Risk Management Report

In last year's Annual Report we explained how we were managing CLP's risk during a period of global financial and market difficulty and uncertainty. We referred to this as "riding out the storm". Twelve months on we have revisited our Risk Management Report to address the changing risk profile of the CLP Group's activities as we come through such a challenging period – "emerging from the storm".

Our overall strategy remains simple, straightforward and has been well-tested throughout the global financial market turmoil. The electricity business is highly capital intensive and returns are generated over the long-term. We closely monitor CLP's financial and other resources, including contingent liabilities, to maintain day-to-day operations and prepare for new business opportunities which might arise at any time. We maintain a conservative capital reserve, emphasise that capital comes at a price and that investments should meet minimum risk and return threshold profiles to achieve shareholder returns. You have read all this in previous Annual Reports; it is still true and still valid.

In our Risk Management Report we do not try to list each and every risk that CLP faces in its business. Many of those risks are inherent in the nature, scale and location of our business interests. As such, the effective management and mitigation of these risks is part of our day-to-day operating disciplines and demands and is already well covered elsewhere in this Annual Report. In this Risk Management Report and in the description of the operations of each of our five main business streams in this Annual Report, we try to convey an awareness of the type of risk to which our business is subject and the existence of processes to manage and mitigate the impact of such risks.

Traditionally, utilities have focused on the management of operational risk – matters such as safety and plant reliability. CLP has been no different in this regard. With the growth of the business, especially overseas, our risk management is moving towards a multi-disciplinary approach involving the awareness and management of a broader set of risks, such as regulatory and market risks. This is being tackled both within individual businesses and at the Group level. For example in 2009, our Australia business redeveloped a number of enterprise risk management tools (including risk registers and a risk assessment matrix) to improve the standardisation of risk assessment, undertook a programme to increase the awareness and identification of risk, and implemented risk dashboard reporting to summarise and highlight the status of top tier risks. At the Group level, in 2009 CLP reinforced its capabilities through the establishment of a dedicated, Group-wide risk management function that aims to:

- Establish and co-ordinate risk review procedures and tools on a more systematic basis, thereby allowing management to review business risks across the Group within a more consistent framework;
- Provide an overall and comparative view of the risks affecting the Group as a whole to assist us in a more effective allocation and optimisation of resources across the Group;
- Serve as a formal governance tool for reference by external stakeholders, such as insurers, rating agencies, financial institutions and investors and provide additional transparency and disclosure of our risk reduction activities; and
- Impose greater discipline in the follow-up processes necessary to react to identified risks. This will include strengthened risk monitoring, benchmarking and reporting procedures, as well as systems to alert us to major changes to the likelihood or impact of risks which have already been identified or the effectiveness of risk mitigation measures which are already in place.

This broader group-wide risk management resource will supplement existing risk management activities within individual business streams. This is all with a view to enhancing risk management, both horizontally across the Group and vertically through the processes from project development, construction, operation, maintenance and, ultimately, refurbishment, replacement or disposal of particular assets. Towards achieving this objective, an enhanced risk assessment process and improved functional review for new investment activities of the Group have already been implemented with the establishment of the Group-wide risk management unit.

The contents of the paragraphs below which are highlighted in green comprise the auditable part of the Risk Management Report in that they concern Financial Risk Factors which also fall within the scope of "Financial Risk Management" in the Financial Statements on pages 194 to 200.

Financial Risks

The Group's investments and operations have resulted in exposure to various financial risks – cash flow and liquidity risks, credit and counterparty risks, interest rate risks, and foreign currency risks. We manage these risks, each of which is discussed in detail in this Risk Management Report, by using different derivative instruments to minimise the impact of rate and price fluctuations on earnings, reserves and tariff charges to customers. To meet the objectives of risk management, we prefer simple, cost-efficient and HKAS 39 hedge-effective instruments. For instance, we prefer foreign currency forward contracts, cross currency and interest rate swaps to options and structured products. We monitor our risk exposures with the assistance of "Value-at-Risk" (VaR) measures and stress testing techniques. Our philosophy is to contract out financial risk exposure to qualified financial institutions, so that CLP's Management can focus on delivery of good business performance and growth.

