

A photograph of two women standing outdoors. On the left is a young woman with dark hair, wearing a black and grey striped top, smiling broadly. On the right is an older woman with blonde hair, wearing a dark polo shirt with a small logo on the chest, also smiling. They are positioned in front of a range of hills or mountains under a clear blue sky. Several thin, white power lines are visible in the lower right foreground.

Annual Report 2010/11

HORIZON
POWER

Contents

1 About Us	27 Directors' Report	37 Financial Performance
2 Fast Facts	27 Corporate Governance	37 Balance Sheet
3 Horizon Power Supply Areas	28 Board of Directors	38 Capital Expenditure
4 Executive Summary of Horizon Power's Performance	30 Attendance at Board Meetings	38 Dividends
6 Chairman's Report	31 Audit and Risk Management Committee	38 Significant Events After Balance Date
7 Managing Director's Report	31 Financial Reporting	
11 Operational Performance Report	31 Internal Control and Risk Management	39 Director's Declaration
12 Operation Restructure: Business Improvements	31 Composition of ARMC	
15 2010/11 Business Highlights	32 Corporate Compliance Disclosures	
20 Environment	33 Indemnification of Directors	
23 Key Statistics	33 Legislation	
24 Performance Indicators	34 Environment Regulations	
25 Network Assets and Employment	35 Observance of the Code of Conduct for Horizon Power	

About Us

Horizon Power is a commercially-focused State Government energy utility which generates, procures, distributes and sells energy to residents and businesses in remote and regional Western Australia.

What sets Horizon Power apart is our passion and ability to deliver safe and reliable services in the most challenging environments. Our service area is vast, approximately 2.3 million square kilometres. Horizon Power services the biggest area with the least amount of customers in the world – one customer for every 53.5 square kilometres of terrain.

Our customers range from people living in remote, isolated communities with less than 100 people, to residents and small businesses in busy regional towns, to major mining companies in the resource-rich Pilbara region.

Our interconnected and isolated systems are exposed to intense heat and cyclonic conditions in the north and ravaging storms in the south. It is these challenges that drive the innovation and commitment of our professional and engaged team of employees.

Horizon Power's intent is to maximise the value of our economic, social and environmental intergenerational assets in regional Western Australia.

We are focused on creating value beyond the current generation.

By connecting communities to upgraded power supplies, we are improving the quality of life for people in communities throughout remote and regional Western Australia. We are also creating opportunities to assist in the development of regional communities, whether it is through providing employment opportunities, sponsoring community events and programs or education initiatives.

As we go about our business, the protection of the environment and Western Australia's rich cultural heritage is at the forefront of our planning processes. In all we do, the safety of the public and our employees is paramount.

To meet these objectives, Horizon Power continues to provide leadership and develop quality relationships with stakeholders to achieve the best possible outcomes for regional Western Australia.



Fast Facts



42,506 connections

which supply more than 100,000 residents and 8000 businesses



7,173 km

of overhead and underground transmission and distribution lines



2,157 new customer connections in 2010/11



36 networks

including the North West Interconnected System (NWIS) in the Pilbara and the interconnected transmission network between Kununurra and Wyndham. The remainder are isolated systems.



102,693 customer calls in 2010/11



\$1 billion+ in assets



2.3 million km²

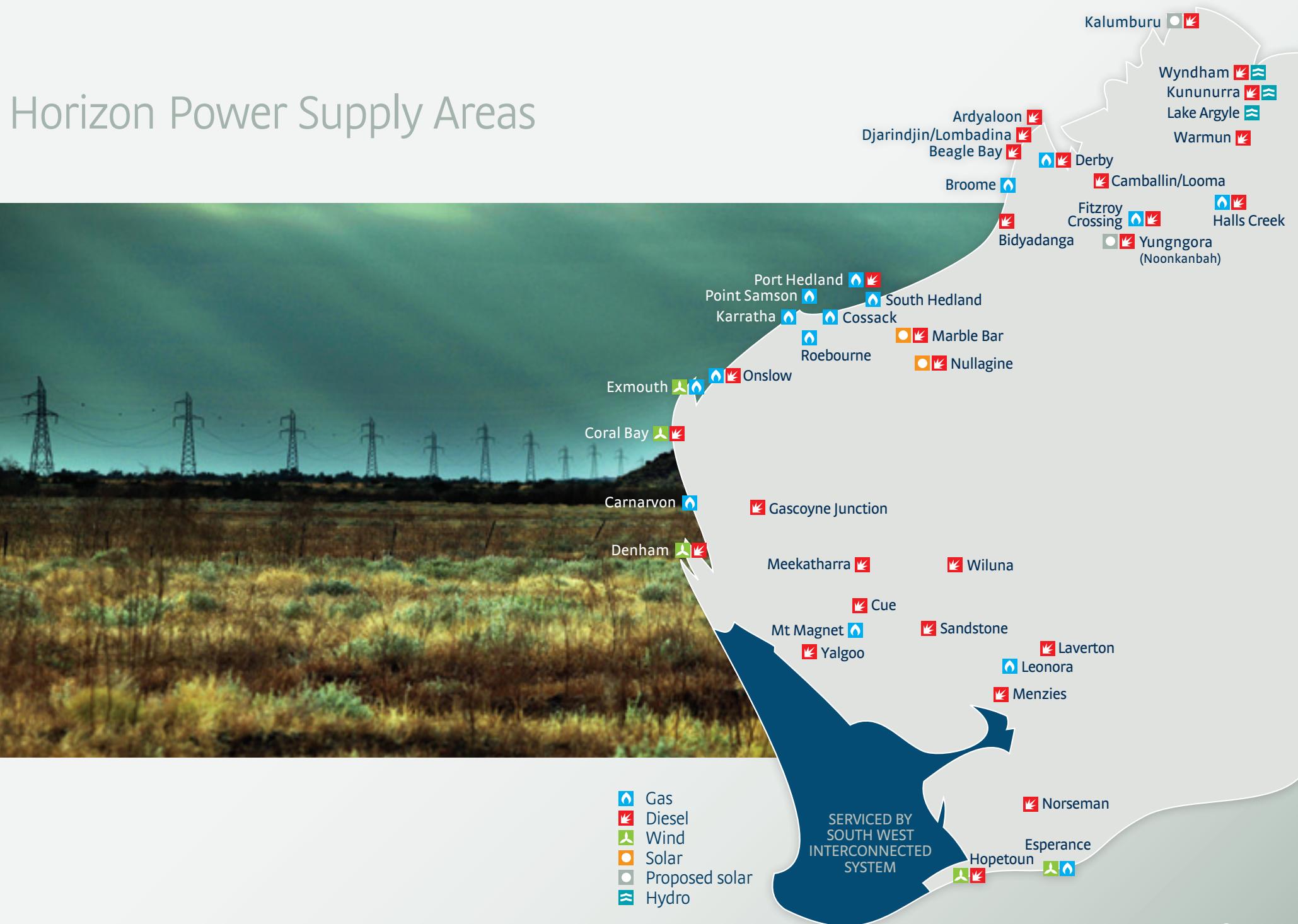
service area – includes the Kimberley, Pilbara, Gascoyne, Mid West and Southern Goldfields, including Esperance, Hopetoun and Norseman



3 fuel types

gas (pipeline, liquified natural gas and compressed natural gas), renewable energy (wind, solar and hydro) and diesel

Horizon Power Supply Areas



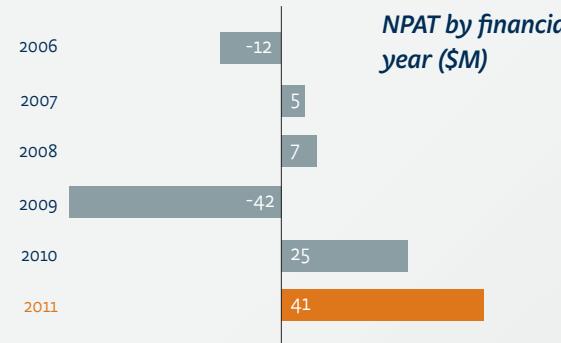
Executive Summary of Horizon Power's Performance

Horizon Power provided safe and reliable power supplies to customers in regional and remote Western Australia in 2010/11, delivering power within legislative limits and achieving positive performance results.

Horizon Power customers experienced an average 3.13 interruptions, comparing favourably with the regulated System Average Interruption Frequency Index (SAIFI) limit of 6.6 interruptions per annum. The System Average Interruption Duration Index (SAIDI), which indicates the average length of an interruption, was 160 minutes compared with the legislative limit of 290 minutes.

Horizon Power continued to strive for excellence in the area of public safety. Two public safety incidents were recorded in 2010/11, which is in line with this year's target and is a major improvement on 2009/10 when 12 public safety incidents occurred. The business continues to invest in asset management programs to further improve the safety and reliability of our assets.

Horizon Power fell short of meeting employee safety targets for 2010/11 due to minor strains and injuries. Safety processes are being reviewed as a result. Despite major damage caused to our power infrastructure by the one-in-100-year flood in Carnarvon in December



2010, Horizon Power can proudly report that Carnarvon staff undertook major restoration work in extraordinary conditions and no safety incidents were reported.

Four out of six of Horizon Power's regional depots have achieved more than three years of operation without a lost time injury, including the Port Hedland depot which has achieved more than 12 years without a lost time injury and the Kununurra depot which has recorded no injuries in almost 10 years. This is all the more praiseworthy given that these areas are subject to cyclonic weather and periodic flooding.

Horizon Power recorded a net profit after tax of \$41 million up from \$25.5 million

in 2009/10. This is a positive result given higher costs attributed to flood and natural disaster restoration work, the decommissioning and remediation of old power stations and the cost of building systems and organisational capabilities. An increase in the Tariff Equalisation Fund payment was a key driver in Horizon Power's ability to record a profit this financial year, which is consistent with the funding framework.

