

CHAIRMAN'S STATEMENT



In 2018, we continued to uphold our track record of excellent reliability and customer service as we completed one regulatory period while preparing for the next.



2018 was a very important year for HK Electric Investments (HKEI) and its wholly owned subsidiary HK Electric, during which we moved ahead with the largest capital works programme we have ever undertaken. We launched major community-wide initiatives and continued to uphold our track record of excellent reliability and customer service as we completed one regulatory period while preparing for the next. I am delighted to present these results to you in this report.

We concluded the 2009-2018 Scheme of Control Agreement (SCA), the 10-year regulatory arrangement governing Hong Kong's power industry with a great sense of achievement. Throughout this last SCA, we were able to consistently maintain world-class standards of reliability that underpin Hong Kong's status as a global financial centre. In fact, our reliability rating has been maintained at over 99.999% for 22 consecutive years. Another remarkable result is achieving an unplanned customer minutes lost record of less than one minute every year for 10 years in a row since 2009. This quality of power supply, combined with excellence in customer service, was provided at affordable tariff levels. We pledged in 2013 to freeze tariffs until 2018 and have in fact ended the period with tariffs 16.6% lower than the 2013 level.

Low-emission power generation and environmental conservation have been among our top priorities. We continuously outperformed government targets and improved on our own performance in this regard. We have reduced emissions of nitrogen oxides, respirable suspended particulates and sulphur dioxide over the decade by 46%, 66% and 89% respectively, thanks to an increase in gas-fired electricity generation to over 30% of total output and implementation of sustainable measures to minimise emissions. In addition, we have provided our support to the community's own efforts to cut electricity consumption and preserve the environment.

With careful planning and extensive inputs from all our stakeholders we have laid the groundwork for the new SCA, which came into effect in January 2019 for a period of 15 years.

Financial results and distributions

For the year ended 31 December 2018, HKEI's EBITDA was HK\$8,100 million (2017: HK\$8,195 million) and audited profits attributable to SSU holders was HK\$3,051 million (2017: HK\$3,341 million).



The Board of the Trustee-Manager has declared a final distribution by the Trust of HK20.12 cents (2017: HK20.12 cents) per SSU, payable on 15 April 2019 to SSU holders whose names appear on the Share Stapled Units Register on 3 April 2019. This, together with the interim distribution of HK19.92 cents (2017: HK19.92 cents) per SSU, amounts to a total distribution of HK40.04 cents (2017: HK40.04 cents) per SSU for the year.

Investing to create a green and smart city

An important development during 2018 was the approval of our HK\$26.6 billion 2019-2023 Development Plan by the HKSAR Government. According to the plan, we will invest HK\$16.2 billion (about 61%) to achieve our primary goal of decarbonising generation to secure Hong Kong's green energy future. Over the coming five years we will systematically move from mainly coal-fired to gas-fired generation, and put other technology and innovative design in place to help make Hong Kong a smart city.

A major capital works programme is in full swing to achieve this amid the retirement of five of our coal-fired units. L1 and L3 had retired in 2017 and 2018 respectively and three more units will follow suit by 2023. They will be replaced by three new state-of-the-art gas-fired combined-cycle generating units L10, L11 and L12.

Construction of L10 is in progress and the unit is scheduled for commissioning in early 2020. During the year, all major equipment of L10, including gas turbine, steam turbine, generator, heat recovery steam generator and transformers, was successfully installed. In tandem, construction of L11 is also moving forward, with site formation completed. The two units together will increase gas-fired electricity generation to 55% of our total output by 2022.

With the Government's approval to build L12 under the 2019-2023 Development Plan, tendering for piling works is currently underway with actual site works planned to commence in March 2019. When L12 is commissioned in 2023, the total gas-fired electricity generation will further rise to reach about 70% of our total output.

We are also moving ahead with the development of an offshore liquefied natural gas receiving terminal, using Floating Storage and Regasification Unit (FSRU) technology. The move will afford us access to a more diverse supply of gas at competitive prices from the world market. Following Government's approval of the Environmental Impact Assessment Report, the Environmental Permit was conditionally granted for the project in October 2018. Site investigation is underway, and the terminal is scheduled for completion in 2022.

