"The Group recorded a record high[1] in funds from operations, amounting to HK$8.4 billion, an increase of 8% year-on-year. This is testament to CKI's strong recurring cashflow."

VICTOR T K LI
Chairman

CHAIRMAN'S LETTER

RECORD HIGH FUNDS FROM OPERATIONS

The year 2021 continued to be marked with challenges, resulting from the widespread effects of COVID-19, as well as geopolitical, trade, logistics and liquidity pressures. CK Infrastructure Holdings Limited ("CKI", the "Company" or the "Group") displayed great resilience and achieved a solid operational performance overall in spite of the volatility and disruptions.

The Group recorded a record high[1] in funds from operations, amounting to HK$8.4 billion, an increase of 8% year-on-year for the year ended 31st December, 2021. This is testament to CKI's strong recurring cashflow.

For the year under review, the Group recorded profit attributable to shareholders of HK$7,515 million, a 3% increase over the previous year. Excluding the non-cash deferred tax related charges for the United Kingdom operations in 2020 and 2021 as well as the disposal gain from the sale of Portugal Renewable Energy in 2020, the adjusted profit attributable to shareholders would have increased by 22%.

25 YEARS OF CONTINUED DIVIDEND GROWTH

The Board of Directors of CKI (the "Board") has recommended a final dividend of HK$1.81 per share. Together with the interim dividend of HK$0.69 per share, the total dividend for the year will amount to HK$2.50 per share (2020: HK$2.47 per share). This represents 25 consecutive years of dividend growth since listing. The proposed dividend will be paid on Wednesday, 8th June, 2022, subject to approval at the 2022 Annual General Meeting to those shareholders whose names appear on the Register of Members of the Company at the close of business on Monday, 23rd May, 2022.

BUSINESS REVIEW

In 2021, CKI achieved good operational performance across its global portfolio of infrastructure businesses. The regulated businesses of CKI are protected by their respective regulatory regimes, providing predictable and secure returns to the Group. The unregulated businesses are also largely insulated from market pressures by their inherent business models with their revenues protected by long-term contracts. Against the COVID-19 landscape, CKI's global businesses have adopted stringent measures to ensure the health and safety of both colleagues and customers, as well as providing essential services in a reliable manner.

Power Assets

Profit contribution from Power Assets was HK$2,208 million, approximately the same as last year. Excluding the non-cash deferred tax related charges for the United Kingdom operations in 2020 and 2021 as well as the disposal gain from the sale of Portugal Renewable Energy in 2020, the adjusted profit contribution from Power Assets would have increased by 10%.

Net profit from HK Electric remained stable under the provisions of the Scheme of Control. At an operational level, both the Hong Kong and overseas businesses performed well.

1 When comparing historic funds from operations, the special dividend payouts from Power Assets in 2017 and 2018 which arose due to the IPO of HK Electric were excluded.

United Kingdom Infrastructure Portfolio

Profit contribution from the United Kingdom portfolio was HK$2,371 million, a decline of 9% as compared to the same period last year. This drop is mainly attributed to the higher non-cash deferred tax charges booked in 2021 compared to 2020 following the enactment of the increase in UK corporate tax rate from 19% to 25%, as well as tax credit in respect of deferred tax liabilities on intangible assets. Excluding such non-cash deferred tax items in both 2020 and 2021, profit contribution from the United Kingdom portfolio increased by 7%.

The United Kingdom was one of the markets most severely impacted by COVID-19 in 2021 and the operating environment posed challenges. Nonetheless, CKI's businesses have shown great resilience and all operations have maintained high levels of service to customers.

UK Power Networks has submitted its draft business plan for years 2023-28 to the Office of Gas and Electricity Markets in preparation for the next reset which will commence in April 2023. Extensive stakeholder engagement has been undertaken during the process. The plan focuses on strategies which should result in UK Power Networks continuing to be one of the best performing network companies in the United Kingdom.

In 2021, profit contribution from Northumbrian Water, Northern Gas Networks and Wales & West Gas Networks were affected by their regulatory resets. During the year, appeals were made to the Competition and Markets Authority ("CMA") in respect of the regulatory resets by Northern Gas Networks and Wales & West Gas Networks. Upon completion of the appeal processes, improvements were achieved in a number of areas. This will benefit the revenue and asset bases of these businesses in the remaining years of the current regulatory periods.

UK Rails showed strong resilience in its performance. A new six-year lease for several fleets was secured with South Eastern.

Northern Gas Networks, Wales & West Gas Networks and UK Rails are all pioneers in developing hydrogen as a green energy source. During the year, CKI also made an investment in a hydrogen fund – HYCAP – to participate further in the green hydrogen industry.

UK Power Networks and Northumbrian Water have also made good progress in the reduction of carbon emissions. Innovative technologies including flexible grids, electric vehicle charging points, and smart meters have been launched. With the United Kingdom's target to achieve net zero carbon emissions by 2050, it is expected that higher investment in energy networks will be strongly incentivised in the coming years. The Group's regulated businesses will work actively towards encouraging such initiatives.

Australian Infrastructure Portfolio

In Australia, profit contribution was HK$1,903 million, a 2% increase over last year. While performance from Australian Gas Infrastructure Group and EDL was strong, lower contributions were recorded from the electricity distribution networks as a result of the recent regulatory resets.

The year under review represented the first full year performance for SA Power Networks after its regulatory reset. Though allowed returns were lower than that of the previous regulatory period, stable and predictable returns have been secured until 2025, the end of the current regulatory period.