Horizon Power received more than 100,000 calls from customers throughout the year. Nine out of 10 customers (87.9 per cent) had their calls answered within 30 seconds.

Key result area	Objectives	Performance target description	Target for 2010/11	Performance results in 2010/11	Performance results in 2009/10	Indicator against target
Customer value	Improved value to the customer through safe, improved and expanded service	Operational performance SAIDI Complying towns/systems: number of towns/systems with outages less than 290 minutes duration	31/36	31/36	32/36	✓
		Operational impact on customers Target is 80% of customers not experiencing outages longer than 290 minutes	80%	82.8%	85%	✓
		Customer satisfaction Customer satisfaction survey result – target is 80% of customers satisfied	80%	75%	77%	✗
		Public safety Number of public safety incidents related to Horizon Power performance	2	2	12	✓
Community social benefit	Building capacity, capability and opportunity to improve the lives of members within the communities we serve	Power supply regularisation Number of remote and Aboriginal communities	5	0	16	✗
Environmental benefit	Sustainably minimising the impact on the environment from both our current and future operations	Greenhouse emissions Greenhouse Intensity kgCo ² /kWh sold	0.68	0.58	0.65	✓
Business value	Increasing our profitability and building the value of the business	Profit after tax	\$49.8 million	\$40.7 million	\$25.5 million	✓
		Average unit cost (\$/kWh)	32.3 cents	35.3 cents	38 cents	✗
		Capital efficiency ratio (%)	95%	n/a*	85%	
Economic benefit	Working with all stakeholders to drive and deliver value from regional development	Stakeholder satisfaction	77%	78%	100%	✓
Processes and knowledge	Achieving a state where we operate at or above industry standards	Corporate reputation Corporate reputation index: percentage of those surveyed believe we are operating at or above industry standards	70%	76%	65%	✓
		Safety Lost time injuries per one million hours worked	0	5	0	✗
		Workers compensation Number of workers compensation claims per one million hours worked	10.5	15.0	12.8	✓

Chairman's Report

It is a privilege to be the Chairman of a Corporation that services West Australians who live in remote and regional Western Australia. Harsh climatic conditions, such as the several cyclones and floods we experienced this year, higher costs of living and vast travelling distances are just some of the challenges our customers face every day.



It is these same challenges that the business thrives on. Horizon Power is focused on providing safe and reliable electricity supplies, maintaining and developing our assets and delivering excellent services and products to all of our customers, however remote they are and whatever conditions we have to overcome to achieve this.

In late 2010, former Managing Director Rod Hayes resigned after five years leading the establishment and growth of Horizon Power. The business enjoyed a period of sustained growth under Rod's leadership which I am sure will continue under the leadership of our Managing Director Elect, Frank Tudor.

I offer my gratitude to the Horizon Power team for its dedication, commitment and significant contributions during the past year. I particularly would like to acknowledge those staff members who worked tirelessly to restore power supplies after Tropical Cyclone Carlos buffeted the Pilbara coast and record flooding devastated parts of the Gascoyne and Kimberley regions, including the Aboriginal

community of Warmun. Despite the severity of the weather conditions, our staff managed to restore power supplies without recording any safety incidents. We continue this focus on safety in our daily operations.

I would also like to acknowledge the support and commitment of my fellow Directors and particularly Nicole Lockwood and Bob Eagle, who finished their work with the Board at the end of April this year. I welcome Ian Mickel and Ron Johnston, who joined the Board in May.

A strategic review undertaken by the Board in 2010 resulted in a refocus of Horizon Power's business strategy. The business has been restructured to ensure Horizon Power can deliver on this strategy. It is well positioned for future challenges and opportunities while making a positive contribution to the lives of regional Western Australians now and into the future. The realignment has facilitated a number of initiatives to enhance organisational efficiency and effectiveness.

These initiatives are particularly timely given they complement recommendations from the Economic Regulatory Authority's inquiry into the funding arrangements of Horizon Power.

As we move into the new financial year, we continue to ensure good corporate governance and build on the lessons learned from 2010/11 to refine our approach to the delivery of excellent customer and stakeholder service. In 2011/12 we will continue to contribute to the development of the regions and to create intergenerational assets, in the form of tangible energy solutions and environmental and social benefits for the communities we service.

A handwritten signature in black ink, appearing to read "Brendan Hammond".

Brendan Hammond
Chairman

Managing Director's Report

I am proud to be able to report on some major achievements during 2010, the most important of which is the safe and reliable delivery of power to our customers in regional and remote Western Australia.

At the end of the 2010/11 financial year, 31 of our 36 power systems performed in accordance with independently determined reliability standards despite the business having been challenged by floods and cyclones in the Mid-West/Gascoyne, Pilbara and Kimberley regions. These climatic conditions are still impacting the business, with roads into some remote Aboriginal communities we service still closed six months after flood waters washed them away. The direct cost of restoring power supplies and infrastructure in these communities was in excess of \$2 million.

Despite these challenges and costs, it is with satisfaction that I can report Horizon Power's net profit after tax was \$41 million. This will enable the business to return funds to the State Government via tax and dividend payments.

Horizon Power has made progress with some significant projects in 2010. This includes commencement of construction of the new Mungullah Power Station in Carnarvon and the opening of two state-of-the-art power stations in the

Pilbara, the Marble Bar Pippunyah and Nullagine Power Stations, which deliver to customers most of their energy from the sun. The execution of these projects, which had a significant research and development component, presented some challenges which have been addressed through the organisational restructure. Project management capabilities have been refined and improved following this process. I am confident that the outworking of these changes will see Horizon Power deliver its portfolio of projects in line with plans.

This year, Horizon Power has grappled with the limitations of our small and isolated networks to receive renewable energy. Distributed renewable energy systems can destabilise networks originally designed to send out energy, not receive it. Accepting increasing generation capacity of renewable energy systems on such networks is a challenge energy utilities face worldwide.

Horizon Power customers have embraced renewable energy technology, particularly in towns such as Carnarvon

and Broome and as at 30 June 2011, over 900 renewable energy systems had been installed on our networks.

Horizon Power recognises the continued desire of our customers to invest in renewable energy technology and is focused on exploring technological solutions that will allow us to accept even more renewable energy from our customers. These solutions have been developed for our unique operational environment and will push the boundaries of those products currently available in the marketplace.

We are also focused on responding to our customers' needs as they deal with increasing tariffs which are necessary to ensure the continuation of a safe and reliable power supply in regional and remote Western Australia. We are working closely with our customers to provide information about how to reduce energy costs by becoming more energy efficient.

Managing Director's Report continued

As well as building new energy infrastructure, Horizon Power has undertaken important asset management work in 2010/11 to ensure the safety and reliability of our service, including upgrading our single-phase network in Esperance and the surrounding rural region.

The security of our Pilbara systems will also be improved by undergrounding of the network through the Pilbara Underground Power Project which began in earnest this financial year. Undergrounding of the network in Karratha is in progress and will begin soon in South Hedland. Horizon Power continues to work with the State Government to progress options for the provision of power in the Pilbara which meets the various objectives of security, value and funding.

As safety is of paramount importance at Horizon Power, I am pleased that we were able to report a public safety figure that is on target for 2010/11 and that WorkSafe WA acknowledged our excellent employee safety record by awarding us with a

Gold Certificate of Achievement. We will continue to focus on refining our work systems to improve our employee safety results in the years ahead.

As well as a year of growth and success, the 2010/11 financial year was also a time for consolidation and review. Our strategy has been refined to a focus solely on regional Western Australia and regional growth planning, and our organisational structure has been restructured to support this strategy.

By making these changes through 2011, we are being proactive to ensure Horizon Power is appropriately positioned and resourced for future challenges and opportunities, and well placed to meet the Minister's efficiency challenges.

The Economic Regulatory Authority (ERA) review of regional and remote electricity supply this year provided a valuable insight into the economic

reality of effectively and efficiently managing power supplies in 36 dispersed and remote locations. The ERA's recommendations complement initiatives already underway at Horizon Power to enhance organisational efficiency and effectiveness including an organisational restructure, investment in IT systems and restructure of financial systems used to facilitate the delivery of critical business information.

The ERA review also provided an opportunity to understand, from an economic regulatory perspective, the rigour required in justifying capital and operational business cases. This has assisted in strengthening Horizon Power's systems and processes.

This financial year's organisational restructure will assist the business to deliver these and other major projects on time and budget, with fewer organisational layers leading to improved accountabilities and efficiencies. I have great confidence in the ability of Horizon Power, with its professional and passionate workforce, to achieve excellent

performance results in 2011/12, and, most importantly, to better respond to our customers' needs.



Frank Tudor
Managing Director Elect

Introducing Frank Tudor

Frank Tudor was appointed acting Managing Director of Horizon Power in December.

Frank Tudor was appointed acting Managing Director of Horizon Power in December 2010 after managing the Strategy and Business Development division of the Corporation since Horizon Power was formed in 2006 after disaggregation from Western Power.

Frank has held various executive management roles over the last 25 years in the European, Asian and Australian oil, gas and power industries with BP, Woodside and most recently Horizon Power.

For the past 10 years, Frank has also been a part-time lecturer for the Masters of Oil and Gas Engineering program at the University of Western Australia. He is also Vice Chairman of the Chamber of Commerce and Industry's (CCI) Energy and Resources Forum.

Frank was the National Vice President of the Australia China Business Council (ACBC) in 2005 and 2008 and State Vice President



of the ACBC in 2005, 2007 and 2008. Since November 2008 Frank has been Chairman of the ACBC Board and National President.

Frank holds first class degrees in engineering, economics and business administration from Curtin University (WA), London School of Economics (UK) and AGSM (University of NSW). He also completed the Advanced Management Program at Harvard Business School in September and October 2008.

Sharing Our Stories

Horizon Power's contribution to the world's biggest science project

The Australasian Square Kilometre Array Industry Consortium provides an opportunity for Australian industry input into the world's most significant radio telescope science and engineering project.