Cash Flow and Liquidity Risk

The electricity business requires significant and long-term funding commitments, in the form of equity and debt facilities, to finance operation and business expansion. This calls for an optimal balance between equity and debt to offer an acceptable risk and return profile to investors and lenders. In a normal business environment and especially when there is plenty of liquidity, the difference between prudent and assertive financial management is not felt. However, at times of unprecedented financial market challenges, a strong financial position, prudent financial management and a good, long-term business relationship with lenders are essential in retaining liquidity and arranging debt facilities at reasonable costs.

The way we manage

We plan ahead to ensure that the Group has adequate cash flows and access to funding from established and new sources to fund working capital requirements, debt service payments, dividends to shareholders and potential new investments. We endeavour to cultivate and develop business relationships with potential lenders and investors to further diversify funding sources and seek optimal ways of financing our business. We leverage off the professional expertise and relationships enjoyed by CLP Holdings to help arrange non-recourse credit facilities for our subsidiaries and joint ventures. We manage risks to our cash flow and liquidity through prudent treasury policies and practices.

- We forecast, plan and monitor our cash and resources, including liquidity movements and contingent liabilities (see chart on page 73) that might call on those resources. We maintain a conservative capital structure so that we can respond to any potentially adverse challenges in a timely manner, and we hold an appropriate buffer of available debt facilities or cash to cater for contingencies in our funding requirements. We perform regular reviews of the market and of our own cash position to ensure that diversified, cost-efficient funding is available for operating expenses, capital expenditure and business expansion across the Group.
- We seek to develop long-term relationships with lenders and investors sharing similar business and financial management philosophies with CLP. We maintain an appropriate mix of committed credit facilities and spread out their maturities to reduce liquidity and refinancing risk in any year. We raise long-term funding from multiple debt capital markets through established medium term note programmes in place at the wholly-owned subsidiaries of CLP Power and TRUenergy. These programmes diversify our funding sources from the banking sector, lengthen our average debt maturity and enhance the matching of long tenured capital investment. Our diversified funding sources and maturity profile are illustrated in the charts included in the "CLP and our Lenders" section of this Annual Report on page 19.
- We aim to minimise our cash balances by adopting "Just-in-time" financing to the extent possible. Group companies use surplus cash to pay down revolving loans to reduce financing costs. When surplus funds exist, they are only kept with creditworthy financial institutions at strictly-applied internal exposure limits in the form of deposits or invested in safe, liquid, interest-bearing instruments with good credit ratings pursuant to our internal treasury policies and business requirements.
- Dividends are repatriated back to CLP Holdings as soon as practicable, unless underlying business needs dictate otherwise. If our subsidiaries and affiliates have significant cash reserves, CLP Holdings works with them to develop and apply appropriate cash management strategies and policies based on CLP's prudent philosophy towards financial management. We then monitor the position regularly.

- We strive to maintain the credit ratings of CLP Holdings, CLP Power and TRUenergy at good investment grade levels (see pages 19 and 20). Our objective is to support funding and investment through a strong financial profile and to provide financing flexibility for future growth and acquisitions.

Emerging from the storm

Planning ahead, diversified and committed funding sources, staggered maturities to ride out refinancing risks and solid, long-term relationships with lenders and investors have helped CLP complete refinancing and meet all incremental financing requirements in a timely manner with good outcomes during a period of extreme uncertainty in credit markets. Even though credit markets were effectively closed in late 2008 / early 2009, CLP faced no liquidity problem during this time.

CLP entities in Hong Kong have funding support from a larger group of diversified, high quality lenders and investors at attractive pricing, thanks to our prudent financial and business management approaches. This support includes a balanced mix of short, medium to long-term credit facilities from lending banks; multiple issuances of medium and long-dated fixed rate bonds in the Hong Kong Dollar (HKD) market and a Japanese Yen (JPY) 15 billion (HK$1.2 billion) 15-year bond placement by CLP Power to American Family Life Assurance Company of Columbus under the MTN Programme. The JPY was swapped back into fixed rate HKD at attractive pricing at the time of issuance to fully mitigate foreign currency and interest rate risks. In Australia, TRUenergy rolled over a A$300 million (HK$2.1 billion) working capital loan in June and completed refinancing of a A$350 million (HK$2.4 billion) long-term credit facility in August. The latter tranche achieved an overwhelming response when it was launched to a selected group of CLP relationship banks in Hong Kong.

