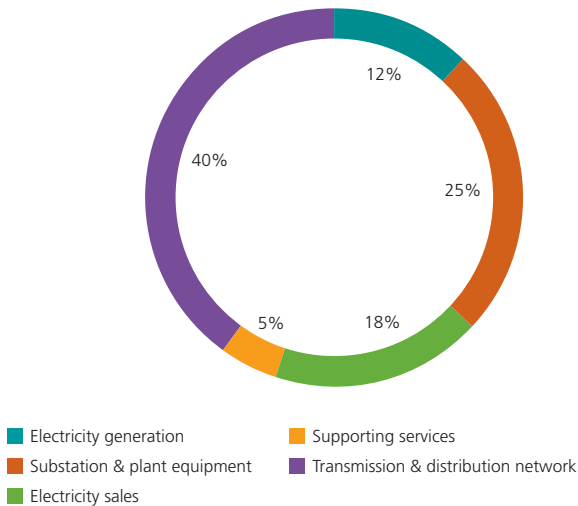


# CLP and our Suppliers

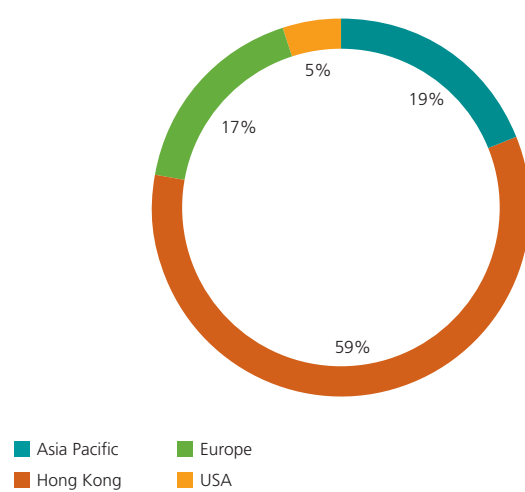
Procurement is a key driver in delivering results to achieve our vision of being a leading investor-operator in the Asia-Pacific region. That is why we consider our suppliers to be an integral and important contributor to our business and why we build long-term relationships with those suppliers who share our values.

Our procurement activities are on a large scale. In Hong Kong alone, these activities encompass a total expenditure in the range of HK\$6 billion, excluding fuel. As the following charts indicate, they involve a wide variety of products and services, sourced from all over the world.

**Types of Products and Services (Excluding Fuel) for our Electricity Business in Hong Kong**



**Supply Source (Excluding Fuel) for our Electricity Business in Hong Kong (by Geographical Location)**



Our preferred suppliers and business partners are those who are ethical and committed to sustainable development, have demonstrated Safety, Health, Environment and Quality (SHEQ) competence, internationally competitive pricing and compliance with our performance requirements. We aim to achieve a competitive advantage and to create value to all our stakeholders through establishing commercially viable strategic relationships with our preferred suppliers and to maintain those relationships on a basis which offers long-term benefits to all parties concerned.

## 2006

During the past year, we have continued to improve our supply management systems and procurement processes. A particularly important initiative has been the launch of CLP's "Procurement Values and Principles". These, which are available on our website, explain the values and principles which will be applied by all members of the CLP Group in their procurement processes. We encourage suppliers, business partners and their associates to follow the same standards of integrity and transparency in doing business with us as we seek to apply in doing business with them. Within this overall framework, we also took forward other initiatives in 2006, such as:

- expanding coverage of our risk-based Proactive Procurement Process where sourcing decisions are made

through cross-functional teams, guided by Steering Committees of different business units. This approach has become a norm in CLP procurement activities.

- exploiting discounts available from Group-wide contracts with suppliers. This brings financial benefits to the Group and strengthens our relationships with major suppliers.
- incorporating suppliers, representing 80% of our value-of-buy, in our Supplier Assessment System (SAS). The SAS allows CLP regularly to assess suppliers from a company-wide perspective, and has the particular capability of allowing suppliers to critique CLP.

## Fuel Supply

A continuous and adequate supply of fuel to our generating plant is essential to sustain a reliable electricity supply to our off-takers and customers. Fuel also represents the single largest component of the CLP Group's operating expenditure. During 2006, in Hong Kong alone, CLP spent an average of approximately HK\$12 million each day in supplying fuel to our generating fleet (excluding nuclear fuel cost at Daya Bay). There are three key elements influencing our approach to fuel procurement – security of supply, pricing and environmental performance.