Since 2009, Horizon Power has been a substantial and proactive consortium member through contributing outstanding strategic support and technical insight into developing energy solutions for CSIRO's Australian SKA Pathfinder (ASKAP) telescope. Horizon Power has been working with CSIRO and other consortium members to develop power options to allow the high penetration of renewable energy at the Murchison Radio Observatory.

The challenge for Horizon Power, with other industry partners, is to develop a cost-effective and sustainable energy solution which can interact with emerging technologies that are required for this exciting international project.

Through the Consortium, Horizon Power is now being viewed in the key SKA stakeholder countries as an exemplar for the provision of innovative energy solutions in regional and remote communities worldwide.



CSIRO's ASKAP antennas at the Murchison Radio-astronomy Observatory in Western Australia. Credit: Terrace Photographers.

Operational Performance Report

Horizon Power this year met its Performing Systems Target, with 31 of the business' 36 systems exceeding this performance target in 2010/11.

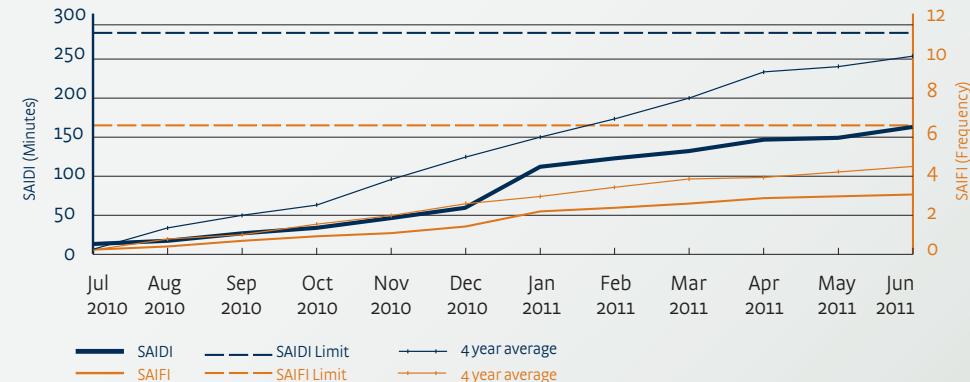
Horizon Power also performed well under the legislated limits which relate to the length and duration of power interruptions.

The average frequency of interruptions for customers in the Horizon Power service area is limited to 6.6 per annum.. The System Average Interruption Frequency Index (SAIFI) recorded by Horizon Power was 3.13 interruptions, well inside the limit. The System Average Interruption Duration Index (SAIDI), which indicates the average length of an interruption, was 160 minutes, compared with the limit of 290 minutes.

These results exceeded our regulatory obligations and are very positive, particularly given the number of severe weather events that occurred across our service area in 2010/11. Horizon Power responded safely and quickly to the Carnarvon floods, tropical cyclones including Dianne, Bianca, Vince and Carlos, all of which impacted heavily on fault activity for the summer.

The Fitzroy Crossing, Kununurra, Norseman, Esperance and Hopetoun rural systems did not meet their targets in the 2010/11

Progressive Reliability 2010-11 (normalised)



financial year. Fitzroy Crossing's system did not achieve its target due to the heavy cyclone season and Norseman had one long power station outage that negatively impacted the reliability for the town.

The Esperance and Hopetoun rural systems had a 50 per cent and 20 per cent improvement in supply reliability over 2010/11 respectively, demonstrating Horizon Power's commitment to improving the performance of these systems over the long term. These systems were not expected to be compliant this year as the

major program of works designed to rectify these supply issues is still underway.

Operational Restructure: Business Improvements

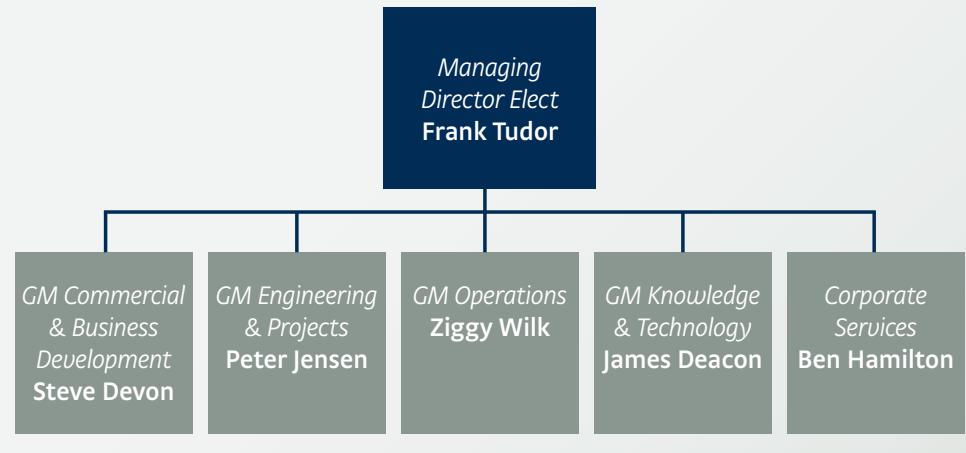
After a sustained period of growth and expansion, Horizon Power's strategy was refined in 2010/11 to refocus solely on Western Australia and the integrated long-term planning and delivery of infrastructure in the booming natural resource-driven regional growth hubs across the State.

Horizon Power's organisational structure has been reviewed to support the revised strategy. By being proactive we are ensuring Horizon Power is appropriately positioned and structured for future challenges and opportunities.

Horizon Power's purpose is to create intergenerational assets from our activities by maximising the social, environmental and economic benefit for the Corporation and the communities which we service.

The strategy is focused on seven core areas:

- **Safety** - improve our well-designed safety system to one which is world's best practice.
- **People** - simplify roles and develop people systems to ensure employees can use their full capacity for their own satisfaction and to contribute fully to the overall success of Horizon Power.
- **Aboriginal Engagement** – endeavour to get an Aboriginal candidate for every new role in the organisation in order to meet the 2014/15 target of 20 per cent Aboriginal employees throughout all levels of the business.
- **Customer Value** – reduce our cost of service while improving customer-



related functions to ensure we work well with our customers to shape their energy needs and deliver simple, easy and effective services and products.

- **Business Transformation** – to develop a solid and effective platform of affordable core business systems which are managed intelligently and with discipline.
- **Innovation** – continue to find more effective and efficient ways of

conducting our business, including leveraging technology and innovation to create better solutions.

- **Business Growth** – operate under a holistic integrated service delivery approach across all systems in the business to ensure we harness early opportunities to secure commercial infrastructure investments and increase our enterprise value.

Operational Restructure: Business Improvements continued

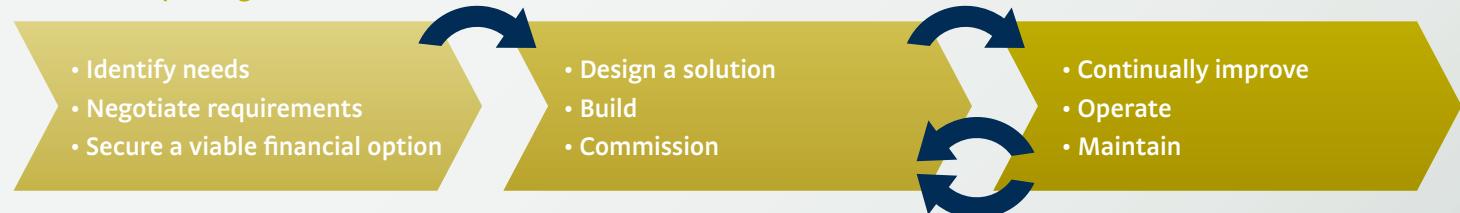
As a result of the restructure, the number of General Managers and divisions has been reduced from eight to five. The number of organisational layers has been reduced from six to five and reporting has been strengthened to improve accountability.

The new organisational structure took effect on 1 May 2011. There is a small net reduction in employee numbers that masks a larger set of redundancies and intake focused on capability building.

The new structure is simple and modelled on the progression of opportunities through development, execution and operations. The Operations division is still based on the district business model which is designed to put Horizon Power employees on the ground and, in so doing, better meet the needs of the communities we serve. These core divisions are supported by two services divisions covering both the normal array of corporate functions and a major systems transformation program.

The new organisation was designed, role by role, to achieve clarity of accountability, empowerment with checks and balances and an organisation focused on performance.

New and 'step change'



Existing and incremental

Corporate Services	Develop and ensure consistent application of policies, systems and processes
Knowledge & Technology	Setup and transition IT infrastructure and systems to meet future needs

Sharing Our Stories

Working with the next generation

Horizon Power's Schools Education Program, Horizon Discovery Zone, was delivered to 1018 students in remote and regional Western Australia in its first full year of operation.

The school education sessions on the science of electricity, electrical safety, energy efficiency and careers in the electrical industry have been very well received by students and teachers alike.

What they say:

"A great resource with enormous educational benefits. Would like to use it next year to cover renewable energy."

Peter Jensen

Senior school teacher at Yandeyarra Remote Community School, Pilbara

"The students were very engaged and loved the hands on approach to the session."

Cheryl Gunn

Teacher at Tambrey Primary School, Karratha

"Great hands on activities, engaging and curriculum-based, an excellent resource. Thanks, Horizon Power!"

Hayley Oldfield

Teacher at Esperance Primary School



2010/11 Business Highlights

Commercial and Business Development

Aboriginal employment and engagement

In keeping with building human capability and intergenerational assets, Horizon Power adopted a target of a 20 per cent Aboriginal workforce by 2015/16. Job and business opportunities in our operations are being identified for Aboriginal people and businesses. One such example is the Energy Efficiency Program (below) that has employed up to 18 trainees from Aboriginal communities being trained by WA company AWC Carey Training.