In India, Jhajjar Power completed an Indian Rupee (INR) 39 billion (HK$6.5 billion) non-recourse project level loan in September to fund construction of the 1,320MW coal-fired project. Our move from the traditional United States Dollar (USD), export credit agency type financing to a more pragmatic INR project level funding to better match revenues was made possible as liquidity in the local market was sufficient to help us secure the project level debt in a timely manner.

In China, expansion of our renewable energy portfolio continues on a non-recourse basis with good funding support from national and regional Chinese banks. We have also taken market opportunities to restructure or lengthen certain project level debts to optimise the economics of our investments. All of our projects procured the required funding at reasonable costs. For example, Qian'an Wind, a CLP wholly-owned wind power project in Jilin Province, procured a RMB364 million (HK$413 million) project level loan on a competitive basis at an attractive interest rate and on good terms.

As at 31 December 2009, the Group had liquid funds of HK$8.0 billion. Total facilities and outstanding loan amounts are shown on page 19. Further analysis on these and the other financial risks discussed in this Risk Management Report, including their quantitative effects, is set out under "Financial Risk Management" in the Financial Statements on pages 194 to 200.

The way ahead

No one knows if the financial market turmoil is completely over. What is certain is the unprecedented accommodating monetary policies will not last forever. With a number of central banks starting to exit from massive monetary easing, the impact of "pulling back" on liquidity and cost of borrowing remains to be seen.

CLP entities will continue to be mindful of this, maintain our prudent strategy to plan ahead for our funding requirements and seek financing in a diversified and cost-efficient way. Our investment-grade credit ratings, strong financial position, disciplined investment decision-making and good relationships with financial institutions will help us meet the Group's funding requirements going forward.

Credit and Counterparty Risk

CLP Holdings, its subsidiaries, jointly controlled entities and associated companies enter into various forms of transactions from time to time for risk mitigation and portfolio management. These transactions include interest rate, foreign currency, cash deposit arrangements and energy price hedging in Australia. The possibility of credit default, credit rating downgrade or non-performance by counterparties creates the risk of non-recovery of financial instrument gains or cash deposits, and the possibility of apparently hedged positions becoming unhedged.

The way we manage

We apply a number of credit risk management policies to ensure our potential and selected counterparties will perform their obligations under the respective transactions.

- We confine hedging transactions and deposits of the Company and its direct principal subsidiaries to pre-approved counterparties with good credit quality in accordance with CLP's risk management policies. We establish internal exposure limits for each counterparty and allocate appropriate portions to Group companies to contain risk exposure. Management reviews this list of approved counterparties and closely monitors their credit quality on an ongoing basis.
- We assign mark-to-market limits on our exposure to any given counterparty in order to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In addition, the Group also monitors potential exposure to counterparties using VaR methodologies to mitigate the impact of adverse market movements.
- Our subsidiaries and affiliates enter into derivative transactions on the strength of their own credit. The counterparties have no recourse (cash collateral, guarantee or other forms of security) to CLP Holdings for potential changes in the market value of derivatives or the financial standing of the respective CLP entities.

Emerging from the storm

We closely followed market developments over the past year to ascertain if we would face any undue counterparty risk. Due to the Group's prudent criteria for approving counterparties, CLP entities have had no exposure to entities that have either failed or have otherwise become incapable of fulfilling their obligations to us. CLP Group treasury policies require all CLP entities to conduct treasury transactions only with financial institutions that have solid credit ratings and with an exposure limit in line with their financial strength. These financial institutions are, typically, leading commercial or integrated bank groups, having a strong financial position and a diversified business profile in their respective countries or cities. Our list of approved counterparties is reviewed periodically, and more frequently at times of major market developments or changes in the financial position of the counterparties, to enable CLP to verify that the level of counterparty risk is acceptable.

