internal control systems are in place.

Stakeholder Engagement and Materiality Assessment

The Group engages its stakeholders from time to time through on-going communications and collect their views on the ESG aspects that they regard as relevant and important. Our key stakeholders include our employees, shareholders, customers, suppliers, the local community, professional institutions, non-governmental organisations and authorities. The Group maintains an open and transparent dialogue with its stakeholders through various channels including meetings, surveys, seminars and workshops. This Report details how the material ESG aspects identified based on the inputs of our key stakeholders are addressed.

In the year of 2016, for the purpose of meeting the new requirements of the Reporting Guide, a working group has been formed from International Operation, China Infrastructure, Infrastructure Materials Division, Business Development, Finance & Accounting, Corporate Legal, Corporate Affairs, Company Secretarial, Planning & Investment, Internal Audit and Human Resources of the Company, and Power Assets, HK Electric Investments, UK Power Networks, Northumbrian Water, Northern Gas Networks, Wales & West Gas Networks, Seabank Power, UK Rails, SA Power Networks, Victoria Power Networks, Australian Gas Networks, Wellington Electricity, Enviro (NZ), Dutch Enviro Energy, Portugal Renewable Energy, Canadian Power and Park’N Fly with a view to identifying and assessing material ESG aspects of our operations.

An independent advisor has been retained to provide reporting advisory services to the Company and to assist with developing a structure, processes and practices for ESG reporting for its compilation of an ESG report in accordance with the Reporting Guide. With the assistance of the advisor, information was collected from the relevant parties of the above mentioned business units and departments of the Group. The information so collected was reported in the ESG report which has been reviewed by the advisor in the process. The management has confirmed that appropriate and effective ESG risk management and internal control systems are in place.

ENVIRONMENT

The Group recognises its responsibility to the environment and the importance of reducing emissions and improving the efficiency in resource use.

Emissions

The Group's business units strive to minimise impacts to the environment through reducing air and greenhouse gas (GHG) emissions, waste and wastewater discharges.

Air and Greenhouse Gas (GHG) Emissions

Business units of the Group have taken various actions to reduce their GHG emissions. UK Power Networks has implemented a combination of measures including fleet refurbishment, site consolidation and installation of LED lighting to bring down its GHG emissions by 14% during the reporting period, and it plans to take additional measures to further reduce its GHG emissions.

Wales & West Gas Networks continues to embrace the UK's decarbonisation policy and the Government's efforts to promote biogas, and to date, it has connected 16 biomethane producers to the distribution network, Wales & West Gas Networks has been successful in reducing total carbon emissions by 12.7% against the 2013-2021 target of 16%, while business related carbon emissions were brought down by 9% against the 2013-2021 target of 10%.

Waste

Waste management which includes avoiding, reusing, recycling and reducing waste before final disposal is adopted by businesses within the Group. Northumbrian Water recycles 100% of sludge resulted from its wastewater treatment process for power generation and it has reduced its waste volume by 45% since 2015 and generated more than £2.4 million additional operational savings per year.

EnviroNZ has converted landfill methane gas to electricity. At its Hampton Downs landfill it has 7MW of generation installed which is capable of supplying the electricity needs of 5,000 households.

Wastewater

Businesses within the Group handle wastewater with care. EnviroNZ minimised the amount of liquid waste disposed to sewer. At its ChemWaste site, water consumption decreased by 29% (5,000 m³) over the last year. At the Hampton Downs Landfill a newly installed reverse osmosis leachate treatment plant removes contaminants and recovers up to 300,000 litres per day of high purity water fit for reuse or direct discharge back into the environment.

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Use of Resources

The Group's businesses endeavour to optimise the use of resources, including energy, water and other materials and have initiated their own resource efficiency programmes that align with their respective business natures.

Energy

Northumbrian Water has replaced or upgraded old and inefficient equipment and facilities with cleaner and alternative energy sources. It produces 29% of its service power use from renewable sources such as hydropower at treatment works and reservoirs and by converting 100% of its sewage sludge to biogas and then also into renewable electricity. The Advance Anaerobic Digestion plant at Howdon has been upgraded so that the biogas is purified to biomethane so that it can be directly injected into the national gas grid.

Water

Business units in the Group endeavour to conserve water by promoting saving and recycling water in their operations. HK Electric collects rain water and plant processing water at its Lamma Power Station for reuse. This initiative has been in place since 2002 and it helped saving more than 102,000 m³ of water during 2016. Similarly Green Island Cement collects and recycles rainwater for evaporation cooling at the conditioning tower in its manufacturing process.

Material

The cement production business of the Group in Hong Kong has increased the use of recycled materials from 43% to 54% since 2015. Over one million tonnes of industrial waste materials, such as byproducts from coal-fired power generation, have been recycled as raw materials for the Group's cement manufacturing business at its plants in Hong Kong and Mainland China.

The Environment and Natural Resources

Across the Group, a number of individual operations continue to identify, assess and manage potentially adverse environmental impacts including the protection of important habitats and the natural environment.

