



power to you

HORIZON
POWER



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CHAIRMAN'S REPORT



Community partnerships are a key to sustaining business success.

The creation of Horizon Power has provided a once-in-a-generation opportunity to build an organisation that is designed to deliver more than just day-to-day services in regional WA.

Horizon Power recognises that conducting our operations in a manner that builds the capacity and capability of the communities in which we operate will sustain our success.

This is not a feel-good platitude; it's good business sense.

The sustainability of Horizon Power's operations in regional WA is enhanced by growth in the capability and capacity of the regional communities we support.

We believe we are obliged to provide lasting, tangible benefits to the communities in which we work and over the past 12 months, we have grasped the opportunity to embed this principle into our operations.

As a commercial business, with an eye turned to the bottom line, Horizon Power has been able to develop programs that build the capacity of our communities to deliver better outcomes, while delivering on the financial expectations of our owner.

I draw particular attention to our work in the remote Aboriginal communities of the Kimberley, where Horizon Power is breaking new ground in the way indigenous communities are engaged to support the provision of essential services.

Here, Horizon Power could have followed standard industry practice to fly-in and fly-out staff to provide a service. Instead we are investing in a training program to build the capacity of these communities to play a pivotal role in managing their own power supply under contract to Horizon Power. It's early days; but it's an example of the way Horizon Power can deliver on business imperatives by building the capacity of our communities.

Horizon Power has embarked on a program that will build the capacity of indigenous communities to participate in the management of their power supplies.





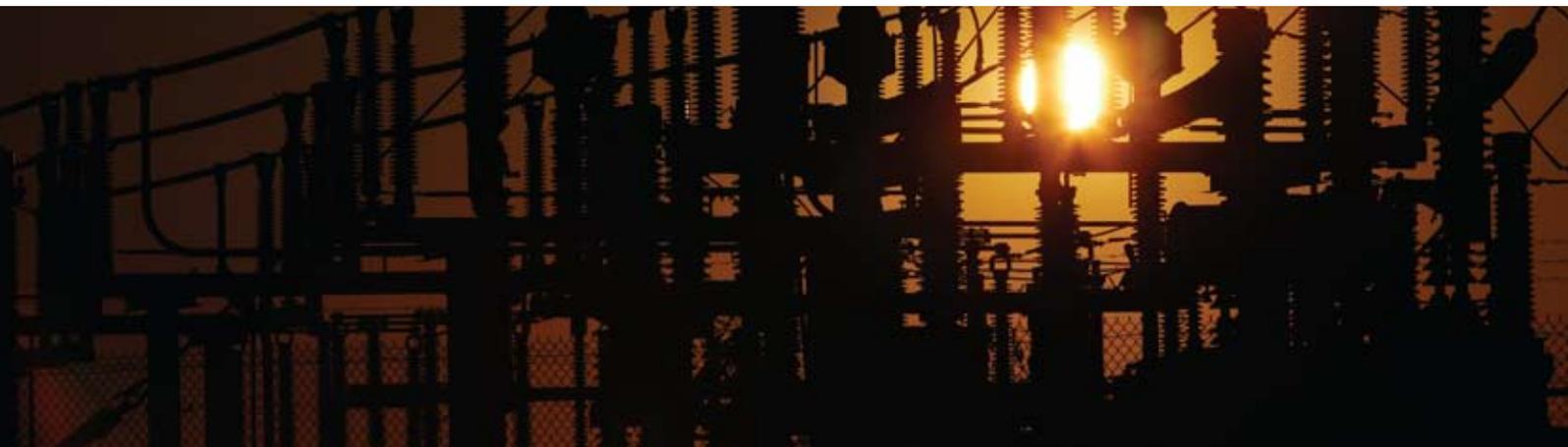
The opportunities do not stop there. They extend to 'buy-local' policies, regional recruitment programs and regional engagement strategies; all sensible business activities that deliver for Horizon Power while adding the complementary benefits of adding to a community's social and economic capital.

I am extremely proud to put my name to the achievements that are detailed in this annual report.

Horizon Power has the potential to change the way regional Western Australia engages with its major service providers, and that's something about which all of us at Horizon Power are very excited.

A handwritten signature in black ink that reads "Brendan Hammond".

