CHAIRMAN'S STATEMENT

Generating growth through a global portfolio

I am pleased to present the 2014 annual results for the Power Assets Group.

Following a spin-off exercise completed on 29 January 2014, we reduced our ownership of the Hong Kong electricity business. This has enabled the Group to focus exclusively on achieving our long-term objective of delivering growth in shareholder value through a diversified portfolio of investments in the electricity and gas industries. To this end, during the year the Group acquired a 27.5% stake in Australian Gas Networks Limited (formerly Envestra Limited), one of Australia's largest natural gas distribution companies.

The Group now has a balanced, healthy portfolio of companies in the energy sector worldwide, including power generation and distribution, gas distribution, energy from waste and renewables in eight different markets including the UK, Hong Kong, Australia, mainland China, New Zealand, Thailand, Canada and the Netherlands.

From the spin-off of the Hong Kong electricity business, the Group received cash of HK$59 billion which we will use strategically to expand our portfolio around the world, particularly in markets with a well regulated and structured energy sector so as to maintain a portfolio of investments with low and manageable risk profiles. We practise financial discipline and carefully evaluate every opportunity to ensure its long-term potential and stability.

Results & dividends

The Group's 2014 audited profits attributable to shareholders increased by 446% to HK$61,005 million (2013: HK$11,165 million). This includes a one-time gain of HK$52,928 million from the spin-off of the Hong Kong electricity business in January 2014. Excluding this one-time gain, the Group's audited profits were HK$8,077 million (2013: HK$11,165 million), dropped by 28%, mainly due to a reduction of interest in the Hong Kong electricity business from 100% to 49.9% and deferred tax credits arising from the lowering of the UK corporate tax rate from 23% to 20% in 2013.

Earnings per share grew by 446% to HK$28.58 (2013: HK$5.23).

The Directors will recommend a final dividend of HK$2.01 per share, payable on 1 June 2015 to those persons registered as shareholders on 20 May 2015.

This, together with the interim dividend of HK$0.67 per share, will add up to a total dividend of HK$2.68 per share for the year (2013: HK$2.55 per share). This upholds the commitment made during the process of the spin-off exercise to maintain dividend distribution at 2012 level in 2014.

Expanding our Australian presence

During the year, the Group acquired a 27.5% stake in Australian Gas Networks Limited, one of Australia's largest natural gas distribution companies through a joint venture with Cheung Kong Infrastructure Holdings Limited and Cheung Kong (Holdings) Limited. The company's natural gas distribution network serves 1.2 million customers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory. The acquisition will strengthen our presence in the dynamic Australian natural gas market.

Achieving excellence in performance

With mild weather and steady improvement in macro economic indicators in key markets around the world, the Group achieved a consistent overall performance, continuing the trend of enduring growth over the past few years.

The UK, with four operating companies, remained the Group's biggest market during the year. UK Power Networks, Northern Gas Networks, Wales & West Utilities and Seabank all delivered satisfactory results due to a focus on improved customer service, cost controls and reliability. 2014 was the first full year of the "RIIO (Revenue = Incentives + Innovation + Outputs) regulatory regime" in the UK for gas distribution, which encourages investment in innovation to improve efficiency, reliability and environmental sustainability. RIIO will be extended to the electricity distribution sector in 2015. Our effective operating procedures, customer service and high performance and environmental standards will enable the UK operating companies to continue to deliver growth under the new regime.

Australia, another key market for the Group, maintained its steady operational track record. For the first time, the Group's results include four months' revenue from our new operating company Australian Gas Networks Limited. SA Power Networks submitted its 2015-2020 regulatory proposal to the Australian Energy Regulator in October 2014 and its next regulatory control period will commence in July 2015. The key focus for CitiPower and Powercor was enhancing customer communications. The Mt Mercer wind farm in Victoria reached full operational capacity during the year, allowing Transmission Operations Australia to increase its transmission of electricity produced by renewable sources. In the market, our overall revenues increased on the back of higher tariffs but the overall contribution was impacted by a lower exchange rate of Australian dollar when compared with last year.

Our power plants in Zhuhai and Jinwan in mainland China continued to improve their emissions control facilities in order to meet the new National Environmental Protection standards that have come into effect in 2014. Jinwan Power aims at reduction of non-carbon emissions to zero once all the modifications are completed. Our wind farms in Dali and Laoting completed an engineering innovation programme to increase productivity and enhance reliability.

This was the first full year of operations as a member of the Power Assets Group for AVR-Afvalverwerking B.V. (AVR), the Dutch energy-from-waste company acquired in August 2013. During the year AVR delivered steady performance across its portfolio of energy products including electricity, heat as well as steam. Producing a diversified energy output enables AVR to increase energy efficiency and maximise the value of its waste to energy conversion activities. To achieve this, it is increasing heat and steam production and has expanded its city heating network at Rotterdam and Duiven in the Netherlands. From 2015 forward, AVR will supply heat to more than 150,000 households, making it one of the largest three producers of district heating in the country.

Our Thailand generation business maintained stable operations all through the year and met its production targets, delivering 92.84% availability through the year. In New Zealand, Wellington Electricity delivered stable sales during the year and managed to expand our network through the acquisition of embedded networks operating within our electricity distribution region. Our generation businesses in Canada improved revenues through steam sales and plant efficiencies. Following the signing of a 20 years power purchase agreement, the power plant in Ottawa operated by TransAlta Cogeneration L.P. made a successful transition from a continuous base load operation to a dispatchable plant, capable of shorter term peaking operations.

The operating company in Hong Kong delivered solid results while maintaining its track record of high standards in reliability, affordability and customer service. Tariffs were kept at 2013 levels and among the most affordable in the region. During the year, The Hongkong Electric Company, Limited ("HK Electric") participated in a major public consultation exercise conducted by the Hong Kong Government to determine the future fuel mix for electricity generation. The Hong Kong Government indicated that over 80,000 responses had been received and the mainstream opinion of the responses is to increase gas generation locally. We believe that increasing the use of natural gas will be the right option for securing electricity supply reliability and keeping tariffs competitive, while reducing pollutants and carbon emissions.

Positive prospects for sustained growth

Following the spin-off of the Hong Kong electricity business, the Group enters 2015 in an advantageous cash position, giving it the flexibility to explore all avenues as it seeks suitable investment opportunities throughout the world, continuing to focus on high-quality investments in stable, well-regulated power and gas markets globally that offer potential for growth in the short to medium terms.

In the UK and Australia, our operating companies will continue to collaborate with the regulators to address the parameters set for the operations and revenues for the next regulatory period. We believe that the new regimes will drive innovation in the sector and customers will benefit from reliable, safe and cost efficient energy services.

In Hong Kong, the public consultation on the future fuel mix for electricity generation was a milestone for the sector as a whole and its outcome will have a significant impact on the development of HK Electric. The Group supports and endorses HK Electric's proposal to increase the proportion of gas-fired generation and will continue to engage with the government and our stakeholders to chart the way forward in upcoming consultations related to the future of Hong Kong's electricity market.

As we look forward to another year of achievement and growth, I thank the board of directors and our dedicated and skilled employees around the world for their efforts. My thanks also go to our shareholders and other stakeholders for their support and commitment.

Fok Kin Ning, Canning
Chairman
Hong Kong, 24 February 2015