

## Operations Review



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Northern Gas Networks links Bradford's Alternative Fuel Centre to the gas network to power the development of Compressed Natural Gas filling stations.

# Infrastructure



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1. UK Power Networks completes upgrading the electricity infrastructure in Croydon to maintain reliable supplies for local homes and businesses.
2. HK Electric's gas-fired generation has risen to about 50% of its electricity output with the commissioning of the new gas unit L10 at Lamma Power Station in February.
3. SA Power Networks' specialised cable jointing and access track civil works are underway at Cuttlefish Bay following the successful installation of a new undersea cable connecting Kangaroo Island to the South Australian mainland.
4. Northumbrian Water is the first in the industry to install ultraviolet light disinfection system to clean drinking water at its Mosswood Water Treatment Works.
5. UK Rail further invests in hydrogen trains, making a notable step in the path towards decarbonising the UK railway.

## Operations Review – Infrastructure

The infrastructure division comprises the Group's 75.67% <sup>(1)</sup> interest in CK Infrastructure Holdings Limited ("CKI") and 10% of the economic benefits deriving from the Group's direct holdings in six co-owned infrastructure investments with CKI.

	2020 HK\$ million	2019 HK\$ million	Change	Local currencies change
Total Revenue	<b>52,792</b>	51,191	+3%	+4%
- CKI	<b>51,805</b>	49,818	+4%	+5%
- Co-owned infrastructure investments	<b>987</b>	1,373	-28%	-28%
EBITDA <sup>(2)</sup>	<b>29,066</b>	28,488	+2%	+3%
- CKI	<b>28,527</b>	27,855	+2%	+3%
- Co-owned infrastructure investments	<b>539</b>	633	-15%	-14%
EBIT <sup>(2)</sup>	<b>18,488</b>	19,220	-4%	-3%
- CKI	<b>18,185</b>	18,829	-3%	-2%
- Co-owned infrastructure investments	<b>303</b>	391	-23%	-22%
CKI Reported Net Profit (under Post-IFRS 16 basis)	<b>7,320</b>	10,506	-30%	

Note 1: In January 2015, CKI completed a share placement and share subscription transaction that resulted in the Group's interest in CKI reducing from 78.16% to 75.67%. On 1 March 2016, CKI issued new shares in connection with an issue of perpetual capital securities. Subsequent to this transaction, the Group holds a 71.93% interest. As these new shares are disregarded for the purpose of determining the number of shares held by the public, the Group's profit sharing in CKI continues to be 75.67%.

Note 2: Under Post-IFRS 16 basis, EBITDA for CKI was HK\$28,828 million and co-owned infrastructure investments was HK\$539 million; EBIT for CKI was HK\$18,234 million and co-owned infrastructure investments was HK\$303 million.

### CKI

CKI is the largest publicly listed infrastructure company on the SEHK, with diversified investments in energy, transportation and water infrastructure, waste management, waste-to-energy, household infrastructure and infrastructure-related businesses. CKI operates in Hong Kong, the Mainland, the UK, Continental Europe, Australia, New Zealand and Canada.

CKI announced net profit attributable to shareholders under Post-IFRS 16 basis of HK\$7,320 million, 30% lower against the last year. Excluding the deferred tax charge of HK\$1.4 billion in the year as a result of the revision of the UK corporate tax rate glide path from 17% to 19% in 2020, the pandemic impacts, as well as the higher depreciation and amortisation mainly from Energy Developments in Australia and UK Rails, the net profit decreased 7% in 2020 compared to 2019.

The Group's share of CKI's EBITDA of HK\$28,527 million was 2% higher than last year in reported currency, reflecting gain on disposal of Portugal Renewable Energy in October 2020 (including share of Power Assets) of HK\$1.1 billion, partly offset by pandemic impacts, adverse foreign currency translation impacts and lower earnings contribution from Northumbrian Water which entered a new regulatory regime in April 2020. EBIT was lower year on year due to higher depreciation as mentioned above that more than offset the EBITDA growth.