Brendan Hammond
Chairman



The sustainability of Horizon Power's operations in regional WA is enhanced by growth in the capability and capacity of the regional communities we support.



A year of achievements in a challenging environment.

Looking back to identify the single biggest achievement of Horizon's first year has been an unexpectedly difficult task.

The business has dealt with severe cyclones, the failure of major power plant in the East Kimberley and we've endured the "perfect storm" in Esperance – during each of these events our customers have been our primary focus. In fact, in facing these challenges Horizon Power has consistently improved customers' and stakeholders' perception of the business and the service we deliver.

We have commissioned new power stations; launched major network upgrades and have contributed to living conditions in a number of remote Aboriginal communities by normalising power supplies and beginning a program of capacity building that we believe will have a lasting effect on these communities that will go beyond the impact of reliable power supplies.

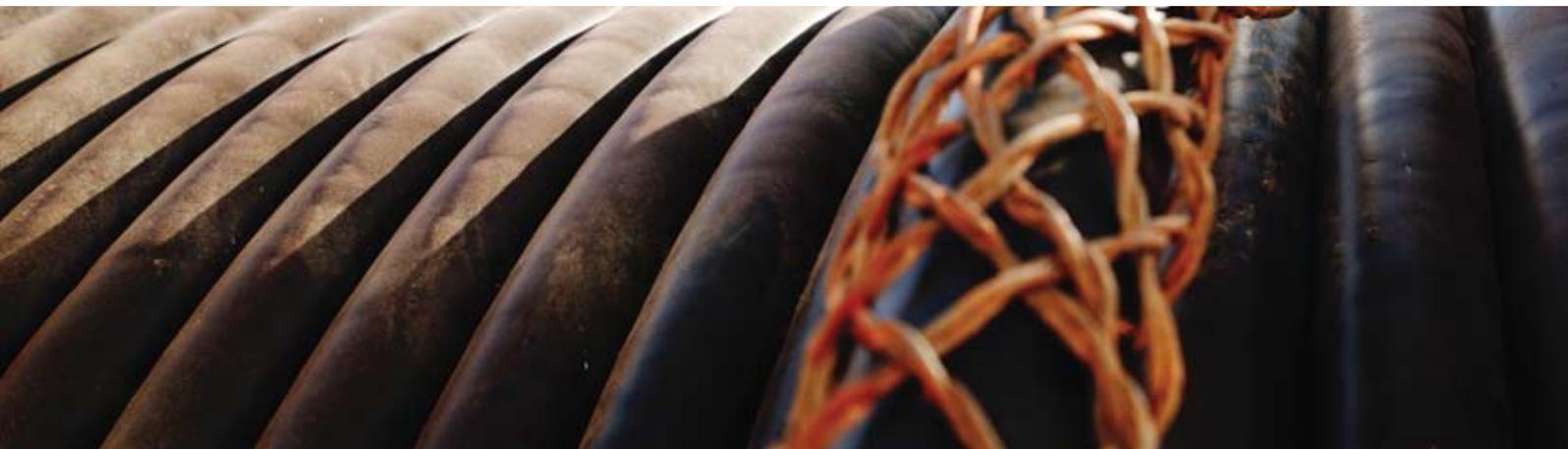
It's an impressive list of accomplishments; however, I do not think any one of these things has been our biggest achievement.

The biggest achievement of Horizon Power, over the past 12 months, is not that we have changed the way people think about us - it is that we have changed the way we think about ourselves, our role and the contribution we have to make in this State.

Horizon Power today is a vibrant, growing contributor to regional Western Australia.

Horizon Power is an active participant in Western Australia's booming resources sector; we have forged supportive relationships with regional communities, built cooperative arrangements with other regional service providers and we enjoy strong commercial relationships with regional businesses.

Our actions are earning Horizon Power a reputation for engagement and professionalism that is bringing the business respect from stakeholders and customers alike.



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This annual report provides an overview of the activities and operations that Horizon Power has undertaken in the past 12 months. It highlights the performance targets we aimed to achieve, the steps we took to deliver on our promises and the level of success we achieved against our own expectations. It provides an open and honest account of Horizon Power's activities during 2006/07.

I am very proud of our achievements this year. I hope this annual report fills you with the same sense of confidence that I hold; that from the successful platform of 2006/07, Horizon Power is well placed to build on its achievements into the future.

