

4. Financial Performance

In 2017, HK Electric continued to deliver a steady financial performance.

Due to higher fuel cost in 2017 compared with 2016, the Company had to recover a higher fuel cost from our customers, hence the growth in gross tariff revenue. There was also a slight increase in the

permitted return of the year attributable to the growth in values of our net fixed assets.

Our net debt, being the Company's external borrowings net off its bank deposits and cash balances, was \$31,056 million as at end 2017, a level approximate to \$30,725 million as at end 2016.

5-year Key Financial Figures (HK\$ million)

	2017	2016	2015	2014	2013
For the year ended 31 December					
Gross tariff revenue	13,618	12,658	13,100	14,222	13,753
Fuel costs	3,785	3,105	3,697	4,818	5,271
Operating costs	1,592	1,460	1,277	1,143	995
Interest	719	811	838	789	285
Permitted return	5,196	4,948	4,907	4,916	4,909
Net return	4,317	4,121	4,172	4,216	4,620
Transfer from/(to) Tariff Stabilisation Fund	(291)	181	84	(249)	389
Transfer to Smart Power Fund	(5)	(5)	(5)	(10)	-
Capital expenditure	2,929	2,799	2,516	2,252	1,973
Assets/(liabilities) balances as at 31 December					
Property, plant and equipment and interests in leasehold land	50,494	49,971	49,482	49,198	49,137
Bank deposits and cash	1,658	310	6,155	4,629	1,060
Bank loans and other borrowings	(32,714)	(31,035)	(38,546)	(39,223)	(30,077)
Loan capital	-	-	-	-	(8,845)

4.1. Fixed Assets and Return

The SCA provides for HK Electric a full recovery of its total operating costs from the gross tariff revenue, and earn a Permitted Return based principally on total values of its average net fixed assets and any financial incentives (or penalties). The values of the fixed assets which mainly include property, plant and equipment (e.g. generating units, transmission and distribution substations) and interests in leasehold land, etc. have stable growth over the past 5 years. At end of 2017, fixed assets stood at \$50,494 million.

In 2017, the Company recorded a Permitted Return of \$5,196 million while the Net Return of \$4,317 million was derived after making other adjustments including interest on borrowed capital (2017 was \$873 million) and transfer to Smart Power Fund (transfer in 2017 was \$5 million), etc.

4.2. Capital Expenditure

All of HK Electric's investments are subject to the close scrutiny by the Government. A 5-year Development Plan, covering the Company's projected capital expenditure and operating costs, sales and basic tariff forecasts, has to be submitted for approval by the Executive Council.

The total approved capital expenditure under the 2014-2018 Development Plan amounts to \$13.6 billion. At \$10.496 billion, the cumulative total of HK Electric's capital expenditure from 2014 to 2017 is in line with the Development Plan forecasts.



4.3. Tariff Stabilisation Fund and Fuel Clause Recovery Account

Balance as at 31 December (HK\$ million)

	2017	2016	2015
Tariff Stabilisation Fund	316	24	204
Fuel Clause Recovery Account	2,771	4,088	2,283

The TSF was established to accumulate and provide funds to ameliorate tariff increases or facilitate tariff reductions where appropriate. On account of our prudent financial management and operational efficiency for the year, \$291 million was transferred from the Scheme of Control net revenue to the TSF resulting in an increased balance of \$316 million as at end 2017.

In 2017, HK Electric provided a special fuel rebate of 17.9 cents per unit of electricity to our customers. This resulted in a big drop in the Fuel Clause Recovery Account balance to \$2,771 million as at end 2017. In light of this, HK Electric continues to provide the special fuel rebate to our customers but at a reduced amount of 16.0 cents per unit of electricity in 2018.

4.4. Operations Overview

Electricity sales in 2017 declined by 1.6% as a result of conservation efforts across the community though the number of customers recorded a slight increase to about 577,000. All operating parameters such as system maximum demand, annual load factor, thermal efficiency, plant availability and number of employees, etc. remained stable.

5-year Operating Statistics

	2017	2016	2015	2014	2013
Units sold (millions of kWh)					
Commercial	7,824	7,893	8,012	8,015	8,011
Residential	2,485	2,584	2,541	2,610	2,437
Industrial	306	315	326	330	325
Total (millions of kWh)	10,615	10,792	10,879	10,955	10,773
Annual increase/(decrease) (%)	(1.6)	(0.8)	(0.7)	1.7	(2.4)
Average Net Tariff under Tariff Review (HK cents per kWh)					
Basic Tariff	108.9	105.5	102.6	101.8	94.7
Special Rent & Rates Rebate	(4.0)	-	-	-	-
Net Basic Tariff	104.9	105.5	102.6	101.8	94.7
Fuel Clause Charge	23.4	27.9	32.3	33.1	40.2
Special Fuel Rebate	(17.9)	-	-	-	-
Net Tariff	110.4	133.4	134.9	134.9	134.9
Number of customers (000's)	577	575	572	570	569
Installed Capacity (MW)					
Gas turbines and standby units	555	555	555	555	555
Coal-fired units	2,250	2,500	2,500	2,500	2,500
Gas-fired combined cycle units	680	680	680	680	680
Wind turbine and photovoltaic system	2	2	2	2	2
Total (MW)	3,487	3,737	3,737	3,737	3,737
System maximum demand (MW)	2,513	2,428	2,427	2,460	2,453
Annual load factor (%)	54.0	56.7	57.3	56.9	56.1
Thermal efficiency (%)	35.9	35.9	36.2	36.1	36.3
Plant availability (%)	87.1	85.6	85.5	88.4	85.7
Number of switching stations	24	24	24	24	24
Number of zone substations	27	27	27	27	27
Number of consumer substations	3,889	3,848	3,818	3,793	3,776
Number of employees	1,776	1,790	1,801	1,814	1,826