Profit contribution from Power Assets, a company listed on the SEHK and in which CKI holds a 35.96% interest as of 31 December 2020, was HK\$2,208 million as compared to HK\$2,566 million in 2019, mainly due to the recognition of deferred tax charge in the year as a result of the revision of the UK corporate tax rate glide path from 17% to 19% in 2020, as well as lower contribution from the Mainland resulting from the expiry of two coal-fired power station ventures in 2019, partly offset by the gain on disposal of Portugal Renewable Energy in 2020.

Many of CKI'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 totalling 272 MW in capacity, Dampier Bunbury Pipeline's new major Western Australia gas pipeline, as well as Energy Developments' waste coal mine gas power station in Australia and Renewable Natural Gas plants in the United States.

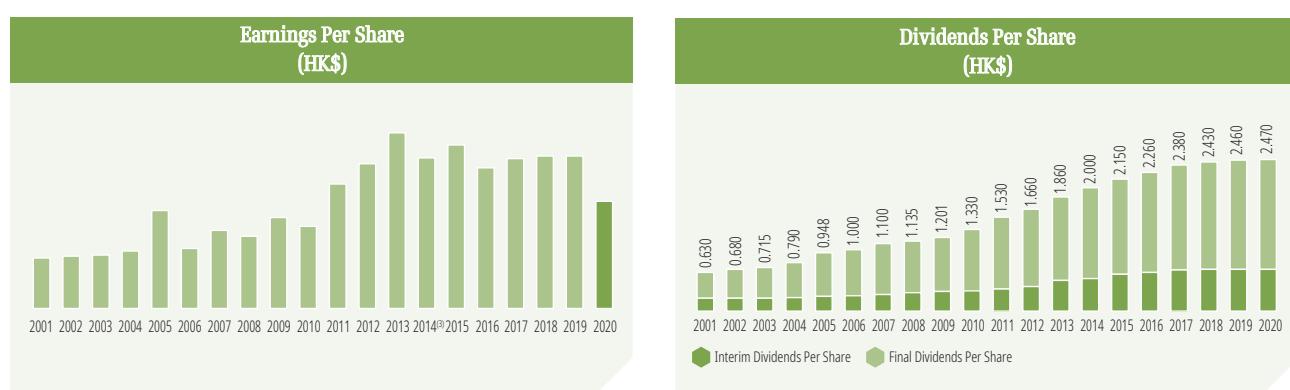
A number of CKI's regulated businesses have gone through or will go through challenging regulatory resets. In 2020, Northumbrian Water's new determination as set by the regulator imposed a lower than anticipated allowable return. In 2021, Northern Gas Networks and Wales & West Utilities in the UK, as well as Victoria Power Networks, Australian Gas Networks and certain regulated businesses of CK William in Australia, are scheduled to enter new regulatory regime. 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 Utilities were released in December 2020. Both operations have also decided to appeal to the CMA.

Anticipated lower allowable returns given the current low interest rate environment and the stringent stance taken by regulators are expected to result in lower revenues for these operations. Depending on outcomes, declining revenue outlooks and recent transaction multiples may affect the Group's valuations in relation to CKI and some or all of its businesses.

CKI has always been committed to prudent financial management with the underlying financial position closely monitored. CKI's financial strength continues to be robust, with HK\$13.5 billion cash on hand and a net debt to net total capital ratio of 13.1% as at 31 December 2020, a 0.4%-point improvement against 31 December 2019. Credit rating from Standard & Poor's maintained at "A/Stable".

## Co-owned infrastructure investments

The Group's direct interests in six co-owned infrastructure investments include Northumbrian Water, Park'N Fly, Australian Gas Networks, Dutch Enviro Energy, Wales & West Utilities and UK Rails and have contributed revenue, EBITDA and EBIT of HK\$987 million, HK\$539 million and HK\$303 million respectively in the year. The lower contribution from the co-owned infrastructure investments mainly reflected the lower performance of Northumbrian Water impacted by the tariff reset in the year.



Note 3: Excludes share of one-off gains arising from the spin-off of HK Electric by PAH and privatisation of Envestra.

