



Wind Farm at Woolnorth Bluff Point, Tasmania

How did we do in 2006?

TRUenergy, CLP's wholly-owned integrated energy business in Australia, completed its first full year of operation since the acquisition of the TXU Merchant Energy Business (MEB) from Singapore Power in May 2005. During 2006, the major themes of our Australian activities were:

- completing the integration of the MEB with our existing Yallourn Power Station and with the CLP Group as a whole;
- continuing to compete in highly competitive retail markets;
- effective asset management; and
- generating a meaningful earnings contribution to the Group.

Business Integration

The integration of the MEB with Yallourn and the CLP Group was largely completed. Following a strategic review initiated in late 2005, a number of initiatives were implemented over 2006 to improve organisational effectiveness and reduce costs. These included centralisation of finance, human resources and information technology functions across the business and the formation of a strategic sourcing function.

As an integrated business, TRUenergy has been successful in restructuring its bank debt facilities, achieving an approximate 30% reduction in interest margins and increased flexibility for funding future growth. TRUenergy maintained its 'A-' (stable) rating from Standard & Poor's.

In April, CLP reached a settlement with Singapore Power in relation to matters regarding the purchase of the MEB. This settlement included a payment of A\$179 million by Singapore Power to CLP. This has been treated as a reduction in the acquisition price in CLP's financial statements.

Retail Markets

TRUenergy was successful in increasing its customer base from 1.1 million to 1.2 million customers over the course of 2006. TRUenergy's retail business performance is described in more detail in the "CLP and our Customers" Section of this Annual Report. We bid unsuccessfully for the retail businesses privatised by the Queensland Government in late 2006 and early 2007. TRUenergy will enter the Queensland market through an organic growth strategy.

Asset Management

The benefits of TRUenergy's integrated and diverse portfolio of electricity generating and retail assets were demonstrated in January 2006 when the portfolio reduced risks and captured profit when severe bushfires threatened generation at Yallourn. Hot summer weather drove some pool price volatility in the electricity market with rapid increases in electricity demand from the use of air conditioners. However, in Victoria, the very hot days tended to fall on weekends, rather than work days. This meant that the delay in the Basslink undersea cable joining Tasmania to the broader Australian market had less upward impact on price than otherwise might have occurred.

The hot summer gave way to a cold winter, producing stronger and sustained demand for electricity. This provoked the Victorian forward electricity price to climb by 18% from around A\$34 to A\$40/MWh in three months. This was a significant move upwards after relatively flat prices over recent years. For the year, the average pool price was A\$34.66/MWh compared to only A\$26.29/MWh in 2005.

In the gas sector, the cold winter also produced high demand from both Torrens Island and the Victorian gas market, pushing gas throughput at the Iona Gas Plant to record levels. Earlier in 2006, Iona had commenced processing gas from Santos' Casino gas project in Victoria's Otway Basin, with the first commissioning gas flowing into our Iona Gas Plant and the SEAGas pipeline ahead of schedule. The diversity of our gas portfolio will be expanded further with the Otway project coming on line.

Our energy trading activities take account of broader market trends such as an increasing focus on sustainability and the environment, including the mandatory renewable energy targets being set in 2006 by the state governments of Victoria and New South Wales (NSW). CLP has an established position in renewable energy through our Roaring 40s joint venture with Hydro Tasmania, which already owns and operates wind farms at Woolnorth Bluff Point (Tasmania) and Cathedral Rocks (South Australia). During the year, Roaring 40s decided to halt development of two further wind farms, following the Federal Government's decision not to increase the mandatory renewable energy target, which is crucial for new renewable energy projects to be economically viable. However, the move by state governments to mandate renewable energy targets and evidence of some rethinking by the Federal Government of its own policy in this area, suggest that these and other opportunities for renewable energy projects may open up in Australia during the months ahead.

The prominence of environmental issues has been further boosted by widespread drought conditions. These affect the electricity market through pressure on water storage for hydro generators and increased attention on the water consumption of traditional forms of generation. It is expected that the drought, if sustained through 2007, will put upward pressure on pool prices across the National Electricity Market (NEM).

With its interest in the full range of generation, from zero emissions (through our relationship with Roaring 40s) to brown coal, TRUenergy has been active in public and political discussion of environmental issues and the debate around carbon pricing, including through our input to the National Emissions Trading Taskforce.



← TRUenergy – attention →
to detail



The following table summarises the performance of TRUenergy's conventional generating assets during 2006.