A handwritten signature in black ink, appearing to read 'Rod Hayes'.

Rod Hayes
Managing Director



Horizon Power is the state-owned energy company created by the Government of Western Australia to meet the needs of residential and commercial electricity customers and resource developments in regional Western Australia.

Horizon Power operates in the Pilbara, Kimberley and Gascoyne regions; the Mid West region, and the southern Goldfields (Esperance) covering an area of approximately 2.3m sq kms – about 10 times the size of the state of Victoria.

Horizon Power is the energy provider for 31 regional towns and a growing number of remote communities.

The business supplies some 37,000 customers, the majority of whom receive their electricity via the North West Interconnected System (NWIS), which services the communities and major industry of the West Pilbara.

To service a diverse customer base, from small remote communities to large resource customers, Horizon Power has developed into a business that is increasingly agile and innovative so that energy solutions meet the individual needs of customers.

Our purpose

Horizon Power firmly believes the business' sustainable success is inexorably linked to delivering lasting benefits to the communities in which the business operates.

To contribute lasting economic, social and environmental value

Horizon Power sees its role as contributing in five important areas:

- Providing value to customers through enhanced and improved service provision;
- Delivering social benefits by building the capacity and the capability of the communities the business serves;

- Delivering environmental benefits by minimising the environmental impact of operations and reducing the intensity of emissions;
- Adding value to the State by fostering and supporting regional development opportunities; and
- Building the value of the business by acting commercially, pursuing the sustainable growth of the business' leveraging existing assets and developing new opportunities as they mature.





Our values

- **Safety:** Horizon Power is dedicated to ensuring the safety of the public, our customers and our people. We will rely on teamwork, consideration and encouragement to keep our workplace safe.
- **Integrity:** Horizon Power employees act with integrity and honesty. We will build a reputation of trust and integrity by being open, caring and respectful in all our business dealings.
- **Quality Relationships:** Horizon Power values good personal and working relationships both inside the business and with all its stakeholders. We foster improved relations through greater customer and stakeholder contact, consideration of community needs and proactive assistance in regional development.
- **Leadership:** Horizon Power provides leadership in the development of regional energy solutions by accepting responsibility for the rapid identification of innovative business opportunities. We create a 'can do' atmosphere and facilitate development of industry knowledge both inside and outside the business.
- **Delivering on Commitments:** As Horizon Power and as individuals we achieve long-term business success through:
 - the collective effort of each member of the team;
 - sound business acumen;
 - continuous learning about our changing business environment; and
 - delivering on commitments we make.
- **Empowerment:** Horizon Power empowers staff with the skills and resources that enables them to complete their jobs and deliver on their commitments.



Our actions are earning Horizon Power a reputation for engagement and professionalism that is bringing the business respect from stakeholders and customers alike.

Horizon Power supplies regional and remote consumers outside of the south west corner of the State.

Horizon Power manages one major interconnected system and a growing number of non-interconnected systems in regional towns and remote communities.

North West Interconnected System (NWIS)

The NWIS covers a large geographical area surrounding the coastal towns of Port Hedland, Cape Lambert, Karratha and Dampier and extends south-east to the iron ore mining townships of Newman and Paraburdoo and eastward as far as Shay Gap.

The system's large electricity users and producers are primarily privately owned and are related to mining infrastructure and associated transport operations.

The NWIS consists of approximately 1,200km of overhead transmission lines and 30 substations. Of these, Horizon Power is the owner of 464km of transmission lines between Port Hedland, Cape Lambert and Karratha and nine associated substations.

Horizon Power retails energy in the townships of Karratha, Roebourne, Point Samson, South Hedland and Port Hedland.

Non-interconnected systems

By the end of 2007, Horizon Power will sell energy to 33 non-interconnected systems, covering townships and remote communities spread throughout regional WA.

During 2006/07, Horizon Power became the supplier of energy at two remote Aboriginal communities under Government-funded programs - Warmun and Ardyaloon - and in the second half of 2007 added the Aboriginal communities of Djarindjin/Lombadina, Bidyadanga and Beagle Bay.

Horizon Power is the owner and manager of distribution assets in each system and either owns or has contracted power generation capacity at each location.