Our requirement that the counterparties of CLP entities should have no recourse to CLP Holdings, in terms of debt repayment or changes in the market value of hedging instruments, limits the potentially adverse impact to CLP Holdings, should unexpected events occur.

The way ahead

The fall of once renowned financial institutions and the number of market participants whose financial positions have not yet fully recovered has reminded us of the importance of keeping our business with qualified counterparties to minimise the risk of failure of contractual performance. As significant risks remain, and recovery is likely to be slow in most countries, we will continue with our established policies on counterparty exposure management and associated governance. These look beyond credit ratings alone and help us protect the financial integrity of the CLP Group. Looking ahead, we will closely monitor market developments and review approved counterparties and their respective mark-to-market limits, in order to continue the effective implementation of our procedures to manage credit risk.

Interest Rate Risk

Interest rate movements create risks and opportunities. A high portion of floating rate borrowings in the debt portfolio can reduce financing costs when interest rates fall, but will expose us to higher funding costs when interest rates increase. The Group's major interest rate risk exposures originate from borrowings to finance long-term capital investment. Interest rate movements, especially in times of financial volatility, can result in significant fluctuations of earnings and cash flow if not properly monitored and managed.

The way we manage

We pursue an interest rate strategy which aims at balancing the cost paid for certainty against the risk of interest rate volatility. We mitigate interest rate risk through the use of appropriate interest rate hedging instruments and fixed rate borrowings in order to protect current and future corporate profitability from interest rate volatility.

At CLP Power, this is done through an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Theoretically, a "neutral interest rate mix" of 50% fixed and 50% floating would be the optimal balance. However, it is possible to further enhance the outcome achieved by a neutral interest rate mix scenario by taking account of the nature of our industry and maintaining a higher fixed rate mix under a favourable interest rate environment (or a higher floating rate mix under an unfavourable interest rate environment). Our strategy is to maintain the fixed interest rate portion of our debt at above 50% to optimise interest expense and enhance the certainty of earnings in the long run.

We use a bottom-up approach to identify and manage interest rate risks for the overseas investments of the Group. Each project company develops its own hedging programme, taking into consideration project debt service sensitivities to interest rate movements, lender requirements, power purchase agreement structures, and tax and accounting implications. The purpose of each programme is to produce a risk profile which is appropriate to the specific business and consistent with the Group's strategic objectives.

Emerging from the storm

CLP have always maintained an appropriate mix of fixed and floating interest rates in our investments, domestically and overseas, in good and bad times in the financial markets.

Even though short-term rates were close to zero after the stabilisation of the financial markets, we have safeguarded our earnings and cash flow position from cyclical interest rate movements by maintaining an appropriate fixed and floating interest rate mix. We continue to use easy to understand, cost-and-hedge-effective instruments, such as fixed rate borrowings and interest rate swaps to reduce floating rate exposure. For instance, CLP Power and CAPCO swapped more floating rate debt into fixed rate in early 2009 when fixed rate swaps were at historically low levels.

As at 31 December 2009, the Group's fixed rate debt as a proportion of total debt was approximately 59% (57% for the Group and CAPCO combined). The sensitivity analysis of our interest rate exposure in accordance with the Hong Kong Financial Reporting Standards (HKFRS 7) requirements is set out in the Financial Statements on pages 195 and 196.

The way ahead

The current extremely low interest rate environment is unlikely to last for long. This accommodating situation sparks inflation concerns and could reverse if central banks start pulling back to guard against asset market overheating. Interest rate movements could be fast and extreme under such a scenario. Whether interest rates rise or fall, our treasury policy will continue to require CLP entities to protect CLP from interest rate fluctuations through the review of fixed / floating interest rate mixes at least annually, and the corresponding implementation of interest rate hedging. We welcome further opportunities to lock in fixed rate borrowings and further reduce the impact of interest rate fluctuations on our business portfolio if interest rates remain at the existing low levels.