Asset/Station	Rating (MW)		Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Yallourn Power Station	1,480	1,480	11,400	11,207	87.9	86.4	88.2	86.8	7,702	7,572
Torrens Island Power Station*	1,280	1,280	2,500	2,408	22.8	21.5	86.0	84.9	1,953	1,881
	Capacity (Terajoule/Day)		Throughput (Petajoule)		Utilisation (%)		Availability (%)		Compressor Hours	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Iona Gas Storage Facility	320	320	43.9	16.8	37.6	14.5	92.4	91.1	23,600	9,900

* Intermediate to peaking plant

At Yallourn, the instrument and controls upgrade continued with installation of the equipment completed and commissioning underway. Tuning improvements have been made to Units 3 and 4 and we are seeing the benefits of improved control of plant operations. Following an overhaul of Unit 4, improved efficiency was achieved by replacing some low pressure turbine blades with an improved design, improving boiler combustion by modifying fuel flow and installing water cannons to maintain heat transfer within the furnace. A major fire in January 2006 interrupted coal supply to Units 1 and 2 for five days. Maintenance crews, closely supported by operation staff, worked around the clock to restore coal supply. During this period, generation from Torrens Island was increased to cover the portfolio position.

Safety is an utmost priority in the management and operation of our plants, in Australia and throughout the CLP Group. Tragically, in October, an employee of the mine maintenance contractor, Silcar, died as a result of injuries sustained whilst working at the Yallourn open cut coal mine. In accordance with CLP's standing instructions, CLP and TRUenergy have established an investigation panel, with an independent chairman, to carry out a full investigation of the accident.

Torrens Island continued to provide intermediate and peak generation to the TRUenergy portfolio. Units B1 and B3 completed major overhauls during 2006. The upgrade of the reverse osmosis plant for pre-treating bore water before the

chemical demineralisation process was completed resulting in a reduction in chemical effluent of over 90%.

In January 2007, TRUenergy agreed an asset swap with AGL Energy Limited (AGL). Subject to the Australian Competition and Consumer Commission's clearance and other third party consents, TRUenergy will sell its Torrens Island Power Station to AGL for A\$417 million and acquire the 180MW gas-fired Hallett Power Station from AGL for A\$117 million. The asset swap is expected to be completed in July 2007. Combined with our generation in Victoria, Hallett Power Station, which is a peaking generator, will help the TRUenergy portfolio to meet the supply needs of our existing customers more economically.

Throughput of gas at our Iona Gas Plant more than doubled as a result of the expansion of the plant to take gas from the new offshore Casino gas field. Further work was completed to improve plant control and flexibility. We are considering the expansion of storage capacity.

In 2006, we started construction of Tallawarra Power Station, a new combined-cycle gas-fired plant in NSW. This is being constructed by Alstom under a turnkey Engineering, Procurement and Construction contract. On completion, scheduled before the end of 2008, Tallawarra will be Australia's most efficient gas-fired generation plant.

The two wind farms in which CLP holds an interest through Roaring 40s also performed well in 2006.

Wind Farm	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Note
			2006	2005	2006	2005	
			Woolnorth Bluff Point	65	37 x 1.75MW	238	
Cathedral Rocks	66	33 x 2MW	114	76	84.3	73.2	Commenced partial operation since June 2005

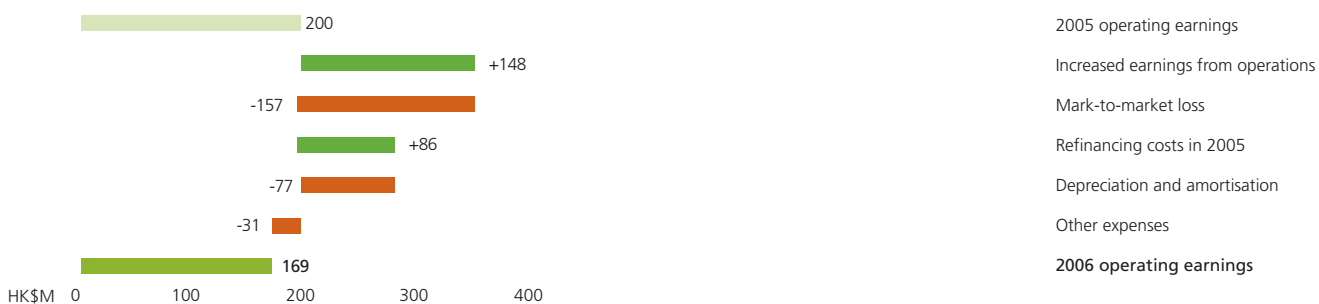
Earnings

Operating earnings of HK\$169 million in 2006 were lower than expected. This is mainly the result of the mark-to-market losses of approximately HK\$250 million (after tax) on electricity contracts, owing to falling forward curve against the long position in our contract book. These are accounting losses, highly dependent on pool prices, which can fluctuate subject to a large number of factors.

