

Operations Review

AVR partners with Swedish company HaloSep AB to evaluate the possibility of managing hazardous flue gas cleaning residues locally in Rotterdam, the Netherlands.



1

2

3

4

1. Northumbrian Water participates in sponsored projects that will help reduce leakage and enable innovations across the utilities sector in the UK.
2. CitiPower and Powercor adapt the Dynamic Voltage Management System to allow network controllers to optimise solar export capacity across their networks in Victoria, Australia.
3. UK Power Networks is rated number one electricity distribution network operator for 2022 in the Broad Measure of Customer Service and Performance conducted by the Office of Gas and Electricity Markets.
4. HK Electric's new gas-fired unit L12 is on track for commissioning by early 2024.

Infrastructure



Operations Review – Infrastructure

The infrastructure division comprises the Group's 75.67% interest in CK Infrastructure Holdings Limited ("CKI"), the largest publicly listed infrastructure company on the SEHK, and 10% of the economic benefits deriving from the Group's direct holdings in six co-owned infrastructure investments with CKI, including Northumbrian Water, Park'N Fly, Australian Gas Networks, Dutch Enviro Energy, Wales & West Utilities and UK Rails.

| | 2022 HK\$ million | 2021 HK\$ million | Change | Local currencies change |
|---|----------------------|----------------------|--------|----------------------------|
| Total Revenue | 54,441 | 56,100 | -3% | +4% |
| EBITDA ⁽¹⁾ | 28,815 | 29,636 | -3% | +5% |
| EBIT ⁽¹⁾ | 18,833 | 19,095 | -1% | +6% |
| CKI Reported Net Profit (under Post-IFRS 16 basis) | 7,748 | 7,515 | +3% | |

Note 1: Under Post-IFRS 16 basis, EBITDA was HK\$29,109 million (2021: HK\$29,938 million); EBIT was HK\$18,872 million (2021: HK\$19,139 million).

CKI operates in Hong Kong, the Mainland, the UK, Continental Europe, Australia, New Zealand, Canada and the United States.

CKI announced net profit attributable to shareholders under Post-IFRS 16 basis of HK\$7,748 million, 3% higher against last year. The result was significantly impacted by higher finance costs due to rising interest rates and higher index linked finance costs, as well as adverse foreign exchange translation against US dollars. Included in this year's results was a gain on partial disposal of a 13% interest in Northumbrian Water completed in December 2022. Excluding corporate items, CKI's portfolio of quality infrastructure assets showed continued resilience and generated good contributions to the division, with a year-on-year growth of 7% and 16% in reported currency and local currencies respectively.

The division's EBITDA and EBIT of HK\$28,815 million and HK\$18,833 million were 5% and 6% higher than last year respectively in local currencies, reflecting gain on partial disposal of Northumbrian Water and good operational performance across the global portfolio of infrastructure businesses.

Profit contribution under Post-IFRS 16 basis from Power Assets ("PAH"), a company listed on the SEHK and in which CKI holds a 36.01% interest as of 31 December 2022, was HK\$2,033 million as compared to HK\$2,208 million in 2021, which was similarly impacted by higher finance costs and adverse foreign exchange translation. Excluding corporate items, profit contribution from the infrastructure portfolio increased by 5% year-on-year in local currencies. Net profit contributed by HK Electric continued to be stable under the Scheme of Control.