Foreign Currency Risk

Currency exposure arises when assets or liabilities such as cash, receivables, payables (including those related to electricity purchases), securities and project equity investments are denominated in currencies different from the functional currency of the respective Group entity. The Group's major foreign currency exposures arise from investments outside Hong Kong, payment obligations to contractors, CLP Power's foreign currency obligations related to its U.S. dollar-denominated debt, nuclear power purchase off-take commitments and fuel-related payments.

The way we manage

We strive to reduce transactional foreign currency risks by matching assets with borrowings to assets in the same currency to the fullest extent possible. We recognise that the Group operates regionally and is exposed to translational foreign currency risk. We closely monitor this and conduct periodic reviews using a VaR approach. The Group identifies, evaluates and addresses foreign currency risks using a bottom-up approach.

- Where appropriate and available on a cost-efficient basis, we finance our overseas project investments through the use of domestic currency. In addition, certain projects utilise direct and indirect indexing provisions in their project agreements to match those of the projects' costs which are incurred in foreign currencies. The objective of each project company is to be resilient to adverse movements in key currency exchange rates, so that it can meet its debt service requirements and achieve an acceptable investment return. To achieve that, each project company develops its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements, and tax and accounting implications.
- We do not hedge foreign currency translation movements arising from the conversion of the equity in our overseas investments into the Group's reporting currency of HKD. Such translation gains or losses do not affect the project company's cash flow or the Group's annual profit until the investment is sold. Our view is predicated on the resilience of the Group's total debt to total capital ratio against currency movements, the high cost associated with hedging the exposure, limited availability of effective hedging instruments and our long-term view on our investments and the underlying economic prospects of our target countries.
- The Group's Hong Kong business operates under a regulatory regime which allows for a pass-through of foreign exchange gains and losses. As a measure of additional prudence, CLP Power hedges all its USD debt repayment obligations for the full tenor and a significant portion of its forward USD obligations (nuclear off-take, coal, gas and oil purchases) for up to five years provided that the hedging can be accomplished at rates no worse than the Hong Kong Special Administrative Region Government's historical target peg rate of HK$7.80 to US$1.00. The objective is to reduce the potential adverse impact of foreign currency movements on electricity tariffs in Hong Kong.

Emerging from the storm

The "flight to quality" early in the sub-prime crisis and subsequent USD weaknesses have shown foreign currency movements are difficult to predict and can be extremely damaging. The consistent application of prudent foreign exchange risk management policy is critical for the long-term growth of a company. At CLP, we limit our unhedged foreign exchange exposure. Firstly, CLP entities follow the Group treasury policy to cover the majority of their committed, and an appropriate portion of the expected, foreign currency exposure. Secondly, the borrowings of CLP Group entities are denominated in their respective functional currencies. This means that they use the same currency from revenues to make debt repayments, interest payments and operational payments. Translational foreign currency exposures are monitored and periodically reported to Directors. This allows Management to understand the exposures and to consider a timely response to any movements in foreign currencies where the Group has significant exposures through project investments.

The sensitivity analysis explaining foreign currency risk exposure, in accordance with HKFRS 7 is set out under the heading "Financial Risk Management" in the Financial Statements at page 194.

The way ahead

Views differ over the direction of the USD. The abundant money supply and close to zero borrowing costs have fuelled carry trades. The HKD, which is pegged against the USD under the Linked Exchange Rate System, has moved to the strong side of its allowed range, with massive amounts of hot money flowing into Hong Kong. We will continue to guard against volatile foreign currency movements in times of financial market uncertainty. This demands the continued application of our risk management policies on foreign exchange transactions and exposures, including through the disciplined execution of hedging transactions and effective ongoing monitoring of any exposure.

Key Business Risks

Energy Market Risk

Our TRUenergy business in Australia carries primarily all of the CLP Group's exposure to risks associated with wholesale energy markets. As a major participant in Australia's competitive merchant electricity and gas industry, TRUenergy is, by nature and necessity, involved in wholesale energy market hedging activities.

The way we manage

TRUenergy holds an integrated and diversified portfolio, largely based in the state of Victoria but with a growing presence in South Australia, New South Wales and Queensland. The vertically-integrated portfolio as a whole carries less risk than its individual parts and provides flexibility to respond to shifting conditions across the value chain.