Final determinations were received during the year for Victoria Power Networks, United Energy and the South Australian assets of Australian Gas Infrastructure Group. Allowed returns were lowered due to the current low interest environment.

EDL, a leader in supplying remote energy and clean energy solutions, launched a number of hybrid renewable energy projects for mine operations and for the Northern Territory government in Australia. In addition, EDL expanded its portfolio in the United States with the Republic Landfill Renewable Natural Gas project.

Infrastructure Portfolio in Continental Europe

In Continental Europe, profit contribution was HK$694 million, 55% lower than the previous year. Excluding the gain on disposal of Portugal Renewable Energy recorded in 2020 and the impact of this divestment, recurring profit from the European operations grew by 9% on the back of solid performances from ista and Dutch Enviro Energy.

During the year, acquisition activities have been carried out by the Group through our businesses in Europe. ista completed bolt-on acquisitions, further expanding its market penetration in Germany and France. In addition, Dutch Enviro Energy was successfully named preferential bidder for AEB, a waste-to-energy business in the Netherlands; the enterprise value of this transaction is approximately HK$4 billion.

Canadian Infrastructure Portfolio

In Canada, profit contribution increased by a significant 77% to HK$475 million. The growth was mainly bolstered by Canadian Power, with strong power market prices during the year. Performance from Reliance Home Comfort and Canadian Midstream were also good. Park'N Fly reported a lesser loss as the business slowly recovered.

Reliance Home Comfort completed two acquisitions during the year, adding about 25,000 new rental assets primarily in Ontario, further strengthening its market position in the region. Canadian Power also completed the acquisition of two wind farms in the Okanagan region of British Columbia.

New Zealand Portfolio

The New Zealand portfolio achieved profit contribution of HK$170 million, an increase of 25% over last year. This can be attributed to a strong contribution from EnviroNZ, with a number of new service contracts commencing operations.

Wellington Electricity continued to perform well. During the year, Wellington Electricity completed the three-year Earthquake Readiness Programme as well as a large-scale cable upgrade project near the CBD.

CHAIRMAN'S LETTER

Hong Kong and Mainland China Business

Profit contribution from the Group's Hong Kong and Mainland China portfolio grew 9% to HK$316 million due to the good performance of the infrastructure materials manufacturing business.

SOLID FINANCIAL FOUNDATION

As at 31st December, 2021, CKI has cash on hand of HK$8.1 billion and a net debt to net total capital ratio of 14.7%. This strong financial platform underpins the Group's ability to be flexible and agile when facing adverse market developments as well as to embrace new growth and expansion opportunities as they arise.

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

In March 2021, CKI redeemed the US$1.2 billion 5.875% perpetual capital securities. Subsequently, in June and July 2021, the Group issued US$300 million 4.2% perpetual capital securities and US$300 million 4.0% perpetual capital securities respectively. These refinancing exercises have led to savings in interest, further strengthening CKI's solid financials.

GROWTH OPPORTUNITIES IN COMBATING CLIMATE CHANGE

In the area of environmental sustainability, we are forerunners in most markets and industries in which we operate.

The Group's electricity distribution networks work on cutting edge grid management, battery storage, solar energy grid export, and electric vehicle charging technologies. Many of CKI's businesses also have extensive experience in renewable energy and connections, including solar, wind, waste coal mine gas, biomethane as well as municipal waste and sludge. The gas distribution networks and UK Rails are pioneering hydrogen, while the carbon capture initiatives of Dutch Enviro Energy are progressing well. ista provides energy management services to help customers to be more energy efficient, and HK Electric took a major step forward in its transition from coal-to-gas generation with the synchronisation of a new gas fired unit.

Building on CKI's existing capability, technology know how, and experience in the sustainability field as well as our business acumen, foundations are well laid for the Group to continue its leadership role in this arena, not only in environmental protection but also in the pursuit of new business investment opportunities.

OUTLOOK

Uncertainty and volatility remain very much on the immediate horizon as the COVID-19 pandemic enters its third year. In the longer run, there is cautious optimism for gradual improvement of the current situation. Growth and expansion opportunities for CKI are rapidly emerging as the need for environmental initiatives become more imminent.

Given the Group's strong financial position, we are well placed to capitalise on any acquisition targets that fit our investment strategy and criteria. We will also continue to work closely with our strategic partners within the CK Group – including CK Asset and Power Assets – to secure new opportunities.

CKI has established a renowned reputation as a key global infrastructure player. We have a longstanding track record of efficiently delivering excellent service. As our portfolio continues to diversify into different industries and markets, the opportunities for creating synergies with existing businesses are ample. Many of our businesses are vital in helping to combat climate change and support decarbonisation. Our strategy is to capture the growth opportunities in energy transition and decarbonisation and operate our businesses in a way which contributes to a greener world.

Most of CKI's regulated businesses have recently completed regulatory resets and as such, secure and predictable revenue will be generated in the coming years. The current high inflation environment in the United Kingdom and Australia should translate into higher revenues and higher regulated asset bases for our regulated businesses. In particular, regulated asset bases are one of the key parameters when determining the future returns under the regulated regimes.

Our mantra has always been to maintain an optimal balance between stability and growth. The Group's track record of continuing earnings growth together with a comfortable gearing position is testament to that.

I would like to take this opportunity to thank our staff from all the different markets in which we operate who have ensured that essential services have been provided to our customers during this difficult period. I would also like to thank the Board for their continued guidance, our staff for their outstanding contribution and our stakeholders for their ongoing support in these turbulent times.

VICTOR T K LI
Chairman

16th March, 2022