“Against the COVID-19 pandemic backdrop, funds from operations increased from HK$7.6 billion to HK$7.8 billion. The income base of the Group is rock solid.”

VICTOR T K LI
Chairman

FUNDS FROM OPERATIONS INCREASE AMIDST PANDEMIC CHALLENGES

The global COVID-19 pandemic has impacted countries, businesses and people around the world. As well as the immediate implications on health, safety and travel, there have also been devastating effects on economies and markets.

Against this COVID-19 pandemic backdrop, CK Infrastructure Holdings Limited ("CKI", the "Company" or the "Group") has remained relatively steadfast and resilient. Characterised by regulated businesses, the performance of the operating units in different markets around the world have generally been stable, continuing to provide efficient and uninterrupted services to users and delivering an increase in funds from operations.

MAJORITY OF PROFIT DECREASE AMOUNT ARE NON-CASH ITEMS

For 2020, the Group recorded profit attributable to shareholders of HK$7,320 million (2019: HK$10,506 million), representing a year-on-year decrease of 30% (i.e. HK$3,186 million). More than half of the decrease is attributable to non-cash items: (i) the non-cash deferred tax charge of HK$1.4 billion reported in the United Kingdom to reflect the corporate tax rate remaining at 19% (rather than 17% as previously enacted); and (ii) the HK$0.4 billion non-cash higher depreciation charges for UK Rails in the United Kingdom and Energy Developments ("EDL") in Australia. The impact from COVID-19 only accounted for HK$0.6 billion of the decrease. Excluding the above mentioned non-cash items and COVID impacts, the profit decrease is about 7% between 2020 and 2019. Major factors accountable for such decrease are a lower contribution from Northumbrian Water subsequent to the commencement of the new regulatory regime in 2020, and exchange losses.

INCREASE IN FUNDS FROM OPERATIONS

In contrast to the decrease in profit, funds from operations increased from HK$7.6 billion to HK$7.8 billion.

The Group's portfolio as a whole generates continuous recurring cashflow every year. The income base of the Group is rock solid and the business foundation very strong and resilient.

FINANCIAL POSITION FURTHER STRENGTHENED

In 2020, the Group's financial position has been further strengthened with cash on hand of HK$13.5 billion and net debt to net total capital ratio of 13.1% as at 31st December, 2020.

Standard & Poor's has reaffirmed the Group's credit rating of "A/Stable" during the year.

24 YEARS OF CONTINUED DIVIDEND GROWTH

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK$1.79 per share. Together with the interim dividend of HK$0.68 per share, the total dividend for the year will amount to HK$2.47, which is 15 times that of the dividend in 1996, the year of listing. This represents 24 consecutive years of dividend growth since then. The proposed dividend will be paid on Wednesday, 2nd June, 2021, subject to approval at the 2021 Annual General Meeting to those shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 18th May, 2021.

BUSINESS REVIEW

Business Expansion via Acquisitions and Organic Growth

During the year, a number of business expansion activities via acquisitions were carried out. They include ista's acquisition of Hildebrand & Schoenfeldt GmbH & Co. KG in northern Germany and Krohn + Scheddel GmbH & Co. KG in Bad Homburg; and Reliance's acquisitions of the asset portfolios of Field P & H, and TAS Plumbing in Saskatchewan, and Simply Smart in Greater Toronto in Canada. In February 2021, Canadian Power also announced that it has signed an agreement to acquire two wind farms located in the Okanagan region of British Columbia, Canada. The asset base of the Group has continued to grow, providing the framework for more recurring cashflow in the future.

In addition, many of the Group's businesses have embarked on organic growth plans, including Northumbrian Water's new 3.6 million litres capacity water treatment facility, Northern Gas Networks' new 5.5-mile gas pipeline, Victoria Power Networks' several solar farm projects totaling 272 MW in capacity, Dampier Bunbury Pipeline's new major Western Australia gas pipeline, as well as EDL's waste coal mine gas power station in Australia and Renewable Natural Gas plants in the United States.

Power Assets

Profit contribution from Power Assets was HK$2,205 million, a decrease of 14% as compared to last year. The decline mainly resulted from (i) non-cash charges on the remeasurement of deferred tax liabilities in the United Kingdom; (ii) lower contribution from Mainland China resulting from the expiry of two coal-fired power station ventures in 2019.

