Asia

Business Environment and Challenges (Regional)

There has been continued strong economic growth across the region, with overall regional average GPD growth in the range of 4-5%, and dramatically higher in countries such as Indonesia and Vietnam. Electricity demand has typically been increasing at a multiple of 1.2 times the growth in GDP.

This strong economic growth will lead to new demands for power generation in Thailand, Vietnam, Indonesia and the Philippines, whilst Singapore is expected once again to attempt to divest the domestic generating companies which it holds through Temasek Holdings. Competition for these opportunities remains lower than that seen during the more exuberant period of the 1990s, but is nonetheless expected to increase over the coming years as European and U.S. power companies search for new investments, whilst the financial strength and experience of local power players continues to grow and new financial investors (private equity, yield-oriented funds) are actively seeking investments in the sector. Such financial investors are clearly a major competitor for acquisitions, rather than for greenfield projects.

Fuel prices, especially in those countries which rely on oil and gas-based products, such as Singapore, Taiwan and Thailand, are impacting on the cost of electricity and having a more general, albeit mild, inflationary effect. Regional governments are moving forward with plans for LNG terminals, as gas supplies will run short over the next ten years and problems of fuel cost and shortages promote moves towards fuel diversification and long-term supply security.

Local liquidity and local banking sectors continue to improve, in general terms. However, increasing costs of debt are expected, as regional governments bring their local benchmark lending rates in line with the US Federal Reserve.

Business Environment and Challenges (By Country)

India

The Electricity Act 2003 allowed power plant developers to sell electricity to a range of potential purchasers across the country, thereby removing the historical risk of selling to a single power purchaser whose credit position was variable and subject to manipulation by political pressure. As a result, opportunities have opened up for private investors in captive generation, transmission and electricity trading, in addition to the traditional Independent Power Producer projects. The new regulatory and policy framework also provides a favourable background for investments in renewable energy.

With GDP growth projected to remain at 7-8% over the coming years, considerable additional electricity generating capacity is required. The Government of India is seeking to facilitate the addition of approximately 100GW of electricity generation over the next seven years, in line with its vision of "Power for All by 2012".

In addition to these reforms and policy initiatives at the federal level, there has been continuing improvement in the commercial viability of the electricity sector in a number of Indian states. In particular, Gujarat has seen a significant improvement in the financial health of power utilities, which has been reflected in an improved position for the receivables payable to our existing GPEC Power Station.

Year 2006

At the regional level, our priority in 2006 will be to maintain the effective operation, and take forward the developments of CLP's current suite of strategic electricity generation investments located in the strong markets of India, Taiwan and Thailand. We are well placed to capitalise on regional growth through our market position, existing and new regional and local partnerships and effective exploitation of regional capital markets.

Beyond 2006

We aim to establish a premier regional power business with self-financing capabilities within two to three years, and continue growth of the business by taking advantage of greenfield and brownfield acquisition and expansion opportunities to cement and broaden its long-term strategic position in the region.

Year 2006

In 2006, CLP will be looking to:

- resolve outstanding issues with GPEC's off-taker, Gujarat Urja Vikas Nigam Limited (formerly the Gujarat Electricity Board) on receivables;
- strengthen CLP's capabilities for business development in India, including additional appropriate resources to evaluate and carry forward emerging opportunities;
- take forward the development of GPEC II Power Station, if arrangements can be made for a secure long-term supply of gas, and subject to satisfactory long-term power purchase agreements being in place with stable and credit-worthy off-takers; and
- source additional gas and thereby improve GPEC's dispatch potential. GPEC will endeavour to complete planned outages in less time than budgeted and also optimise availability by combining outages, with a view to further improving the all round performance of the plant.

Beyond 2006

As the investment climate continues to improve, CLP aims to work on new opportunities such that we can grow beyond our present single asset portfolio and establish ourselves, over time, as one of the leading private power providers in India.

We consider that diversification in fuel sources, as well as vertical integration across the electricity supply chain will be important components of our growth strategy. Accordingly, opportunities in mine-mouth or imported coal-fired plants, run-of-river hydro projects, as well as other renewable energy and electricity transmission projects will be pursued. We will examine opportunities in electricity distribution and retail, as and when the privatisation of state-owned utilities is initiated by their parent governments.