Northern Gas Networks has a land management programme dedicated to the monitoring and controlling of potential impacts caused by current operations or pre-existing conditions. Across 2015 and 2016, a total of 117 sites have been assessed under the programme of which six were identified to be contaminated by the previous land users. These sites were promptly cleaned up according to the local land quality standards.

Northumbrian Water's responsible management of land holdings for water storage helps protect the Abberton Reservoir, which is a wetland site of international importance, including as a Site of Special Scientific Interest (SSSI)¹ and a Ramsar site².

¹ A Site of Special Scientific Interest in Great Britain is a conservation designation denoting a protected area in the United Kingdom.

² A Ramsar site is a wetland site designated of international importance under the Ramsar Convention. The Convention on Wetlands (i.e. the Ramsar Convention) is an intergovernmental environmental treaty established in 1971 by UNESCO, which came into force in 1975.

Taking Timely Actions to Manage Environmental Impacts

In July 2016, Husky Energy responded to a pipeline release in Saskatchewan in western Canada. It took full responsibility and worked closely with the communities, First Nations and regulatory authorities to complete the cleanup. A full and thorough investigation was undertaken and Husky Energy will apply lessons learned from this to further improve its operations and response.

Regulatory Compliance

The Group was not aware of any non-compliance of laws and regulations that have a significant impact on the Group relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste during 2016.

EMPLOYMENT AND LABOUR PRACTICES

The Group believes people is its important asset. Recruiting, engaging and retaining talent are fundamental for the Group to remain ahead of its competition. The belief in talent management is demonstrated through the merit-based evaluation mechanism, competitive remuneration and inclusive work environment adopted in business units across the Group.

Recognising the importance of a work-life balance to a motivated and productive workforce, business units in the Group encourage their employees to maintain reasonable working hours and competitive paid leave entitlements are offered to the employees. Programmes have been initiated at the business unit level to recruit people from higher education institutions and to promote health and wellbeing of their employees.

The Group values employees' views and its business units have established various communication channels, such as seminars and workshops, to facilitate open dialogues with the employees, and to exchange views and collect feedback.

Business units of the Group have received awards as recognition for their achievements in different areas of employment practice. For example, UK Power Networks was recognised as an "Investor in People Gold Standard" and regarded as the "Top 25 Best Big Companies to Work For" for the second successive year. For other awards in the employment practice that have been obtained by business units of the Group during the year, please refer to pages 22 to 25 of this Annual Report.

Health and Safety

The Group recognises the importance of health and safety of employees at work and business units have established individual health and safety management programmes for such purpose.

SA Power Networks' "Safety First" programme highlighted the importance of safety and encouraged employees to consistently apply safety standards at workplace. Northern Gas Networks has adopted a scientific approach to understand the human behavior to enhance employee health and safety at work. Power Asset's Ratchaburi plant in Thailand has adopted a "Stop Work" programme in which frontline employees are given full autonomy to halt a work process if an unsafe situation is observed.

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Victoria Power Networks applies technologies to facilitate the safety workplace and uses the “Never Compromise Safety” app to support employees working alone on operational tasks. It has improved efficiency in providing assistance in cases of emergencies. The app is also used by employees to report health and safety incidents and to receive alerts and information relating to recent incidents.

Training and Development

The Group believes in talent investment and strives to realise the potential of employees through development programmes. It hopes to inspire employees to pursue further knowledge and encourage them to undertake learning. Trainings are provided at the business unit level to suit specific business needs and support the day-to-day job functions.

Labour Standards

The Group adheres to fair employment practices and promotes diversity and equal opportunity in its recruitment and promotion. The Group has zero tolerance to harassment and discrimination of any form. Employees are hired and selected based on their merits, regardless of their race, colour, sex or religious belief. The Group prohibits the use of child and forced labour in its businesses across the world. Mechanisms have been established by business units to prevent unethical practices.

Regulatory Compliance

During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to employment and labour practices, occupational health and safety. Nor was any incident identified relating to the use of child or forced labour.

OPERATING PRACTICES

Supply Chain Management

Businesses within the Group work with suppliers to make them aware of the Group’s commitment to sustainability.

Sourcing Responsibility

The Group supports sustainable procurement and its business units have incorporated environmental and social responsibilities into their procurement processes. Suppliers are required to take into consideration sustainability performance.

HK Electric has updated its Green Purchasing Guidelines to encompass supplier screening criteria on all major categories of purchasing, including building and construction supplies, electrical and gas appliances, and light fittings. Green Island Cement, Green Island Cement (Yunfu) and Guangdong GITIC Green Island Cement have included safety and environmental clauses in the purchasing contracts of its suppliers of fuel as well as raw and auxiliary materials.

Engaging Suppliers

Business units of the Group exchange and share knowledge with suppliers about their procurement practices and requirements. Northumbrian Water engages local small and medium enterprises through seminars and training to help them understand and meet its procurement requirements.