While wholesale markets do involve an element of risk, significant risk taking is not consistent with TRUenergy's general business philosophy. We have comprehensive risk management polices and procedures in place to ensure our Australian energy market risk is managed within an acceptable level and that there are appropriate and effective internal controls. The amount of information we can publicly disclose about our risk management framework is constrained by the highly competitive market in which we operate. However, the basis of this framework is explained below:

- TRUenergy's hedging activities must be consistent with a documented hedging plan that is approved on an annual basis by TRUenergy's Risk Management Committee. The plan sets out the objectives for hedging and the approach to managing risk including types of instruments to be used, use of forecasts and how to manage plant outages.
- We have a number of risk metrics, including VaR measures, wholesale energy market Earnings-at-Risk measures and a number of stress tests that measure potential losses under extreme market conditions. Limits for these measures are approved by the TRUenergy Board and the Risk Management Committee and represent the risk tolerance for that particular activity. These are implemented for the purpose of avoiding excessive or unwanted risk.
- We ensure appropriate segregation of duties over energy market activities by having separate Front, Middle and Back Office functions. Front Office executes the company's hedging strategies, Middle Office is responsible for independent monitoring and reporting and maintenance of the overall control environment, and Back Office performs settlement, invoicing and accounting functions.

Emerging from the storm

Although Australia has remained reasonably resilient to the global financial crisis, compared to other regions of the world, there have still been impacts on the Australian energy market where some smaller participants have withdrawn from the market either as a result of a change in strategy or due to financial distress caused by the difficult economic conditions. TRUenergy has had little or no exposure to those entities who have withdrawn from the market and our business has not been impacted as a result.

The way ahead

TRUenergy must continue to monitor energy market counterparties and limits closely, as well as enhance and adapt its risk management framework to market changes. Developments to its Enterprise Risk Management framework will continue to permeate across all divisions of the TRUenergy business. This involves identifying particular events or circumstances relevant to the organisation's objectives, assessing them in terms of likelihood and consequence, and determining a comprehensive response strategy and benchmark monitoring involving all stakeholders in the business.

Climate Change – Carbon Risk

Climate change has created a new category of business risk which can have a direct physical impact on our business facilities through unusual weather conditions (such as drought, severe storms, flooding and rising sea levels), as well as a direct financial impact through actions taken by governments to regulate greenhouse gas emissions, including by the introduction of carbon taxation, carbon credits or emission trading schemes which affect power producers.

The way we manage

At a strategic level, the implementation of our "Climate Vision 2050 – Our Manifesto on Climate Change" in December 2007 commits us to reduce the carbon emissions intensity of our generation portfolio by 75% by 2050. Our ultimate goal is to conduct our business in such a way that our carbon emissions are brought down to a level compatible with the global objective of stabilising the concentration of greenhouse gases in the upper atmosphere at a level at which the most catastrophic effects of global warming may be avoided. To reinforce the credibility of our Climate Vision 2050, to establish goals which are relevant to us and our stakeholders and to help us and others to track our progress, we have set up a number of intermediate milestones. As well as reducing the carbon intensity of our generating portfolio, CLP has also committed in our Manifesto to other initiatives in the fields of renewable energy, nuclear energy, natural gas, clean coal technology, and energy efficiency and conservation. We see our proactive approach to reducing carbon intensity at the Group level as a pre-emptive measure against future regulatory change, even though most of our investments (outside Australia) may face only limited compliance requirements in the near future.

At the project level, we review carbon emissions for each individual investment. During the pre-investment review stage, we carefully assess and take into account emissions criteria in determining whether we will proceed with any given greenfield project or acquisition. Poor emissions performance can, in itself, be a reason not to proceed with an investment – irrespective of other positive aspects, such as attractive financial returns. We have already exercised this discipline and stepped away from prospective investments solely because of their associated emissions levels. For our existing assets, we continually examine and, where appropriate, implement engineering and process improvements which can increase generation efficiencies, thereby lowering carbon intensity.