Energy efficiency in remote communities

Horizon Power implemented the Office of Energy funded-Energy Efficiency Program in four Goldfields communities and in the West Kimberley community of Yungngora. The program involved refits to community housing, including the installation of insulation, hot water systems and shade cloths, to protect residents from winter and summer extremes and assist in reducing power costs and greenhouse gas emissions.

Pilbara

Horizon Power is committed to facilitating growth in Western Australia's Pilbara region by ensuring a secure supply of energy to the region. To this end, Horizon Power is working with the State Government to provide power generation that meets the State's funding requirements.

Horizon Power's studies suggest that some \$4 billion must be spent over the next few years on the Pilbara's energy infrastructure to support the region's primary industries.

Work continued in 2010/11 in relation to the development of coordinated infrastructure in the region which entails looking beyond the immediate needs and creating opportunities for the growth of residential and small business customers in regional Western Australia.

A proposed East Pilbara Link transmission line connecting the towns of Port Hedland



and Newman would complete the Pilbara high voltage ring main and be the next logical step in any such development of the Pilbara energy network. The benefits of an integrated power network are clear. This will give small to mid-tier companies access to critical infrastructure at a price that does not constitute a barrier to entry.

Onslow

Onslow is part of Pilbara Cities and the focus of significant resource development work with Chevron's Wheatstone LNG project and BHP's Macedon domestic gas project. Given the consequential step change in population and economic

activity in Onslow, Horizon Power has been working with the Department of State Development to prepare options for the development of the town's energy infrastructure in order to support the economic development of the town and surrounding region.

Square Kilometre Array

Horizon Power is supporting the Australian bid for the Square Kilometre Array (SKA) project by participating in industry forums and providing information about electricity infrastructure options. Australia is competing with South Africa for the \$2.1 billion project.

2010/11 Business Highlights continued



Australia's demonstration project, the SKA Pathfinder, is under construction within the Murchison Radio-astronomy Observatory (MRO) located in the Mid-West of Western Australia as part of a \$360 million investment in the SKA project. Horizon Power is working closely with CSIRO and the State Government for the provision of an innovative diesel solar hybrid solution for the SKA Pathfinder site.

CSIRO has selected Horizon Power as its development partner for the MRO power station. Horizon Power and CSIRO are

working collaboratively to source funding for the project.

Rottnest

Horizon Power participated in a competitive tender process in 2009 for the provision of electricity, LPG, water and wastewater services at Rottnest Island and was selected as the preferred proponent for the provision of multi-utility services. The preferred utility service delivery model aims to allow both Horizon Power and the Rottnest Island Authority to focus on their core business, responsibilities and

strengths to ultimately improve the safety and service provided to Rottnest Island's residents and visitors.

Horizon Power continue its discussions with Government on its involvement in the delivery of services at Rottnest Island.

Renewable energy demand

As a result of government incentives and public demand for a cleaner and greener future, Horizon Power received an overwhelming number of requests to install renewable energy systems in 2010/11.

Horizon Power has approved 5.5 megawatts (MW) of renewable energy installations for residential and commercial customers this financial year.

As a result of the unprecedented demand, the network capacity for hosting renewable energy systems was approached and exceeded in some towns.

Horizon Power has reviewed and reduced the maximum size renewable energy systems we will approve for installation.

These levels are regularly reviewed and amended as required to ensure reliability of power supplies to all 42,500 customers.

Engineering and Projects

Aboriginal and Remote Communities Power Supply Project

This Office of Energy funded program is designed to improve the reliability of power supplies to large remote Aboriginal communities. Work under Phase 2.1A began in 2010, with regularisation of the power supplies of the Kimberley communities of Yungngora and Kalumburu due for completion by the end of 2011.

Kalumburu experienced record rainfall during the 2010/11 wet season, causing damage which closed the access road to the community. Extensive rainfall at Yungngora also caused delays in securing land access and heritage approvals.

As a result, the generation component of the project has been deferred, and both power stations will now be completed in 2012.

2010/11 Business Highlights continued

Pilbara Underground Power Project

The Pilbara Underground Power Project is a partnership between Royalties for Regions and Local Government, with Horizon Power implementing the project. The project will underground the distribution networks in Karratha, Roebourne, Onslow and South Hedland by December 2012 to protect electricity supplies from cyclones.

Design work for all areas except for Onslow has been completed. Installation works commenced in Karratha in October 2010 and works in South Hedland and Wedgefield (Port Hedland) will commence later this year. The project is due to be completed in 2012.

Town Reserves Regularisation Project

The Town Reserves Regularisation Project aims to improve access by town-based Aboriginal communities to equitable water, waste water and power services provided by State utilities.

Horizon Power completed phase two of this project almost 18 months ahead of schedule. This explains why no

communities were regularised in 2010/11 and sixteen were regularised in 2009/10. The project, funded by the Department of Housing, involves upgrading power supplies to town-based Aboriginal communities.

Under phase two, Horizon Power improved reliability of electricity supplies in 12 town-based Aboriginal communities connected to the Horizon Power network. Horizon Power upgraded power supplies to one community connected to the South West Interconnected System under phase two. Stakeholder feedback was positive and discussions have begun between Department of Housing and Horizon Power about phase three of the project.

Mungullah Power Station

This new dual-fuelled 18 megawatt (MW) Station is 6.5 kilometres from Carnarvon at Brown Range and, once in service, will allow the existing station in Carnarvon to be de-commissioned and the site rehabilitated. In addition to the new station being considerably more efficient than the existing station, its development will also eliminate noise issues within Carnarvon.



Minister Peter Collier and Horizon Power Managing Director Elect Frank Tudor mark the start of construction of the Mungullah Power Station in Carnarvon

The Mungullah name was chosen by the local Yinggardi people and Horizon Power.

Natural gas from the Dampier to Bunbury natural gas pipeline is the fuel of choice for the new station and diesel will be used for peak loads and back up. The new station will in the future have the capacity to integrate renewable energy technologies, including wind and solar.

As at June 30, site earthworks were nearly complete and installation works were about to begin.

2010/11 Business Highlights continued



Rescue crews respond to the Gascoyne floods, early 2011

Operations

Emergency response

Tropical Cyclone Carlos on the Pilbara coast and record flooding in parts of the Gascoyne and Kimberley regions resulted in damage to infrastructure and extended periods where customers in these regions were without power.

Horizon Power's response to these crisis situations was exemplary and despite the severity of the weather conditions, our staff managed to restore power supplies without

recording any safety incidents. We continue this focus on safety in our daily operations.

Asset management

Horizon Power continued to upgrade and manage existing assets to ensure the delivery of safe and reliable power supplies in 2010/11.

Building on the success of the Esperance Network Rural Upgrade Program (ENRUP) in 2009/2010 (which resulted in the replacement of approximately 2,500 unserviceable and underrated wood poles

with steel poles, upgrades to over 4,500 insulators and a reduction in the length of 615 long bays), Horizon Power continued to invest in upgrades to the Esperance rural network. Works in 2010/11 included reconfiguring the rural network from two feeders into three, upgrades to areas of low voltage network and the installation of twelve additional protection devices throughout the network to isolate faults and protect all customers.

Horizon Power also initiated the Esperance wood pole field trials, incorporating multiple testing methods on wood poles to identify the best method to accurately determine structural strength.

This work is expected to produce important findings for the energy industry generally to improve safety and efficiency through improved asset maintenance of wood poles.

Horizon Power accelerated the copper replacement program to mitigate the risk of skinny copper conductor failure and

developed a new inspection technique for metal poles to allow inspections of poles below the ground without removing them.

A new Distribution Management System was also implemented to allow full system and access management to all Horizon Power systems, improving the monitoring and control of Horizon Power assets.

Public Safety

Horizon Power spent \$17 million addressing safety-related issues on power systems.

Public safety risks were also reduced through the completion of the 'twisties' replacement program, six months ahead of schedule. Under that program, Horizon Power replaced all overhead customer service leads, known as 'twisties', six months ahead of EnergySafety's target of December 2011, with the exception of those in the Pilbara Underground Power Project (PUPP) service area. All twisties will be removed as part of PUPP and replaced with underground connections.

2010/11 Business Highlights continued

Horizon Power also reduced the unassisted pole failure rate from 3.20 to 2.52 in the year, bringing Horizon Power closer to our target of 1.0.

Horizon Power replaced all single insulated streetlights (with the exception of those in the PUPP) with double insulation which reduces electric shock risks to the public.

The elimination of electric shock incidents was also the target of the WireAlert product introduced in the Esperance region. The product detects network faults and faults internal to the customer's premise. This resulted in the detection of 148 potential electric shock incidents, with 138 of those found to be faults within the customer's premise.

Infrastructure developments

Horizon Power commissioned and operated the new Nullagine Power Station in 2010. It features the latest in renewable energy and energy storage technology.

The Wyndham Power Station automation project was also completed. The project allows the station to supply the local community with power within one minute

of a power interruption on the connected Kununurra system. This has resulted in major reliability improvements for the remote town of Wyndham.

Horizon Power also participated in the emergency response, restoration and rebuilding of the remote Aboriginal community of Warmun after severe flooding wiped out the majority of the community's buildings.

Training

The National Skills Council for the energy industry, EE-Oz, approved a national qualification designed by Horizon Power for use in remote Aboriginal communities in Western Australia. The qualification will be piloted before being available for national use.

Knowledge and Technology

Business Transformation

The Business Transformation program has enhanced the delivery of key processes and systems critical to Horizon Power's core operations, including customer service and core business systems. This



program is due to be completed by the end of 2012 and will significantly improve the business and ensure Horizon Power avoids cost increases when it moves off the currently-shared IT infrastructure.

Technology Transition

The Technology Transition program is also underway to ensure all necessary IT systems are brought under the strategic control of Horizon Power. The program's

scope includes the transition of the IT help desk, infrastructure, desktop and application support services to service providers under the direct control of Horizon Power.