Under the West Kimberley Power Project five additional new power stations are in the process of being constructed and commissioned in the Kimberley and will be operated by Independent Power Producers (IPPs). Of these, Looma Power Station was commissioned in early June 2007. These operations are contracted to Horizon Power, who retains overall responsibility for the vertically integrated power system.



Horizon Power's service area covers 2.3 million square kilometres and includes a growing number of remote communities.

A large part of Horizon Power's success can be attributed to the close relationship the business has with its regional customer base.

The business' head office is located in the resource centre of Karratha, which is unique among Government utilities.

While some members of the Horizon Power Executive Management Team are based in Karratha, the significant factor affecting Horizon Power's ability to engage with regional customers is the structuring of the Network Customer Services Division, which is responsible for the delivery of daily services to customers.

Three regionally-located Regional Network Managers are accountable for the strategic management of network service delivery in the region to which they are deployed and based.

Reporting to the regional network managers are District Network Officers to whom authority and accountability is transferred for the management and operation of district networks within their region.

Within the Public Affairs Division, Community Relations Managers have also been employed to provide an interface with regional stakeholders and to provide advocacy on their behalf within the business. One of the community relations managers is based in Karratha and liaises with communities and stakeholders in the north of the State; the second is based in Perth providing access to communities in the southern half of Horizon Power's service area.

Organisational Structure



Safety - our first priority

Safety is Horizon Power's over-arching and principal value and the business has an excellent safety record.

The business uses the traditional key performance indicators of Lost Time Injury and Medical Frequency Rate to measure the effectiveness of initiatives designed to ensure the safety of staff and contractors. Horizon Power has achieved positive results in these measures with no lost time injuries recorded and a significant reduction in the number of incidents requiring some form of medical treatment.

Horizon Power measures external safety performance using a Public Safety Incident indicator that measures a range of factors that may present some risk to public safety. While the business failed to achieve safety targets during the year, significant effort was invested in network asset management with the safety of assets and asset performance a key focus.

During the year, the business' senior leadership group recommitted itself to safety leadership to ensure the business did not become complacent with regard to safety.

The next steps to reinvigorate safety systems across the business will involve opportunities for individuals and defined groups to stop and think about safety performance and where the business can improve, either through the actions of teams or through personal commitments.

Safety a key in network management strategy

Horizon Power's Network Customer Service Division has embarked on a five-year plan to raise the safety, quality and reliability of all of the business' regional networks. The principal component of this strategy is safety. All Horizon Power networks must present low risk to the safety of the business' people and communities.

Under the requirements of the Electricity (Supply Standards and System Safety) Regulations 2001 (E(SSSS)R), Horizon Power must use all reasonable endeavours to ensure that the supply of electricity to a consumer conforms to the benchmark standards for electricity quality and reliability.

Horizon Power has, in addition to the requirements of these regulations, a corporate Safety and Health Policy.

No activity is permitted to come before the safety and health of employees, contractors or the community. Work must cease if safety cannot be assured.

In accord with its core value of safety, Horizon Power complies with the terms of the Australian Occupational Safety and Health Act 1984, the Occupational Safety and Health Regulations 1996 and the Workers Compensation and Injury Management Act 1981.



No activity is permitted to come before the safety and health of employees, contractors or the community.



Specialist review of safety systems

In an effort to make safety successes sustainable across the organisation, Horizon Power engaged the services of a specialist safety consultancy to provide an analysis of the current state of the business' safety systems and protocols.

The review identified four key areas of focus for improvement in the safety culture in Horizon Power:

- The role and engagement of the leadership team;
- The conduct and effectiveness of workplace safety meetings;
- The consistency and communication of safety framework documentation; and
- The re-invigoration of front-end safety behavioural systems.

The Horizon Power Safety Committee has developed a safety strategy to address these key areas, with the first component of the strategy to hold a Senior Leaders' Commitment Workshop with the aim of achieving cultural change through effective safety leadership. The workshop included setting personal safety action plans and developing a set of lead safety key performance indicators.

The next steps of the strategy are to reinvigorate local planning and safety meetings with the aim of making the meetings more effective and the introduction of a behaviour-based safety system for all Horizon Power leaders and employees.

Invigorated Corporate Safety Committee

Horizon Power's Safety Committee was revamped during the year to enlist cross-company input to ensure the safety of staff, contractors, the public and customers.

The Committee is responsible for monitoring safety performance and identifying issues and trends to make recommendations on safety initiatives to the Executive Management Team.