Emerging from the storm

From our efforts to diversify into low-carbon fuels and renewable energy sources, we have learned the importance of distinguishing between the various types of clean energy and the differing characteristics of each of the markets within which we might be contemplating such investments. In our target investment regions, wind energy, given adequate policy support, is becoming a proven means of adding renewable energy capacity which is reasonably predictable in terms of technical reliability, performance and output. "Newer" renewable energy sources, such as larger-scale solar or tidal power, still face major hurdles in our region with respect to commercial feasibility.

The way ahead

Over the short to medium term, we see wind, hydro, and nuclear power as making the major contribution to the growth of low carbon energy capacity in Asia, with solar energy, probably in the form of large-scale solar photovoltaic installations, and clean coal technologies gradually moving into commercial scale deployment. CLP has its part to play in the deployment of solar energy and other emerging, but reasonably proven, clean energy in Asia. Our experience has taught us that different markets offer different opportunities for clean energy. Sometimes this is for climatic or geographical reasons, but more often because of wide variances in national or local policy support. We view investments in the power industry as long-term plays and recognise that CLP must look beyond current market conditions and take a prudent view of the trends in environmental regulation over the decades ahead. Our view is that, whilst such regulations may vary significantly from country to country and between developed and developing economies, the general trend towards the reduction of carbon emissions remains clear. Therefore, we will continue to maintain a proactive stance, mindful of the value carbon reduction brings, when formulating our future investment strategies.

Climate change and carbon risk are also discussed in our 2009 Sustainability Report and our recent "Beyond Copenhagen – Powering Asia Responsibly" publication.

Safety and Health Risks

The construction, maintenance, and operation of power plants and electricity transmission systems involve risks in the workplace that can be reduced but not eliminated completely. Outstanding health and safety performance is one of the keys to the sustainability of a business because of the potential risks resulting from poor performance, such as physical harm, damage to reputation, legal liabilities, and business interruption.

The way we manage

We believe that all workplace injuries are preventable and we strive to achieve the safest working environments possible. A high standard of safety is as important to us as technical or commercial performance.

We have experienced an unprecedented growth in our business over the past decade, which has taken us into different jurisdictions with varying local safety norms. Our objective is always to use sound equipment and to establish effective systems and procedures for construction and operation. We also make a continuing effort to build the highest safety culture in our organisations so that managers and staff think about safety before anything else. We promote the same high standards for all our sites regardless of ownership, operational control, project complexity and cultural considerations. We require that all our managers contribute to this effort and display a visible leadership commitment to safety on their sites.

Emerging from the storm

The financial turmoil did not affect our commitment to safety. 2009 saw an even greater effort and level of resources than ever before devoted to safety improvement activities and initiatives. This has resulted in significantly better safety performance, with no fatalities on our sites, and a reduction in the injury rate to our employees.

The way ahead

We have found that safety is one of our greatest challenges. We are frequently having to set standards and attempt to build a safety culture that is well above locally prevailing norms. We do, however, have the benefit of a group structure where we are able to mobilise a large number of managers into a combined effort and bring together their wide range of industry experience. Any single site is part of a much larger community within CLP and will receive support, suggestions and, at times, constructive peer pressure.

Our aim is to use this combined resource and knowledge to achieve a Group-wide workplace that is free from injuries. We will continue to apply Group and Regional level resources to support all those working with us and to provide the necessary management tools and skills to create a culture of zero injuries. We will require our partners and contractors to demonstrate a clear commitment to the same goal. Safety and Health are also discussed in our 2009 Sustainability Report.

As you can see from this Risk Management Report, we are improving and enhancing our risk management activities in parallel with the expansion of our business throughout the region. Our approach to identifying, assessing, managing, mitigating, and reporting risks forms an integral part of our pursuit of a high standard of corporate governance and enables us to make informed and timely decisions. The continuous improvement of our risk management framework and efforts to spread the culture of effective risk management throughout the organisation will be a critical tool in facing the challenges of the future.

Mark Takahashi
Group Director and Chief Financial Officer
Hong Kong, 25 February 2010