In Hong Kong, HK Electric continued to achieve a solid operating performance and served the community well during the onset of COVID-19.

United Kingdom Infrastructure Portfolio

Profit contribution from the United Kingdom was reduced by 44% to HK$2,603 million. This decrease can be attributed to several key factors:

(i) the non-cash deferred tax loss due to changes in the corporate tax rate;
(ii) the commencement of a new regulatory reset for Northumbrian Water on 1st April, 2020, which resulted in lower revenues to the Group;
(iii) higher depreciation for UK Rails; and
(vi) rising costs associated with COVID-19.

The Group's regulated water and gas businesses in the United Kingdom are going through tough regulatory reset processes as regulators set stringent parameters for the resets against a challenging macro-economic backdrop combined with a low interest rate environment. CKI's management teams have worked diligently to propose improvements to strike a good balance between the interests of customers, shareholders and other stakeholders, and to ensure that the overall financial and operational health of the respective businesses are sustainable.

The first in the Group's United Kingdom portfolio to commence a new regulatory period is Northumbrian Water (April 2020), followed by Northern Gas Networks and Wales & West Gas Networks (April 2021). The current regulatory regime of UK Power Networks will remain in place until March 2023.

As the terms of the new determination as set by the regulator are more stringent than in previous periods, Northumbrian Water has elected to challenge the determination through the Competition and Markets Authority ("CMA") appeal process. 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 decided to appeal to the CMA.

In terms of operations, all the businesses performed very well despite disruptions posed by COVID-19. They have all continued to deliver good quality uninterrupted services to customers. A number of awards have also been attained including UK Power Networks' "Network of the Year 2020"; Northumbrian Water's "Water Company of the Year"; Northern Gas Networks and Wales & West Gas Networks' RoSPA (Royal Society for the Prevention of Accidents) Gold Awards; and UK Rails' Gold, Silver and Bronze awards in the industry award programme Golden Spanner Awards.

Australian Infrastructure Portfolio

In Australia, profit contribution dropped 11% to HK$1,864 million mainly due to higher depreciation for EDL and the impact of COVID-19.

The regulated businesses in Australia are also encountering regulatory resets. SA Power Networks' new regulatory period started on 1st July, 2020, while that for Dampier Bunbury Pipeline commenced in January 2021. Victoria Power Networks, United Energy, and the businesses of Australian Gas Networks in South Australia and Queensland will enter into new regulatory resets on 1st July, 2021.

In terms of operations, despite the challenges presented by this unprecedented year, all of the Group's regulated businesses in Australia reported excellent performances. CKI's four networks – SA Power Networks, CitiPower, Powercor and United Energy – were ranked first, second, third and fourth respectively in the most efficient distribution network table in Australia in the Annual Benchmarking Report released by the Australian Energy Regulator ("AER"). Additionally, Australian Gas Networks was named winner of the Australian Engineering Excellence Award for South Australia for its renewable hydrogen project.

The performance of EDL was negatively impacted by lower green credit revenue. For business development, the company launched a series of expansion projects during the year.

Infrastructure Portfolio in Continental Europe

In Continental Europe, profit contribution rose 98% to HK$1,550 million. All businesses in Continental Europe generated increase in profit contribution.

ista and Dutch Enviro Energy achieved solid operational performances. During the year, ista's acquisitions have integrated well with current operations and have started to bring in additional revenues. Dutch Enviro Energy's new contract with The Hague municipality started on 1st March, 2020, giving the company an assurance of an additional revenue stream for the coming years.

Portugal Renewable Energy was divested in October 2020. Revenue from this business in the first half of the year was adversely affected by weaker wind resource. The divestment gain resulted in profit contribution in 2020 recording an increase over 2019.

Canadian Infrastructure Portfolio

In Canada, profit contribution was HK$268 million, a decline of 20% from the previous year. The decrease was due to the negative COVID-19 impact experienced by Park'N Fly; revenue for this business declined significantly as airports have been running at extremely low capacity since March 2020 with its consequent impact on off-airport car parking.

Reliance Home Comfort recorded a strong performance in profit contribution. The three bolt-on acquisitions in the year further strengthened the company's revenue streams and business foundation.

Canadian Midstream Assets posted satisfactory financial results for the Group, with strong income protection from the preferential arrangement with Husky Energy. During the year, Husky Energy announced a merger with Cenovus Energy, however the move has not affected the Group's contract with Canadian Midstream Assets.