Environment

Environmental management system

Horizon Power's Environmental Management System (EMS), called the Environmental Management Utility (EMU), was deployed in February 2010. EMU is a web-based system based on the requirements of the Environmental Management Systems Standard (AS 14001).

EMU is a structured system designed to help Horizon Power reduce environmental impacts through continuous improvement of its management of environmental issues. EMU also provides a framework to organise and manage activities that may have an impact on the environment or heritage.

Key components of any EMS are Environmental Management Plans (EMPs). Horizon Power has developed and implemented EMPs at a number of major facilities and depots. EMPs are working documents containing information about site activities and the impact of those activities on the environment. EMPs also contain a risk assessment process that allows the identification of high risk activities.

Actions to manage activities and minimise risk have been identified and responsibilities allocated to relevant Horizon Power personnel at our sites. Specific and measurable targets have also been set to encourage improvement in environmental performance.

Members of Horizon Power's Environment Team visited sites during the year to train staff with designated responsibilities. The team provided staff with an overview of the environmental issues management under the EMP and an introduction to the EMU website.

Greenhouse gas emissions

Horizon Power reports on its greenhouse gas emissions and energy production and consumption under the *National Greenhouse and Energy Reporting Act 2007* (NGER). Horizon Power has submitted two NGER reports since reporting commenced in October 2009.

NGERS methodology forms the basis of the system Horizon Power uses to develop its greenhouse gas inventory (GHI). The emission figures presented

below for the 2010/11 financial year are derived from the GHI and are based on the most accurate estimate of operational data as at 6 July 2010.

<i>Greenhouse gas emissions by scope (CO₂e)</i>	<i>Tonnes of CO₂ Equivalents</i>
Direct emissions (Scope 1)	37,200
Indirect emissions (Scope 2)	38,390
Further indirect emissions from Independent Power Provider (Scope 3)	516,980

Horizon Power's direct (Scope 1) emissions totalled 37,200 tonnes CO₂e and were emitted primarily from the combustion of fuel in Horizon Power-run power stations. Other sources of direct emissions included the vehicle fleet (1370 tonnes CO₂e), natural gas pipeline leakage (436 tonnes CO₂e) and leakage of sulphur hexafluoride from the transmission and distribution networks (140 tonnes CO₂e).

Horizon Power's direct emissions have remained essentially constant in the past year.

The business' electricity consumption (Scope 2) emissions were primarily due to electricity losses in the transmission and distribution networks. These losses accounted for a total of 36,780 tonnes CO₂e while the remaining 1610 tonnes CO₂e were associated with electricity consumed in operational areas such as depots, offices and buildings.

Horizon Power's indirect (Scope 3) emissions are almost entirely the result of electricity purchased from Independent Power Producers (IPPs) for on-selling to customers. Indirect emissions from IPPs represent an estimated 517,000 tonnes CO₂e of greenhouse gas emissions. Indirect emissions exhibited a significant decrease primarily due to a full year of operation from a new low emission power station constructed at Karratha.

Environment continued

The carbon intensity of different activities can be measured and compared from year to year and reflects an organisation's overall greenhouse emission performance.

Performance Indicator	kgs of CO ₂ e per kWh	
	2009/10	2010/11
Horizon Power operations carbon intensity (as electricity sent out)	0.65	0.58

Horizon Power's key performance indicator (KPI) for greenhouse gas emissions is the carbon intensity of its total operations (kg CO₂e/kWh sent out). This indicator has decreased significantly from 0.65 to 0.58 primarily due to a full year of operation from new power stations with lower emissions at Karratha, Marble Bar and Nullagine.

Atmospheric emissions

Horizon Power's emission information is provided annually to the National Pollutant Inventory (NPI). This information can be

accessed via <http://www.npi.gov.au>

The following table provides information on the main atmospheric emissions from the business' major power stations.

Performance Indicators	Total (tonnes)	kgs/MWh (gen)
Sulphur Dioxide emissions	0.3	0.01
Nitrogen Oxides emissions	1,091	0.01

Atmospheric emission indicators used by Horizon Power have shown little change in the past year.

Contaminated sites

Horizon Power is actively managing the 29 contaminated sites reported under the *Contaminated Sites Act 2003*. The remediation of contaminated sites is a key outcome of Horizon Power's Environmental Strategy and a dedicated program has been developed to ensure sites are remediated in a timely and planned manner.

Carbon tax

The Federal Government's draft legislation of its carbon pricing scheme, Clean Energy Future, will put a price on Horizon Power's greenhouse gas emissions. Horizon Power will be directly liable under the scheme for its Carnarvon Power Station emissions. It will also inherit the cost exposure of the independently owned power stations Horizon Power buys power from.

Horizon Power is assessing the financial and operational impacts of a carbon price on the business and is preparing for compliance with the legislation, which is expected to take effect on 1 July 2012.

We also continue to work on mitigating our direct emissions and pursuing renewable energy options where commercially viable.

Native title

The new EMU system includes well-established native title and cultural heritage approval processes. The success of this new system is reflected in the continued increase in heritage clearance requests from across the business for both low and high impact projects. Our commitment to provide heritage advice for all new projects within five working days continues to be consistently met despite an average 50 per cent increase in the projected clearance requests received each month in the past year.

Horizon Power has also commenced a detailed audit of its existing networks to include consultation with local Aboriginal groups. This is expected to lead to the establishment of heritage protection agreements that will ensure Horizon Power continues to improve its heritage processes.

Sharing Our Stories

Engaging Aboriginal communities

“When we are in the field, we do talk to the old people in community. We had some (community) people picked out to walk with our workers and make sure the workers were not doing anything wrong and to make sure they were not going to places where they should not be going. This also makes (our employees) aware of what is around them and they begin to realise there is more to what is around them than what they would ordinarily see.

In the communities, they never had to worry about paying for power because everything was paid for them but now

that is changing. We are showing them the best appliances to use, to watch out for their old fridges and other energy efficiency measures.

All of these things save them money and I really think the people like it.”

Sam Lovell

*Aboriginal District Liaison Officer
Kimberley (Derby)*



Key Statistics Electricity generation and sales

Power Station	Generated Power (kWhs)	Generated Power- Wind/Solar (kWhs)	Purchases (kWhs)	Total Power Purchased/ Generated (kWhs)	Used in Works (kWhs)	Sent Out (kWhs)
Ardyaloon			1,507,031	1,507,031		1,507,031
Beagle Bay			1,486,378	1,486,378		1,486,378
Bidyadanga			2,324,359	2,324,359		2,324,359
Broome			127,779,276	127,779,276		127,779,276
Carnarvon	49,198,694			49,198,694	2,402,171	46,796,523
Coral Bay			3,289,112	3,289,112		3,289,112
Cue			2,267,811	2,267,811		2,267,811
Denham	3,597,092	2,461,716		6,058,808	77,322	5,981,486
Derby			32,020,321	32,020,321		32,020,321
Djarindjin			1,366,090	1,366,090		1,366,090
Esperance			71,735,010	71,735,010		71,735,010
Exmouth			24,128,750	24,128,750		24,128,750
Fitzroy Crossing			12,021,180	12,021,180		12,021,180
Gascoyne Junction			509,303	509,303		509,303
Halls Creek			9,958,337	9,958,337		9,958,337
Hopetoun			4,563,867	4,563,867		4,563,867
Kununurra/Wyndham/Lake Argyle	396,776		66,969,946	67,366,722	1,192,680	66,174,042
Laverton			4,390,439	4,390,439		4,390,439
Leonora			10,725,007	10,725,007		10,725,007
Looma			2,290,176	2,290,176		2,290,176
Marble Bar	1,760,014	407,796		2,167,810	294,334	1,873,476
Meekatharra			7,220,429	7,220,429		7,220,429
Menzies			751,223	751,223		751,223
Mount Magnet			4,307,015	4,307,015		4,307,015
Norseman			4,710,805	4,710,805		4,710,805
Nullagine	1,158,744	316,365		1,475,109	273,112	1,201,997
NWIS			510,593,640	510,593,640		510,593,640
Onslow	62,561		5,922,525	5,985,086		5,985,086
Sandstone			817,010	817,010		817,010
Warmun			1,820,546	1,820,546		1,820,546
Wiluna			2,349,944	2,349,944		2,349,944
Yalgoo			990,679	990,679		990,679
TOTAL	56,173,881	3,185,877	918,816,209	978,175,967	4,239,619	973,936,348

Sources

Generated Power Power station reports from Energy Trading, Contract Management
Generated Power Wind/Solar Power station reports from Energy Trading, Contract Management
Purchases SCADA Accruals from Energy Trading, Contract Management

Used in Works Power station reports from Energy Trading, Contract Management
Sent Out SCADA data from Sales and Marketing

Performance Indicators

Social benefit	Target	Actual
Normalised system average interruption duration index (SAIDI)	290 minutes	160 minutes
Normalised system average interruption frequency index (SAIFI)	6.6	3.13
Performing systems (number of systems meeting reliability targets)	31/36	31/36
Operational impact on customers (SAIFI divided by total number of customers)	80%	82.8%
Customer satisfaction (results of independent survey of customers by Synovate)	80%	75%
Employee safety (lost time injury frequency rate)	0	5
Public safety (notifiable public safety incidents)	2	2
Regularised towns (number of remote and Aboriginal communities regularised each year)*	5	0
Environment (greenhouse gas intensity – kgCO ² -e/kWh sent out)	0.65	0.58
Profitability (net profit after tax)	\$49.8 million	\$40.7 million
Capital Efficiency Ratio (percentage)	95%	85%
Cost management (average unit cost – cents/kWh)	32.3 cents	35.3 cents

* Horizon Power completed phase two of the Town Reserves Regularisation Project almost 18 months ahead of schedule.

This explains why no communities were regularised in 2010/11 and sixteen were regularised in 2009/10.