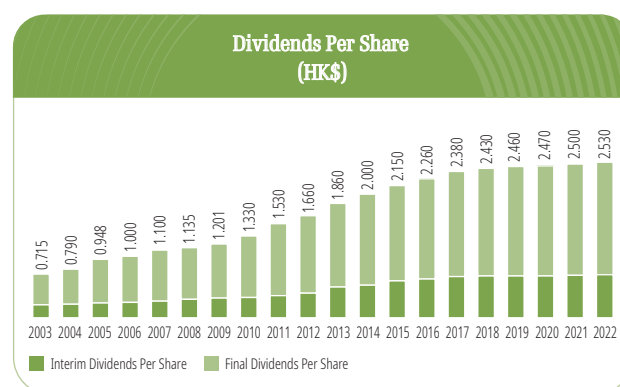
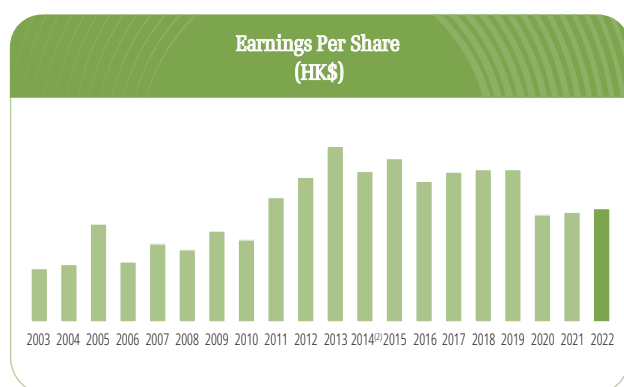
Under Post-IFRS 16 basis, profit contribution from the UK portfolio was HK\$3,069 million in 2022, a 29% increase compared to 2021, mainly due to the inclusion of deferred tax charges arising from the revision of the UK corporate tax rates in 2021, as well as the recognition of gain on partial disposal of 13% interest in Northumbrian Water in 2022, partly offset by adverse foreign exchange translation and higher finance costs. Under Post-IFRS 16 basis, profit contribution from Australian portfolio increased by 4% to HK\$1,976 million in 2022 in reported currency. In local currency, profit increased by 11% driven by higher contributions from United Energy, Victoria Power Networks and Energy Developments. In Continental Europe, profit contribution under Post-IFRS 16 basis was HK\$664 million in 2022, a decrease of 4% in reported currency but an increase of 6% in local currency. In Canada, profit contribution under Post-IFRS 16 basis increased by 30% and 33% in reported currency and local currency respectively to HK\$617 million in 2022, primarily due to the robust contributions from Canadian Midstream and Canadian Power. Profit contribution from New Zealand portfolio under Post-IFRS 16 basis decreased by 2% to HK\$167 million in 2022 mainly from adverse foreign exchange translation impact. In local currency, profit increased by 9% year-on-year. Contribution from Hong Kong and the Mainland businesses reported a net profit of HK\$196 million in 2022 under Post-IFRS 16 basis, 38% lower against 2021, reflecting the adverse performance of the cement business in the Mainland due to the COVID restrictions and lockdowns, as well as the rising fuel costs during the year.

CKI's regulated businesses have received a number of awards and recognitions during 2022. UK Power Networks was rated as number one electricity distribution network operator for 2022 and received close to 30 awards, including being named the best in the UK for customer service according to the UK Customer Satisfaction Index compiled by the Institute of Customer Service. Northumbrian Water captured the first place in the annual UK Water Company Performance Survey conducted by British Water. In Australia, SA Power Networks, Powercor, CitiPower and United Energy ranked first, second, third and fifth spots in productivity respectively according to the Australian Energy Regulator's benchmarking report for 2022.

Unregulated operations have continued to grow their businesses. Beon, the unregulated business of Victoria Power Networks, has been expanding rapidly with new projects for renewable energy connections, with Reliance Home Comfort continued to proceed with acquisitions for expansion, including an HVAC (heating, ventilation and air conditioning) company in Florida, USA, and a rental asset portfolio in the Greater Toronto Area acquired in 2022.

A number of CKI's regulated businesses in the UK and Australia are scheduled to enter new regulatory regime in 2023. UK Power Networks received the Final Determination for the upcoming regulatory period from April 2023 to March 2028, which facilitates revenue predictability for the coming years. Australian Gas Networks and certain regulated business of CK William in Australia have received Draft Determinations for the period from July 2023 to June 2028. The terms of the Draft Determination have reflected majority of the proposed initiatives for the five-year period and are considered as satisfactory. Final Determinations will be released in the first half of 2023.

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\$18 billion cash on hand and a net debt to net total capital ratio being improved from 14.7% as at 31 December 2021 to 7.3% as at 31 December 2022. Credit rating from Standard & Poor's maintained at "A/Stable".



Note 2: Excludes share of one-off gains arising from the spin-off of HK Electric by PAH and privatisation of Envestra.