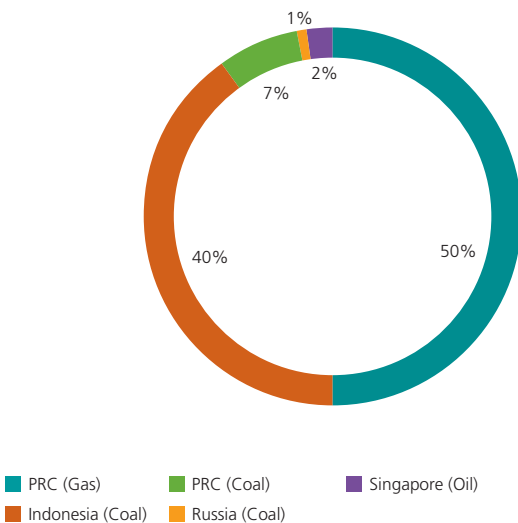
## CLP and our Suppliers

Within our Hong Kong electricity business, we maintain security of supply through:

- operating with a diversified fuel mix of coal, natural gas and nuclear;
- optimising our coal procurement contracting strategy by balancing the use of term and spot contracts;
- proactive supplier management and development;
- maintaining a strategic coal and oil inventory;
- flexible operations at Castle Peak and Black Point Power Stations, including the ability of plant to operate on dual fuel sources; and
- maintaining multiple fuel sources, to guard against the risk of reliance on a single supply source or supplier.

The following chart indicates the different sources used in our 2006 Hong Kong electricity generating operation.

### Total Fuel Buy (2006)



We apply similar principles to fuel procurement for our coal-fired assets outside Hong Kong, including Ho-Ping and BLCP. Our Yallourn Power Station in Australia benefits from a

dedicated open-cut brown coal mine adjacent to the station, which provides a secure fuel source, with reserves to meet Yallourn's projected needs for at least the next 25 years.

TRUenergy has a portfolio of long-term gas contracts, which it uses to supply its gas-fired power generation facilities as well as its gas retail customers. These gas contracts are with a number of major gas suppliers and sourced from a number of different gas fields. In addition to this portfolio of gas contracts, a number of TRUenergy's gas-fired generation plants also hold stocks of liquid fuel for back up.

Although we have seen rises in global energy prices, our nuclear capacity at Daya Bay and our gas-fired power station at Black Point were less affected by spot energy price volatility due to their long-term fuel supply contractual arrangements. However, coal-fired plant has been affected by the unprecedented rise in coal prices which started in 2003. Prices remained at a high level during 2006, with demand being driven by economic growth and the completion of new coal-fired generating plant in the region. These costs were exacerbated by high freight costs, which showed extreme price volatility, being affected by the strength of the overall dry bulk industry including iron and other steel industry-related freight movements.

We strive for better environmental performance through sourcing environmentally preferred fuel such as ultra low sulphur coal and clean natural gas. Our fuel supply processes include environmental performance as a key element in our procurement decisions. We continue to evaluate the environmental performance of existing suppliers through questionnaires, as well as reviewing their policy statements and management systems. Site visits by CLP Managers review suppliers' environmental performance and confirm that their environmental management disciplines, as disclosed to CLP, are being effectively implemented and respected.

→ Signing Ceremony for Coal Supply and Shipping to the BLCP Power Station



## Looking Ahead

The continuous improvement of our procurement processes, aligning with world-class practices, involves three strategic categories, namely, supplier development, internal client support and internal efficiency enhancement.

In 2007 and beyond, we will continue to:

- share best practices for adoption by CLP Group companies;
- develop our supply management resources and foster a learning culture;
- solicit support from our internal clients in agreeing priorities for improvement;

- participate in the development, sharing and application of knowledge or best practices in procurement – within and outside the CLP Group; and
- develop and maintain long-term relationships with suppliers and business partners whose values and performance match our expectations.

We will continue to manage risks associated with fuel costs and availability at a group level. This involves maintaining a diverse portfolio of fuels, ensuring at the pre-investment stage that issues of reliability and affordability of fuel supply have been addressed and, where possible, seeking power purchase agreements with mechanisms to adjust tariffs in respect of changing fuel prices.

**Suppliers are asked to assess CLP's own performance on a regular basis. What are the challenges and benefits to CLP in implementing its suppliers' collaboration programme?**



**Mr. Lee Boon Lee**  
Chief Operating Officer –  
SAP North Asia,  
SAP Hong Kong Co. Limited

The Supplier Assessment System (SAS) aims to improve our supply and procurement processes to yield efficiency gains for both CLP and its suppliers. We have received positive feedback on this initiative since its launch in 2004. There have been two particular challenges. One is to encourage suppliers, especially those based here in Hong Kong, to give honest feedback on CLP's performance – to convince them that we genuinely welcome constructive criticism. The second is to ensure a fair balance in the improvement plans, jointly developed by the supplier and CLP, to avoid all the improvement initiatives falling on the supplier and few or none resting with us. We are overcoming these challenges as suppliers begin to realise CLP is serious about continuous improvement and the pursuit of excellence.



**Bob Dandie**  
Chief Procurement Officer –  
CLP Power Hong Kong