CHAIRMAN'S STATEMENT

Full year results

It is my pleasure to report the Power Assets Group's full-year results for 2017.

The Group's 2017 audited profits attributable to shareholders amounted to HK$8,319 million (2016: HK$6,417 million), an increase of 30% as compared to 2016. This was mainly due to a one-off gain on disposal of properties recorded in 2017, the first full-year contribution from Husky Midstream partnership, contribution from newly acquired investment in the DUET Group (DUET) and more favourable exchange rates on translation of foreign currency deposits to Hong Kong dollar. The profit increase was partially offset by a one-off deferred tax credit recognised in 2016 for a reduction of corporate tax rate in the United Kingdom. Earnings per share was HK$3.9 (2016: HK$3.01).

Dividends

The Directors declared a one-off special interim dividend of HK$6 per share for 2017, payable on 16 April 2018 to shareholders whose name appear in the Company's Register of Members on 4 April 2018.

The Directors will recommend a final dividend of HK$2.03 per share, payable on 29 May 2018 to those persons registered as shareholders on 15 May 2018. Together with the special interim dividend of HK$7.5 per share paid in August 2017, the above special interim dividend of HK$6 per share and the interim dividend of HK$0.77 per share, the total dividend for the year will be HK$16.3 per share (2016: HK$7.72 per share which included a one-off special interim dividend of HK$5 per share).

DUET offers access to new expertise

Our long-term strategy has been to invest in carefully selected high-quality energy companies operating in mature and well-regulated markets. We took a major step forward in building our market presence in emerging and renewable energy technologies with the acquisition of the 20% interest in DUET in May 2017. DUET owns and operates companies in electricity and gas distribution, gas transmission, as well as electricity generation from waste gases as well as renewables. The distribution businesses are contiguous to the group's existing businesses in Australia and are well established and complementary to the Group's existing operations offering substantial synergies with prospects for assured, long-term revenues. DUET's generation business includes solar energy, wind energy, remote power generation as well as power from coal mine and landfill gases. We are very positive about the potential for knowledge transfer from these acquisitions across Group companies.

Investment in smart technologies

Globally, the energy sector is evolving steadily to meet the needs of the future. Governments are establishing policies and regulatory environment that will facilitate decarbonisation in line with the Paris UN Climate Change Conference (COP21) targets.

As a Group we believe that technological innovation is key to meeting these changing needs: through smart technologies to cater for distributed generation and commercial scale battery energy storage system.

Leadership in customer satisfaction

Regardless of market or sector of operation, our companies delivered very strong performance in customer satisfaction and operating efficiencies, in many cases outperforming regulatory targets.

In the UK, 2017 marked another strong year of performance for our distribution networks with improved customer interruption and satisfaction scores paving the road for our operations to be regarded as the best performing distribution networks. UK Power Networks, Northern Gas Networks (NGN), and Wales & West Utilities (WWU) all received incentive awards from the regulator Ofgem for efficiency and reliability, and also achieved their highest customer satisfaction performance in recent years. All three companies continued their programmes of investment in network maintenance and upgrades. WWU and NGN conducted groundbreaking research on improving the emissions performance of gas networks by blending bio-gas and potentially hydrogen with natural gas. Initial results are very encouraging and could help reduce carbon emissions in the country. The Seabank power plant achieved high availability and delivered a stable income stream for the Group.

Australia has seen a significant uptake of renewable generation and all our companies in the market implemented bespoke projects to enable them to accommodate the huge addition of commercial and domestic solar power generation. Australian Gas Networks, SA Power Networks, and Victoria Power Networks all outperformed their regulatory targets in customer service as well as reliability. Australian Energy Operations delivered stable performance and has undertaken preliminary work for the potential expansion of its operations by connecting additional wind farms to its terminal station. The DUET acquisition in Australia enriches our existing electricity and gas infrastructure portfolio and consolidates our position in the market.

A new era in electricity provision

We are gratified by the signing of the new Scheme of Control Agreement (SCA) that will regulate HK Electric's business for the 15 years from 2019 to 2033. The longer duration of the new SCA offers HK Electric the stability to make major investments in gas-generating facilities to significantly reduce carbon emissions. Thanks to its long-term strategies for capital investment and higher operating efficiencies, we are confident that HK Electric will deliver sustainable long term growth in shareholder value despite the lower permitted rate of return of 8%.

In order to increase its generation of cleaner electricity, the company is constructing two new gas-fired generating units, L10 and L11, at Lamma Power Station and the progress is on schedule. The two units will take the proportion of gas-fired electricity generation to 50% by 2020 and 55% by 2022. To improve security of gas supply the company is partnering with CLP Power to build an offshore terminal for liquefied natural gas in Hong Kong waters using a floating storage and regasification unit (FSRU).

The Canadian energy market is being transformed with more stringent carbon emissions targets and the increased availability of distributed generation at both individual and commercial scale. Our businesses are making the appropriate investments to operate successfully through these transitions, accommodating energy from renewables where possible without any impact on reliability. Canadian Power Holdings delivered high availability and Husky Midstream progressed with the implementation of major pipeline projects that are scheduled for completion in 2018.

In the Netherlands, AVR expanded its portfolio to include waste separation to better service customer needs. AVR's carbon capture trial, where carbon dioxide emissions are harnessed for greenhouse cultivation, is one of the world's most advanced projects illustrating carbon capture in usage.

Our operations in Thailand, mainland China, Portugal and New Zealand also delivered strong operational performance and high levels of customer satisfaction.

Transforming to deliver future value

Looking ahead, we believe that the metamorphosis of the energy sector will be far-reaching, leaving no business untouched. Our diversified operations and geographic footprint in markets at different stages of evolution give us key advantages in terms of synergies, knowledge transfer and cross-training. Our companies look to each other for ideas and best practice to help them learn. We will work proactively, embracing all that technology can offer, to continue to deliver reliability and customer satisfaction while achieving the lowest emissions for the benefit of generations to come.

Our financial position remains strong after payment of special interim dividend which enables the Group to continue to seek out opportunities for growth through the acquisition of sound businesses that align with our core values.

I would like to express the gratitude of the Board to our shareholders for their loyal support over years as well as to our dedicated and skilled colleagues across all our operating businesses. Their efforts are central to our continued success.

Fok Kin Ning, Canning
Chairman
Hong Kong, 16 March 2018