New Zealand Portfolio

The New Zealand market reported profit contribution of HK$136 million, a decrease of 22%. This drop is mainly attributed to a lower contribution from EnviroNZ whose business was impacted by reduced volumes due to COVID-19.

Profit contribution from Wellington Electricity was similar to 2019. The three-year Earthquake Readiness Programme approved by the New Zealand Commerce Commission which commenced in 2018 continued to be carried out in 2020 despite the periodic COVID-19 lockdowns. Over 70% of the entire Programme was completed by the end of 2020 with the remainder to be completed in 2021. The Programme aims to strengthen the network's readiness and reduce outage times following major earthquakes.

Hong Kong and Mainland China Business

In Hong Kong and Mainland China, CKI's portfolio showed a decline of 22% in profit contribution to HK$290 million. While the Group's materials businesses had a solid performance with positive growth in profit contribution, the Mainland China portfolio reported a decrease over the previous year as (i) toll revenue was negatively impacted by COVID-19, and (ii) a one-off divestment gain was generated from the sale of the Changsha Wujialing and Wuyilu Bridges back to the Mainland Chinese partner in 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

In December 2020, a dedicated Sustainability Committee was formed for CKI. CKI is keenly involved with all aspects of ESG and has a set of clearly defined ESG policies. In addition to adhering to the policies, our management teams often take the initiative to launch projects which are in support of ESG.

Many of our businesses have received numerous accolades for their contributions in this aspect especially in the area of environmental sustainability. Some of the environmental activities carried out involve launching trials in regards to transporting hydrogen in gas networks in the United Kingdom and Australia; and the development of hydrogen trains in the United Kingdom. As hydrogen is a major green energy of the future, the Group will continue to promote its usage. Other environmental projects of the Group include mega-hybrid renewable energy projects in remote regions of Australia; investing in advanced technology to increase the intake of solar energy into electricity grids in Australia; capturing and converting methane gas to energy in New Zealand; generating energy from municipal waste in Continental Europe; as well as investing in the new wind farms in Okanagan, Canada.

OUTLOOK

While there is cause for optimism on the pandemic front with the roll-out of various COVID-19 vaccines and the much-anticipated return to normal business activity, there remain significant uncertainties and difficulties for the global economies.

The Group's sizeable portfolio of regulated businesses are protected by secure regimes. For the unregulated businesses, many operate with a focus on secure business models and long-term contracts. As the world markets look forward to the resumption of normal daily life and activities, the Group is optimistic that business in our portfolio (particularly in the unregulated industries) will rebound.

In today's low interest and economically volatile environment, the value of CKI's global portfolio of high quality infrastructure assets – featuring healthy, solid operations with strong recurring income – is to be even more appreciated.

We are confident that growth opportunities will arise in the coming future as the COVID-19 situation improves and normality resumes. The Group is poised to continue its path of growth, both organically and via acquisitions based on its strong balance sheet and the solid revenue streams of our existing businesses.

Over the years, CKI has proven our track record as one of the key global infrastructure players. Our strong financials and extensive experience and knowledge give us an edge in securing new mega-acquisitions. CKI's flexibility in forming alliances with other members of the CK Group, namely CK Asset and Power Assets, further strengthens our strategic advantage.

One of the key tenets of CKI's operating philosophy is to maintain the optimal balance between stability and growth, and to uphold a fine equilibrium between continued earnings growth and a comfortable gearing position. As the Group pursues new expansion opportunities, we will continue to adhere to our strict investment discipline and will not pursue any acquisitions with a "must-win" mentality, utmost priority will be placed on upholding our strict investment criteria that add value to our entire portfolio.

At this juncture, I would like to give special thanks to the management and staff of all our businesses during this time of COVID-19 for showing their unwavering commitment to ensure that reliable electricity, gas, water, heating, waste management and other services have been provided to customers. Despite the ongoing disruptions caused by COVID-19, all our businesses which provide essential services in the United Kingdom, Australia, New Zealand, Canada, Continental Europe, Hong Kong and Mainland China have achieved excellent operational performances and reliability of service.

I would like to take this opportunity to thank the Board for their unwavering commitment, our dedicated staff for their valuable efforts and our stakeholders for continued support during this challenging period.

VICTOR T K LI
Chairman

17th March, 2021