Network Assets and Employment

Network type		Assets	
Transmission		Assets	
220 kV	197 km	Total transformer capacity (MVA)	621,000
132 kV underground	2 km	Number of streetlights	14,883
132 kV overhead	108 km		
66 kV overhead	150 km		
66 kV underground	1 km		
Distribution		Employment	
HV three-phase overhead	2107 km	Division	Full time employees (FTEs)
HV three-phase underground	478 km	Board	5.0
HV single-phase overhead	2730 km	MD office	12.8
LV overhead	660 km	Commercial and Business Development	31.3
LV underground	740 km	Corporate Services	86.9
Total	713 km	Engineering and Projects	45.5
		Knowledge and Technology	25.6
		Operations	200.0
		Total	407.1

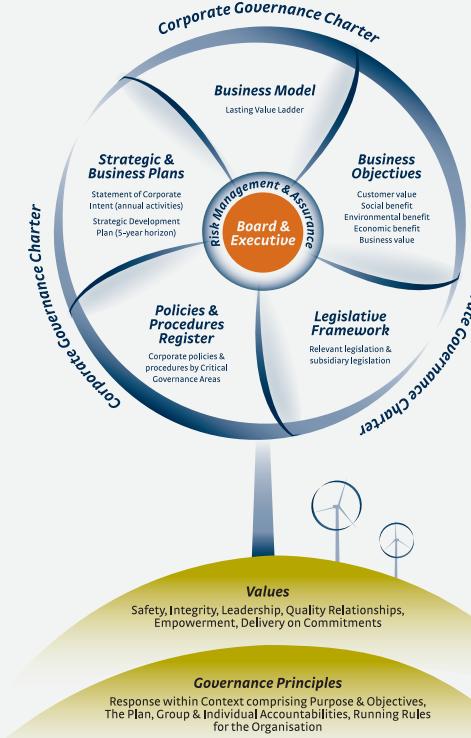
Sharing Our Stories

Improving literacy in Aboriginal communities

During the year, Horizon Power invited Professor Colleen Hayward (a highly respected Aboriginal Western Australian educator) to address staff at a NAIDOC Week function. Professor Hayward spoke of the gap in literacy levels between Aboriginal and non-Aboriginal children. Soon afterwards, passionate Horizon Power employees donated, collected and delivered books to children in isolated Aboriginal communities, including Kalumburu, Nambi Road and Wongatha Wonganarra.



Directors' Report



Corporate Governance

Corporate governance is the system by which our organisation is directed and managed. It influences how:

- the objectives of our organisation are set and achieved;
- risk is assessed and managed;
- corporate fairness, transparency and accountability are promoted; and
- the performance of our organisation is optimised.

To best reflect the expectations of our people, stakeholders and customers, Horizon Power has sought to adopt recognised best practice for corporate governance through the implementation of a Corporate Governance Framework.

In practical terms, our Framework:

- provides a structure and consistency to the way we do business with our customers and stakeholders and how we respond to situations as they arise;
- promotes our business values and corporate governance principles, systems and practices, including the

roles, responsibilities and authorities of the Board and Executive;

- encourages the creation of intergenerational assets consistent with our Business Model;
- provides accountability and control systems commensurate with the risks involved; and
- is an essential component to the overall success of our business.

Horizon Power's Governance Framework is underpinned by governance principles which are driven by the importance placed on providing staff with the necessary knowledge (supported by structure, systems and processes). This allows staff to respond appropriately to circumstances, issues and opportunities with a clear understanding of Horizon Power's context.

This enables employees to perform their activities in a responsible, thoughtful, knowledgeable and consistently professional manner, as a way of contributing to the overall direction and success of the business.

During this financial year, Horizon Power conducted a governance maturity check based on the Office of the Public Sector Standards Commissioner's Good Governance Principles. This allowed us to identify areas for improvement and activities are underway to further boost our corporate governance across all areas of the business.

We also undertook a gap analysis of our compliance culture based on the principles contained in AS 3806 Compliance Programs. These formed the basis of a review of our Compliance Program, aligning it more closely with the Standard.

Our Risk Management Framework is designed to encourage and raise awareness of risk within the organisation. It also assists us with realising the benefits that will accrue from a conscious, structured and dynamic approach to risk management. This financial year a review of our Risk Management Framework was undertaken to align it with AS/NZS ISO 31000:2009 and ensure we retain an appropriate level of rigour and integrity in our risk management practices.

Directors' Report continued

Board of Directors

In accordance with the *Electricity Corporations Act 2005*, Horizon Power must be governed by a Board of between four and six Directors appointed by the Governor on the nomination of the Minister for Energy. The Board is responsible to the Minister for Energy for the performance of the business.

The primary role of the Board is to set the strategic direction of the organisation, approve major expenditure and provide advice to the Minister for Energy on regional power issues.

The Board formally delegates the day-to-day management of Horizon Power to the Managing Director and Executive Management Team.

Horizon Power's Board is made up of the following people:

Brendan Hammond – Chairman
Susan Bradley – Director
John Elkington – Director
Ian Mickel – Director
Ron Johnston – Director

Brendan Hammond (Chairman)

Brendan brings a wealth of experience as Horizon Power's inaugural Chairman. He has worked in large mining corporations for most of his career, progressing through all levels of line management and, until recently, served as Managing Director of Argyle Diamond Mines in Western Australia. In 2011 Brendan was appointed Adjunct Professor of Sustainability at Curtin University and awarded WA Citizen of the Year under the category of the Governor's Award for Regional Development.



Susan Bradley JP CMC

Susan has over 40 years extensive business and community experience in the Kimberley which has included owning and operating cattle stations, farms on the Ord Irrigation Area and a caravan park in Kununurra. She has



held positions including Wyndham-East Kimberley Shire President, Chair of the Ord Development Study, Inaugural Chairman of the Kimberley Development Commission, Chair of the Kimberley Regional Water Resources Development Study, Director of the Australian Maritime Authority, Federal Councillor of the Royal Flying Doctor Service and WA Councillor on the Northern Australia Development Council.

Susan is General Manager of two North Kimberley Dunkeld Pastoral Company Pty Ltd properties and Ellenbrae Station Pty Ltd.

She is a Director of the Kimberley Foundation Australia Ltd and a member of the Australian Institute of Company Directors.

John Elkington

John is experienced in all facets of the mining industry and provides general management and financial performance consultancy to the mining sector worldwide.

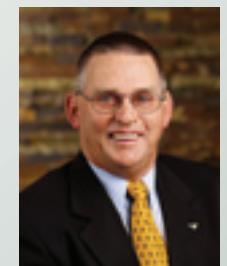


He has most recently been evaluating and reporting on the financial performance of mining projects and has negotiated and managed joint ventures with major resource companies and prepared management reviews for company directors. John has negotiated with native title parties including representing companies at the National Native Title Tribunal.

John lives in York and is a graduate of the WA School of Mines, holding a Master's degree in Mineral Economics.

Ian Mickel

Ian has a strong focus on local government, especially in the areas of finance and economic development. He has been a farmer and grazier in the Esperance region for more than 30 years.



Directors' Report continued

Ian was elected to the Esperance Shire Council in 1989 and has served as Vice President from 1991 to 1993, President from 1994 to 2001 and again from 2003 until now. Ian has served as President of the Country Shire Councils' Association and President of the WA Local Government Association. He was awarded an Order of Australia Medal in the Australia Day 2007 Honours list for his service to local government. Ian is a Fellow of the Australian Institute of Company Directors.

Ron Johnston

Ron has specialised experience in land developments and tourism, having worked in various roles with Ansett Airlines and the



Broome International Airport for 30 years. Ron has served his community as Broome Shire President and Councillor, President and Executive Member of the Broome Chamber of Commerce, Deputy Chair of the Kimberley Development Commission and President of both the Kimberley Tourism Association and the Broome Turf Club. He is

also a member of the North West Tourism Association and TAFE.

Ron received the Sir David Brand Medal for Tourism in 1995.

David Powell (Special Advisor to the Board)

The Horizon Power Board has retained the services of David as a specialist advisor to the Board to enable the Board to prudently discharge its audit and risk obligations.



David has over 27 years accounting industry experience, including 10 years as a partner in consulting to clients in a range of industries on IT audit, risk management, internal audit, corporate governance and external audit. In particular, he has been involved with some of the largest corporate and government internal audit assignments in Australia, providing advice to management and Boards of major Australian enterprises in both the private and public sector.

David is the Chair of Horizon Power's Audit and Risk Management Committee.

David Tovey (Company Secretary)

David was appointed as Company Secretary in May 2011 and also holds the role of Manager External Affairs. He has accumulated over 16 years of experience in the electricity industry in a variety of strategic, business development, operational and corporate governance roles. Previous experience includes roles in the areas of management and financial accounting. David is a Member of CPA Australia and the Australian Institute of Company Directors and a Certificated Member of Chartered Secretaries Australia.



The Company Secretary provides administrative services to the Board and oversees the corporate governance systems.

Directors' Report continued

Attendance at Board Meetings

The Board meets monthly; however, there were a number of circular resolutions during the year which are recognised as duly constituted Board meetings.