The electricity portfolio performed well, with customer sales volumes approximately 10% above forecast. Strong demand has been witnessed, particularly in Victoria, with a hot summer and cold winter. On our generating assets, Yallourn’s availability levels were on plan and improved from the previous year. Operating expenditure was below forecast, a result of improved costs control and successful cost saving initiatives.

The chart below shows the major variations (plus or minus) between the 2006 and 2005 earnings:

Australia Operating Earnings



Moreover, during 2006, there was an impairment provision of HK\$823 million on Yallourn Power Station. This was the result of a decrease in forecast pool price and a reduction in the performance of its ageing plant.

→ Wind turbine blades ready for mounting at Woolnorth Bluff Point, Tasmania



What are we going to deliver in 2007 and beyond?

Business Environment and Challenges

The power sector in Australia is witnessing further structural change with the recent privatisation of the Queensland retail businesses and the expected implementation of full retail contestability in Queensland in mid-2007. The competition for the retail assets privatised by the Queensland Government in late 2006 and early 2007 was fierce.

The electricity and gas retail markets in Victoria and South Australia (SA), in which CLP has a strong presence through TRUenergy, continued to experience high customer churn in a very competitive landscape.

A key development in the past year has been the advent of climate change as a major issue in both State and Federal politics in Australia. In September, in the run-up to State elections, the Victorian Government launched the Victorian

renewable energy target scheme, requiring consumption of renewable energy to reach a target of 10% of total consumption by 2016. Shortly afterwards, the NSW Government announced a similar target scheme with a 15% renewable target by 2020. For its part, the Federal Government appointed a taskforce to advise on the nature and design of a workable global emissions trading system in which Australia would be able to participate. Australia has not been a signatory to the Kyoto Protocol. This new attention to climate change suggests a significant turnaround in policy by the Federal Government.

What is TRUenergy's position on further integration of the energy market in Australia? What will this mean for large industrial and commercial customers?



Mr. Peter Dobney
National Energy Manager,
Amcor Australasia

Consolidation of the Australian energy industry is inevitable and, overall, is positive for the market. This consolidation and integration process is a response to vigorous competition and the resulting need for energy businesses to reduce costs and mitigate market risk. Our energy market is small by international standards, an environment that is likely to produce a few, large, vertically integrated companies and a number of niche and smaller companies competing in the energy market.

For TRUenergy, vertical integration has helped us create a stable, cost-effective platform that supports ongoing investment in our retail and generation capacity. This in turn, reduces our exposure to volatility in gas and electricity costs and ensures we have the long-term capacity to continue to meet the growing energy needs of our customers.

For our large industrial and commercial customers such as Amcor, the prices, product and services we offer will continuously improve. Pricing will continue to reflect the competitive pressure of the wholesale market. As a result of our integrated approach, our cost to serve will also reflect the economy of scale we are able to achieve, and we will be able to deliver a broader range of products and services resulting from our assets upstream in generation and gas supply.



Richard McIndoe
Group Director –
Managing Director Australia

Year 2007

During 2007, we will be aiming to:

- grow TRUenergy's retail business by:
 - planning an organic entry strategy for the commencement of full retail contestability in Queensland on 1 July 2007;
 - positioning for potential privatisation of NSW's retail businesses; and
 - further organic growth in SA and Victoria.
- complete the asset swap of Torrens Island Power Station for the Hallett Power Station with AGL;
- grow our generation business by:
 - continuing construction of the Tallawarra 400MW gas-fired combined-cycle plant in NSW;
 - assessing the 300MW expansion opportunity at the Hallett Power Station; and
 - identifying opportunities for greenfield development sites, including up to 450MW of peaking capacity at the Tallawarra site in NSW.
- maximising the value of our assets through:
 - strong focus on cost reduction, efficiency gains and customer service enhancements;
 - addressing the effects of the ageing of the Yallourn plant and continuing to improve its availability; and
 - exploiting the flexibility offered by a diverse range of generation fuel and retail assets in the wholesale gas and electricity market.
- focusing on climate change and sustainability by:
 - positioning TRUenergy as an influential participant in the national debate on climate change;
 - promoting green retail products and energy efficiency advice to customers;
 - improving environmental performance per kWh of energy produced;
 - developing renewable energy sources; and
 - building a portfolio of community partnerships.

Beyond 2007

In the longer term, TRUenergy aims to continue to develop its presence in the Australian energy industry. This will be driven by:

- further growth in generating capacity through greenfield expansion, possibly combined with acquisitions on an opportunistic basis;
- organic retail growth, capitalising on strong brand, product and marketing capability; and
- potential acquisition of gas assets to protect gas retail and generation assets through the process of ongoing market consolidation.

In addition to focusing on maximising value from its existing assets, we expect that TRUenergy will maintain its strong focus on sustainability and the development of renewable energy sources.