Promoting conservation and renewable energy

Under the "Smart Power Services" brand, we have launched four funds and three schemes to encourage energy efficiency and conservation, and promote the local development of renewable energy in preparation for the new SCA.

With an annual injection of HK\$25 million, the Smart Power Building Fund supports building owners to carry out energy efficiency improvement projects; while the newly-created Smart Power Care Fund assists the underprivileged to reduce energy consumption and expenditure through the provision of energy-efficient appliances and subsidies.

Chairman's Statement

In order to promote and support Hong Kong's aspirations to increase generation of renewable energy, we have launched a Feed-in Tariff Scheme to purchase electricity fed into the grid from customers' own renewable installations. So far we have received over 70 applications from our customers, 33 of which have been approved.

At the same time we have also introduced Renewable Energy Certificates for customers to subscribe to, so as to further encourage the community to support the use of renewable energy. The initial response to the programme has been encouraging.

Another important initiative under the 2019-2023 Development Plan is the rollout of smart meters with an associated Advanced Metering Infrastructure (AMI) to build an intelligent information exchange platform for customer energy management. We believe, once fully deployed, smart meters and AMI will help Hong Kong's transformation into a smart city. We also continued to support the use of electric vehicles by extending free charging facilities until the end of 2019 and provided businesses with advice on how to cut their own carbon footprint.

Consistently strong operating performance

Our strategy of focusing on operational excellence, investing in technology and proactive maintenance once again stood us in good stead during the year. We outperformed our targets once again and have been engaging with the Government in 2018 to kick-start reviewing new emission caps for 2024 and onward.

HK Electric once again surpassed its pledged standards in reliability as well as customer service, a record I am particularly proud of, given the extreme weather events that battered Hong Kong during the year such as super-typhoon Mangkhut.

Thanks to our robust system, emergency preparedness and our colleagues' professionalism, we were able to maintain uninterrupted power supply to our customers during the super-typhoon Mangkhut. This great performance is a testament to our world class standards and I extend my gratitude to our dedicated colleagues for working round the clock for operational continuity. We also engaged with the community to provide appropriate assistance in the aftermath. We have commenced with enhancing anti-flooding measures and retrofitting of less flood-prone equipment in low-lying substations in order to prepare for extreme weather events arising from climate change.

Outlook under the new SCA

During the course of the year, a number of planned initiatives were implemented as we face the future under the new SCA with a sense of optimism and a commitment to supporting Hong Kong's transformation to a green and smart city. Our investments in increased gas-fired generation will lay a solid foundation for greener energy, sustainable growth and long-term value for our SSU holders.

Maintaining stable operations while simultaneously undertaking such major capital works is no easy task. Our top priority for the years ahead is to ensure that all the projects in train are completed on schedule and within budget, while upholding our standards in operational performance and customer service.

Looking ahead, we are mindful that the transition to greener energy, necessitating capital expenditures for new gas-fired units and greater consumption of natural gas, will be at the cost of a higher tariff. We will continue our endeavours to keep the tariff affordable, and we got off with a good start in 2019. Excluding the impact of the substantial reduction in the "Special Fuel Rebate" and "Special Rent & Rates Rebate", the net tariff for 2019 would have been lower than that of 2018 by 5.9%, as opposed to the actual increase of 6.8%. With the introduction of a more frequent adjustment of fuel clause charge based on the actual fuel costs from 2019, we are able to better reflect changes in fuel costs in a timely manner in our tariffs.

Under the new SCA, we see a material drop of approximately 20% in the rate of permitted return. We are also undertaking a significant capital investment programme of HK\$26.6 billion under the 2019-2023 Development Plan. As such, barring unforeseen circumstances it is envisaged that there will be an approximately 20% reduction in our distributions to SSU holders in the next few years.

I have the privilege of reporting excellent operating performance every year, but these are a direct result of the joint efforts of our talented people. I would like to thank all our employees for their dedication and commitment to delivering outstanding service throughout the year.

Fok Kin Ning, Canning

Chairman

Hong Kong, 19 March 2019