	<i>Board Meetings</i>	
	A	B
Brendan Hammond	14	14
Susan Bradley	13	14
Nicole Lockwood	12	12
Robert Eagle	10	13
John Elkington	13	14
Ian Mickel	1	1
Ron Johnston	1	1
Rod Hayes	6	6

A Number of meeting attended

B Number of meetings eligible to attend during the time the Director held office during the year

<i>Horizon Power Director's Terms of Appointment</i>		
Director	Appointed	Expires
Brendan Hammond (Chairman)	1 December 2005	31 March 2009
Second Term	1 April 2009	31 March 2012
Robert Eagle (Deputy Chairman)	1 July 2008	30 April 2011
Susan Bradley	1 April 2006	30 June 2007
Second Term	1 July 2007	30 June 2008
Third Term	1 July 2008	30 June 2010
Nicole Lockwood	1 July 2008	30 April 2011
John Elkington	11 August 2009	10 August 2011
Rod Hayes (former Managing Director)	30 January 2006	29 January 2008
Second Term	30 January 2008	29 January 2009
Third Term	30 January 2009	17 December 2010
Ian Mickel	1 May 2011	30 April 2013
Ron Johnston	1 May 2011	30 April 2013

<i>Consultant to the Board Terms of Appointment</i>		
Consultants to the Board	Appointed	Expires
Angela Riley (Chair Audit and Risk Management Committee)	18 April 2006	31 March 2007
Second Term	1 April 2007	30 June 2008
Third Term	1 July 2008	30 June 2009
Fourth Term	1 July 2009	31 December 2010
David Powell (Chair Audit and Risk Management Committee)	11 February 2011	10 February 2012

Directors' Report continued

Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) is a committee of the Board of Directors of Horizon Power. The ARMC's role is to assist the Board to discharge its responsibility of oversight and corporate governance of the organisation. In doing so, the ARMC is responsible to the Board.

Specialist adviser Angela Riley chaired the ARMC until 31 December 2010. Angela retired from the position of Chair of the Audit and Risk Management Committee on 31 December 2010 and David Powell joined Horizon Power on 11 February 2011 and was appointed as the new Chair of the Audit and Risk Management Committee on 16 February 2011. Nicole Lockwood was a member of the ARMC until her retirement from the Board on 30 April 2011. John Elkington joined the ARMC in September 2009 and remains a member. Ian Mickel was appointed to the ARMC in June 2011.

A key role of the ARMC is to provide reasonable assurance to Directors that Horizon Power's core business goals and objectives are being achieved in an

efficient and economical manner and within an appropriate framework of internal control and risk management.

Financial Reporting

The ARMC performs an overview function in financial reporting as follows:

- considers the appropriateness of Horizon Power's accounting policies and principles
- assesses significant estimates and judgements in the financial reports
- reviews management's process for ensuring compliance with laws, regulations and other requirements relating to the external reporting of Horizon Power
- assesses information from the internal and external auditors regarding the quality of financial reports
- reviews the management of Treasury operations

Internal Control and Risk Management

The ARMC provides oversight of the identification of risks and threats to

Horizon Power and the processes by which those risks and threats are managed. The ARMC also assesses and adds value to Horizon Power's corporate governance, including its systems of internal control and internal audit function.

The ARMC comprises:

- David Powell, Chair (appointed 11 February 2011, appointed Chair of ARMC 16 February 2011)
- John Elkington
- Ian Mickel (appointed 1 May 2011, appointed to ARMC 22 June 2011)
- Angela Riley, Chair (retired 31 December 2010)
- Nicole Lockwood (retired 30 April 2011)

ARMC meetings in the 2010/11 financial year were attended by:

- Rod Hayes, Managing Director (resigned 17 December 2010)
- Frank Tudor, Managing Director Elect (from April 2011)
- Amelia Yam, Chief Financial Officer
- Ben Hamilton, General Manager Corporate Services
- Pete Feldhusen, Company Secretary,

General Manager, Governance and Company Secretariat (stepped down from these positions October 2010)

- David Tovey, Company Secretary (appointed Acting Company Secretary October 2010 and appointed Company Secretary May 2011)
- Craig Young, Manager, Risk, Audit and Governance

ARMC Meetings Attended

	A	B
Ms David Powell (Chair)*	4	4
Ms Angela Riley (Chair)*	4	4
Mr John Elkington	8	8
Ms Nicole Lockwood (retired 30 April 2011)	6	7

A Number of meeting attended

B Number of meetings eligible to attend during the time the Director held office during the year

* Special Adviser to the Board appointed to enable the Board to prudently discharge its Audit and Risk obligations – retired 31 December 2010

Directors' Report continued

Corporate Compliance Disclosures

Ministerial reporting requirement

In line with the accountability provisions of the *Electricity Corporations Act 2005* (the Act), Horizon Power provides the Minister with a quarterly report for the first three quarters and an Annual Report for each financial year. Each Quarterly Performance Report is submitted one month after the end of the quarter and includes an overview of performance and highlights of important achievements.

The Annual Report is submitted following the end of the financial year and is provided to the Minister within the time specified by the Act.

The Annual Report must include:

- consolidated statutory financial statements and other statutory information required of any company under the Corporations Law
- an overview of major achievements and an appraisal of future prospects
- a comparison of performance with Statement of Corporate Intent targets

- other information required by the Act to be included, such as the particulars of any directions given by the Minister for Energy

In addition to quarterly and annual reports, the Act requires that the Minister be provided with:

- a five-year Strategic Development Plan and a one-year Statement of Corporate Intent
- a separate report on staff compliance with any Board issued codes of conducts
- any information in Horizon Power's possession requested by the Minister

A copy of the Annual Report is also provided to the Public Sector Commissioner as required by the Act.

Ministerial directives

On 1 September 2010, Horizon Power was directed by the Minister for Energy to agree to an amendment to a Shipper Contract between DBNPG Holdings Pty Ltd and others (DBNPG) and Regional Power Corporation trading as Horizon Power. The Minister for Energy cancelled this directive on 3 May 2011.

Shares in Statutory Authorities	N/A
Shares in Subsidiary Bodies	N/A

Declarations of interest

Horizon Power's Code of Conduct and Conflicts of Interest Guidelines are endorsed by the Board and Executive, and provide all employees with information on what constitutes a conflict of interest and how it should be managed.

Our policy states that a conflict of interest may arise in a number of situations involving a disparity between the interests of Horizon Power and the interests of an employee. Horizon Power is committed to avoiding such disparities as they may resultantly impact on:

- the employee's ability to carry out their duties and responsibilities to Horizon Power due to a perception the employee is receiving more benefits than others
- an unfavourable image (actual or perceived) being created for either the employee or Horizon Power

Members of the Board are required to declare any conflicts of interest at all Board meetings.

Declarations of interest

Brendan Hammond

- Seymour Associates (Director/Owner)
- Dampier Port Authority (Chairman)
- Adjunct Professor of Sustainability, Curtin University

Nicole Lockwood

- Member of the Pilbara Development Commission
- Member of the Western Australian Planning Commission
- President of the Shire of Roebourne

Ian Mickel

- President of Shire of Esperance
- Telac Pty Ltd (Director)

Frank Tudor

- National Chairman of Australia China Business Council
- Vice Chairman of CCI Energy and Resources Forum
- Part-time law and economics lecturer, UWA

Directors' Report continued



Indemnification of Directors

The Directors' and Officers' Liability Insurance Policy is in place to ensure that the Directors and Officers of the Corporation have adequate coverage.

The Directors' and Officers' Liability Insurance Policy forms part of the Corporations' Third Party Liability Policy.

At the date of this report no claims have been made against the Directors and Officers component of the policy.

Legislation

The *Electricity Corporations Act 2005 (WA)* establishes Horizon Power as a corporation responsible for the provision of electricity outside the South West Interconnected System and sets out the powers and duties of the corporation.

Electricity Licences

The *Electricity Industry Act 2004 (WA)* requires participants who generate, transmit, distribute or retail electricity in Western Australia to obtain a licence

to operate. Licences are issued by the Economic Regulation Authority. Horizon Power was issued an Integrated Regional Licence on 30 March 2006.

The Integrated Regional Licence requires Horizon Power to comply with a number of Codes such as:

- Code of Conduct for the Supply of Electricity to Small Use Customers
- Electricity Networks Access Code 2004
- Electricity Industry (Network Reliability and Quality of Supply) Code 2005
- Electricity Industry Metering Code 2005

Horizon Power is also required to submit a Licence Performance Audit and an Asset Management System Review to the Economic Regulation Authority at intervals determined by the Authority. As a result of the 2008 and 2009 audits the Economic Regulation Authority issued a Notice requiring Horizon Power to address a number of matters in order to fully comply with its Integrated Regional Licence.

Horizon Power has now addressed the recommendations and the Notice was lifted on 19 January 2011. Another round of audits has been conducted for the period ending 31 March 2011.

Freedom of Information Act 1992

The *Freedom of Information Act 1992* requires Horizon Power to publish an Information Statement. The Information Statement is available at www.horizonpower.com.au/771

Compliance with other legislation

Horizon Power has a number of controls and systems in place to ensure the business complies with legislation and regulations which impact on its activities, including educational activities, an online compliance register and compliance mapping and monitoring software.

Directors' Report continued

Restriction on the area within which Horizon Power may operate

Within Western Australia, the performance of Horizon Power's functions is limited to those parts of the State that are not served by the South West Interconnected System.

WA Electoral Act 1907

In accordance with the requirements of Section 175ZE of the *Western Australian Electoral Act 1907*, the following information in respect to expenditures (excluding GST) and incurred by, or on behalf of, Regional Power Corporation during the financial period ended 30 June 2010, is as follows:

Media advertising organisations	\$70,079
Direct mail organisations	\$41,852
Market research organisations	\$20,000
Advertising agencies	\$399,287

Disability Services Act 1993

Horizon Power has a Disability Access and Inclusion Plan in accordance with the *Disability Services Act 1993*.

The plan provides for the provision of accessible services, facilities and information for people with disabilities.

In 2010/11, Horizon Power completed four out of nine of its strategies, with three partially developed. The major milestone in 2010/11 was compliance of the new Esperance office with the Act. An access consultant was employed to advise on the facility.

Public interest disclosures

Horizon Power has a Disclosures of Public Interest Policy that ensures all Horizon Power personnel are supported and protected by Horizon Power when making disclosures about corruption or other improper conduct.

Public interest disclosures help mitigate the adverse effects of corruption and other improper conduct on Horizon Power.

The principles of this policy are intended to encourage the disclosure of information in the public interest, provide protection for those who make disclosures. This protects those who are the subject of a disclosure, thus protecting the assets, profitability, performance and reputation of Horizon Power.