Our target states for investment will be those which demonstrate, on a stable and sustained basis, continuity in reform and improvements in the business climate for private sector investment. We envisage that new projects in those selected states will typically be undertaken alongside suitable local partners.

Business Environment and Challenges (By Country)

Taiwan

Growth and electricity demand in Taiwan has remained modest and the Taiwan Government has not yet initiated a further round of IPP solicitation. However, a requirement for new generating capacity may emerge by 2010 or earlier, whereupon there may be opportunities for new investment in the Taiwanese generating sector. Market reform and the privatisation of state-owned Taipower remain on hold and acquisition opportunities for private sector investors such as CLP are therefore limited. In particular, electricity transmission, distribution and retail are still closed to private sector participation.

Thailand

There is continuing uncertainty surrounding the future direction of the Thai electricity sector. The Thai Government is in the process of establishing clarity on long-term energy policy which would enable CLP to define a robust strategy for its existing investments in Thailand (our shareholding in EGCO and interest in the BLCP project) and the manner in which we might build on these investments.

Nonetheless, there is growth in electricity demand in Thailand that we believe will give rise to future greenfield opportunities. CLP is keen to consider these opportunities and we are, perhaps, the best positioned external power investor in Thailand to do so. Our partnership with Banpu on the BLCP project has been positive and productive. We believe that the underlying economics of BLCP are strong and that it will prove to be a valuable investment for the CLP Group.

Year 2006

In 2006, we shall be working to:

- achieve a successful resolution to the coal dome failures at Ho-Ping with equipment suppliers and insurers, and then commence the rebuild;
- find the root cause of the turbine blade failure at Ho-Ping in order to ensure that there is no recurrence of this problem. The damaged parts will be replaced and the unit restored to service as soon as possible; and
- engage Taipower and the Ministry of Energy in assessing and encouraging the expansion of the Ho-Ping facility to meet a possible shortfall in Taipower's ability to meet the requirement for new generation capacity by the start of the next decade.

In 2006, our objectives in Thailand will be to:

- continue the effective management of the construction of the BLCP project with a view to the first unit entering commercial operation towards the end of the year;
- complete preparations for the operational takeover of the BLCP units. CLP is the major shareholder in a separate operations and maintenance company and, through this arrangement, we are able to apply our industry knowledge to achieve optimum performance. The majority of staff required have already been recruited and trained, and will be participating in the commissioning stage of the project;
- continue our ongoing dialogue with the Thai authorities and the state-owned electricity authority of Thailand (EGAT) to ensure support for electricity sector development, and our role in this in light of EGAT's planned IPO and the possible conflict of interest between EGAT, EGCO and others in the next round of IPP solicitations for new generating capacity (given that EGCO is a majority-owned subsidiary of EGAT); and
- support EGCO in taking forward the construction of the Nam Theun 2 hydro project as well as other projects in operation, construction and development.

Beyond 2006

Although investment opportunities in Taiwan are presently limited, our strong relationship with Taiwan Cement, our joint venture partner at Ho-Ping, and the experience we have gained in constructing, commissioning and operating power generation facilities in Taiwan, mean that CLP is well-placed to explore greenfield project opportunities in the Taiwanese electricity generating sector, as and when these emerge.

In particular, Ho-Ping will be a strong competitor in any private sector bidding process for the provision of new generating capacity, given its geographic location, expansion capability and position as one of the few base load coal-generation sites in Taiwan.

We will continue to monitor moves by the Thai Government to privatise EGAT, and the implications of this for CLP's existing position as shareholder in EGCO and BLCP.

CLP's standing as a major international investor in the Thai Power sector, together with our relationships through EGCO and BLCP, position us well for any changes in the underlying structure of the industry.

Nevertheless, over the longer term, our willingness and capability to develop our presence in Thailand will depend upon the opportunities which are presented by electricity sector reform and the extent to which these provide a durable, fair and predictable environment for an external private sector investor such as CLP.