Australian Gas Networks engages its key contractor for distribution and transmission pipeline operations and management services and incentivises them to improve productivity and efficiency in a consistent and sustainable manner.

Product Responsibility

Business units of the Group strive to continuously enhance customer experience of their services and products through seeking feedback from customers to improve their operations.

Product Reliability and Safety

Effort and resources have been dedicated by the Group's business units in upholding safety procedures in the course of their daily operations. Safe and reliable performance of rolling stock is a key focus of UK Rails. Its team closely monitors safety, reliability and maintenance performance of the fleet. All safety events are investigated and reported through the internal governance process. Assistance has been provided to train operators and maintainers to improve maintenance and design modifications to reduce risk.

Customer Experience

Business units of the Group provide different ways to communicate and engage with customers and collect customer feedback. Victoria Power Networks has developed an outage app to enable more timely communication with customers. Northern Gas Networks adopts website, SMS and other written communication to obtain feedbacks from customer to gauge customer satisfaction and act upon their suggestions to improve the way it runs its operations.

Innovative Products

UK Power Networks adopts technologies that work with weather agencies to predict median fault volumes at 90% confidence intervals occurring on the power distribution. This helps in finding potential faults faster which in turn allows its business to restore power supply to customers quicker. Victoria Power Networks has been investing in developing a smarter network for which technologies have been applied to enable better management of assets, peak demand, outages and security risks to improve operational efficiency.

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Alliance Construction Materials turns surplus rocks from local development projects into aggregates for concrete production or rock products for construction projects, which would have otherwise ended up as landfill waste or being transported to other regions. The initiative helps to alleviate the stress on the limited landfill capacity, and reduces the carbon footprint from transportation.

Customer Protection

The Group recognises the importance of personal data protections and relevant business units of the Group safeguard data privacy and provide transparency on information relating to their products and services. The relevant business units have established data and privacy protection procedures which have been communicated to employees through internal policy and training. Collected personal data is treated as confidential and kept securely, accessible only by authorised personnel.

Regulatory Compliance

The Group was not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group concerning health and safety, advertising, labelling and privacy matters relating to products and services and methods of redress.

Anti-corruption

The Group has zero-tolerance on any forms of bribery, corruption and fraud. Policies and measures against corruption and other malpractice are adopted by business units across the Group. Monitoring and management control systems have been developed to detect bribery, fraud or other malpractice activities directly at the source. Employees and all other concerned stakeholders are encouraged to raise concerns on suspected cases through the Company's whistle-blowing mechanisms. Reports raised may be investigated internally by the Audit Committee or other departments of the Company delegated by the Audit Committee.

Regulatory Compliance

The Group was not aware of any breach of laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering during the year.

COMMUNITY INVESTMENT

The Group's businesses support the development of communities in which they operate.

Supporting Education

Australian Gas Networks has been supporting the nationwide "Science and Engineering Challenge" for a number of years. The initiative is to inspire high school students to study science and engineering and to encourage them to pursue related careers. In 2016, a total of 2,500 students from 80 high schools have benefited from the initiative.

In 2016, Dutch Enviro Energy organised presentations and plant tours for over 450 people at its facilities to introduce to them about waste-to-energy and inform them on its role in society. Among the visitors were high school students, policy makers and governmental personnel.

Helping the Underprivileged

Wales & West Gas Networks has its share of contribution in helping to alleviate fuel poverty³ with its “Warm Home Assistance” scheme since 2009. The scheme is targeted to fund the underprivileged families and those in deprived areas in Wales and the South West of England to keep warm by using a cost effective form of energy. Government backed vouchers are offered to eligible customers to ease the costs of installing new gas supplies, and advice is provided to help them to become more energy conscious. Its continuous efforts have so far helped over 13,600 “fuel poor” families and the business is on track to increase the number of beneficiaries by at least 5,000 by 2021.

UK Rails has supported Back Up which is the leading UK charity to assist people to adjust to life-changing spinal cord injuries. Over £42,000 has been raised during the year through a series of fundraising activities. Participated staff ran over 750 km, wore festive Christmas jumpers, climbed mountains and raced Dragon Boats. In addition, UK Rails funded the attendance of three selected staff volunteers to join a week long activity to become ‘buddies’ to wheelchair users to gain first hand experience of Back Up’s contribution.

The Group’s toll road and bridge operation makes annual donations to remote and less developed communities in Guangdong Province of Mainland China to improve the livelihoods of local residents and provide education to children of the disadvantaged families.

Conserving the Environment

Northumbrian Water works in partnership with a number of conservation charities. Over 156,000 people visited Northumbrian Water’s special conservation sites in 2016, with one site increasing its visitor numbers by 38%. Over 6,200 volunteer days were given across the sites. Northumbrian Water’s Branch Out programme funds projects across the regions to help build resilience in the natural world.

³ In the UK, the Warm Homes and Energy Conservation Act defines a person to be living “in fuel poverty” if he is a member of a household living on a lower income in a home which cannot be kept warm at reasonable cost.