There were no public interest disclosures in relation to the activities of Horizon Power during 2010/11.

State Records Act

Horizon Power maintains and supports quality record-keeping practices in its day-to-day business activities. The function of managing records resides within the Knowledge and Technology Division of Horizon Power.

Horizon Power's Record-Keeping Plan is reviewed annually to ensure currency and any updates are submitted to the Minister for Energy for approval. The approved plan is then presented to the State Records Office.

Environment Regulations

Horizon Power acts responsibly to ensure compliance to all State and Federal environmental Acts and regulations.

The main environmental legislation that impacts on its operation is the *Environmental Protection (EP) Act 1986*. This is an Act of the Western Australian Parliament and gives rise to many regulations, the main ones referred to below.

- *EP (Controlled Waste) Regulations 2004* specify that certain wastes (used lubeoil, transformer oil, interceptor wastes, oil filters, lead-acid batteries, etc) are carried only by licensed carriers and that any facility that regularly produces them has a generator identification number. Horizon Power employs a regular systematic program to dispose of controlled wastes.

Directors' Report continued

- EP (*Native Vegetation Clearing*) Regulations 2004 are designed to maintain the remaining native vegetation in the State. They specify the need to gain a permit from the Department of Environment and Conservation (DEC) prior to the clearing of any native vegetation during a non-exempt activity. Other State and Federal legislation that Horizon Power operates under, but which have a smaller impact on the business, includes:

- EP (*Unauthorised Discharge*) Regulations 2004
- EP (*Noise*) Regulations 1997
- Contaminated Sites Act 2003
- Dangerous Goods Safety Act 2004
- National Greenhouse and Energy Reporting Act 2007
- Environmental Protection and Biodiversity Conservation Act 1999.

Horizon Power has a site-specific licence to operate the existing power station at Carnarvon. This licence contains specific requirements and conditions must include reporting air emissions, testing stacks annually for emissions, guidelines for

storing liquid fuels and chemicals and supplying an annual report to the DEC on power station operations.

Observance of the Code of Conduct for Horizon Power

Section 33 of the *Electricity Corporations Act 2005 (WA)* requires the Board of Horizon Power (Board) to provide to the Minister for Energy, at the same time as delivering its Annual Report, a separate report on the observance of its Code of Conduct by members of staff.

The Board confirms that consistent with Section 31 of the Act, Horizon Power's Code of Conduct was developed after consultation with staff and the Public Sector Commissioner and was adopted by the Board at its meeting on 18 October 2006. The Board revised and signed off the Code of Conduct in February 2010 and will review it again in 2012.

The Code of Conduct has been circulated to Horizon Power employees and is available on the Horizon Power website for reference.



The Board and the Managing Director, under delegated authority, assign accountability to Managers in the organisation to ensure observance of the standards of conduct and integrity by members of staff.

There were three reported incidents that breached the Code of Conduct for 2010/11.

Sharing Our Stories

Improvements for Esperance business

Horizon Power has begun offering customers in regional WA the opportunity to have one-on-one energy efficiency consultations to assist with reducing power costs.

Esperance Community and Customer Relations Manager Rachel Clarke visited Esperance Smash Repairs, a small business with ever increasing overheads, after they became concerned about increasing tariffs.

"Once Rachel attended our workplace and carried out an assessment with the power meter, it was evident that by changing specific electrical appliances, introducing staff awareness and by discussing these high energy use items and possible

changes that could be implemented by staff, we could reduce our energy consumption. It is our aim now to further reduce our energy use which means we can eventually drop down to a lower tariff band and pay even less.

We would like to thank Rachel and Horizon Power for giving our business the opportunity to investigate our power use and talking with us about changes that can be made."

Melissa Rowe

Esperance Smash Repairs



Horizon Power's Rachel Clarke (middle) shows local business owner Melissa Rowe and Grant Shipp (ECCI CEO) how much the office electric heater costs to run using the Power-Mate.

Financial Performance

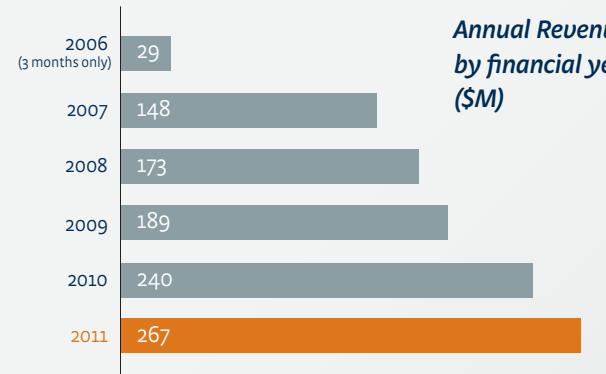
Horizon Power ended the financial year with a net profit after tax of \$41 million, up from last year's result of \$25.5 million. Revenue and other income increased by \$79.5 million, up 22 per cent, due to increased funding from the Tariff Equalisation Fund, Government-endorsed tariff increases averaging 15 per cent, the recognition of gifted assets and increased customer funded works revenue.

These increases were partially offset by reduced revenue from an overpayment of Customer Service Obligations from the previous year which was repaid this financial year.

During the 2010/11, Horizon Power incurred unforeseen costs of \$2.2 million as a result of a flood and natural disasters in regional Western Australia. Additional decommissioning provisions were recognised in the year totalling \$14.7 million, which mainly related to the dismantling of overhead assets replaced through the Pilbara Underground Power Project.

Horizon Power also underwent an organisational restructure to improve alignment of accountabilities to better deliver strategic initiatives.

This process resulted in redundancies and consultant costs of \$5.4 million. Project evaluation costs were incurred of \$5 million for the Murchison Radio Observatory, Rottnest Island, East Pilbara Link and South Hedland Power Station. Labour costs increased by \$7 million mainly due to an increase in employee numbers from 381 to 407 employees.



The increase of \$15 million for depreciation and amortisation are as a result of the increase of \$160 million of property, plant and equipment and a full year's amortisation of the finance lease for West Pilbara Power Station.

Horizon Power recorded an increase in finance costs of \$13 million which related mainly to the impact of a full year's interest on the ATCO Australia finance lease as opposed to only four months in the previous year.

Balance Sheet

Horizon Power's interest bearing loans with the West Australian Treasury

Commission increased by \$9 million from 2009/10 to \$317.6 million. At 30 June 2011, Horizon Power had an approved limit of \$427.1 million to fund working capital. During the year, Horizon Power received an equity injection from Royalties for Regions to fund the Pilbara Underground Power Project (PUPP) of \$65 million which was used to repay debt. The remaining funds of \$473 million remained invested in term deposits and held in cash at 30 June 2011. It is intended to draw down debt to meet capital commitments for this project.

Financial Performance continued

Property, plant and equipment increased by \$110 million from 2009/10. This included the recognition of \$18.7 million of gifted assets and the capital expenditure program below.

Additional decommissioning provisions were recognised in the year totalling \$14.7 million, which mainly relate to the dismantling of overhead assets to be replaced through the PUPP. There was a \$15.2 million increase in deferred income from increased customer funded works which are in progress and due to be completed in the next financial year.

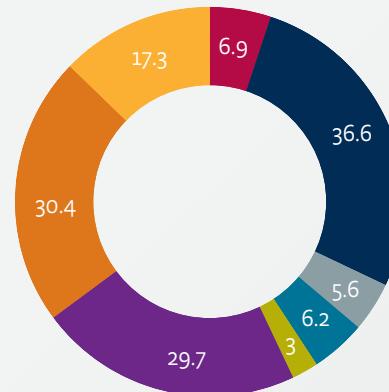
Finance lease assets decreased by \$26 million and finance lease liabilities also decreased by \$12.1 million. There were no new finance leases recorded, and the movements reflect the different profiles of depreciation on assets and those of the finance charges and repayments of the lease obligations.

Net assets increased by \$105.2 million achieved through the equity injection for PUPP and improved profitability.

Capital Expenditure

Capital expenditure excluding gifted assets and decommissioning assets for 2010/11 was \$135.8 million, \$5.2 million below the previous year's expenditure and \$19.8 million below SDP budget for the year. The underspend was mainly related to the PUPP due to delays in executing contracts for the Karratha phase coupled with increased rainfall causing delays in completion of works. Work on Mungullah Power Station was also delayed due to floods earlier in the year.

While Horizon Power continued to spend on its Asset Management Plan (\$30.4 million to maintain safety and reliability of its systems), other major spends include PUPP (\$36.6 million funded by Royalties for Regions and local government contributions—an equity injection of \$65 million was received this year), Mungullah Power Station (\$6.1 million) and Business Transformation or enhancement of IT systems (\$6.9 million).



Capital spend financial year 2010/11 (\$M)

- Transformation
- PUPP
- ARC2
- Mungullah Power Station
- Gap Ridge
- Other projects
- AMP
- Customer funded operations

Dividends

No dividends have been paid or recommended for this financial year.

The Board will consider a recommendation to pay a dividend of 65 per cent of Horizon Power's 2010/11 net profit after tax in line with government policy.

Significant Events After Balance Date

There were no significant events after balance date.

Significant Changes in Horizon Power's State of Affairs

In the opinion of the Directors, there were no significant changes in the Corporation's state of affairs during the reporting period.

Director's Declaration

In accordance with a resolution of the Directors of Regional Power Corporation (trading as Horizon Power), we state that:

In the opinion of the Directors:

(a) the financial statements and notes of the Corporation are in accordance with Schedule 4 of the *Electricity Corporations Act 2005*, including:

- i. giving a true and fair view of the Corporation's financial position as at 30 June 2011 and of its performance for the 12 month period ended on that date; and
- ii. complying with Accounting Standards, AASB Interpretations and Corporations Regulations;

and

(b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Brendan Hammond

Chairman

15 September 2011



Ian Mickel

Director

15 September 2011