Horizon Power staff excel in field day trial

Utility Nationals Field Days are an opportunity to showcase new and innovative products, equipment and practices by energy companies across the country.

The 2007 event, held in Perth in May, provided an opportunity for Horizon Power lines staff to benchmark safe field practices - one of the keys to safety performance over the long term.

The two-day event included a series of competitions held on both days that tested competitors skills and conduct in a range of areas including first aid, hazard perception and various practices. Of the eight individual competitions held, Horizon Power staff walked away with four prizes.

Horizon Power's Dave Smith from Karratha won the first day's polarity testing competition while Camis Ware from Horizon Power's Esperance Depot won three of the four competitions held on the second day - a feat that has never before been achieved.

Underground power networks are a key to safety, especially in the cyclone-prone north of WA



Contributing to community safety

Safety with electricity is always important. The message becomes even more significant when school children live and play near a partially built power station.

Horizon Power visited students at Looma Primary School to explain how electricity would be generated and distributed at the power station being built in the community and why it was important they kept their distance.

Camballin Power Station Operator Nicole Simpson took the school students through the basics of power generation – explaining how electricity was generated, transmitted and ended up powering their toaster.

The new station was being built in Looma as part of the West Kimberley Power Project and has since replaced the old Camballin station.

Most importantly, the talk gave Horizon Power a chance to communicate the dangers of electricity directly to children who will be in the area as the power station is being built.

Increasingly, regional networks are managed from our control centre in Karratha.



Customer value

Horizon Power aims to contribute customer/social benefit by striving to improve the delivery of its products to customers and by providing safe and reliable power systems combined with effective and quality customer service.

Measuring performance in terms of the delivery of service expectations and mandated service levels gives the business a solid representation of the quality of the service it is delivering to customers. The measurement and comparison of internal costs against the selling price of energy gives the business a measure of the economic value Horizon Power is generating through the course of its activities. Initiatives that have driven the delivery of customer value throughout the year are outlined in the subsequent pages of this annual report.

Performance indicators (rolling 12 months)	Actual	Target
Customer value		
Achievement of Service Standards (%)	94%	Greater than 90%
Average unit cost	27.3	23.0 cents/kWh
Average selling price	14.6	14.5 cents/kWh



Horizon Power's regionalised management structure is one of the reasons the business is able to deliver tailored services to regional areas.

While regional West Australians share many characteristics, the needs and expectations of customers vary greatly across regional areas. Having management staff based in regional centres is a major strength of the business that allows decisions to be made and strategies developed that are suited to the particular needs of each of the regional communities Horizon Power supports.

Horizon metering services

Horizon metering services is a new Horizon Power business working with Aboriginal communities to ensure they have sufficient revenue from residents to cover power costs.

Horizon metering services assists town reserve and remote indigenous communities collect revenue for their power through the installation of pre-payment meters. The first pilot Horizon metering services project took place in Bunuba and Bayulu communities, near Fitzroy Crossing.

Both communities were provided with instructions on how to use the 170 pre-payment meters installed at community dwellings, as well as energy efficiency strategies designed to help manage power consumption and set up a sustainable retail system.

Major upgrade to Esperance's rural network

In September 2006, Horizon Power selected Transfield Services as a partner in a major project to improve power supply reliability and reduce the risk of bushfires resulting from clashing powerlines in rural areas of Esperance.

The four-year, \$12 million contract will cover asset management, maintenance, capital works and inspection of powerlines across the Esperance district and ensure a reliable power supply as well as address the risk of pole-top fires and clashing wires which can lead to bushfires.

To start the project, Horizon Power inspected 24,000 power poles and other structures in the Esperance, Norseman and Hopetoun regions.

Horizon Power is committed to providing a reliable and safe power supply to regional power users and partnering with Transfield Services will enable a significant upgrade program to take place without impacting on the day-to-day operations and fault response activities of the Esperance workforce.

Horizon Power's regionalised management structure is one of the reasons the business is able to deliver tailored services to regional areas.

Work to reduce bio-security risk

Communication between farmers and energy workers has taken a leap forward with the installation of UHF two-way radios in all Horizon Power utility vehicles.

WA Farmers Esperance zone president Marg Agnew said farmers were often concerned about bio-security when contractors entered their farms to carry out works.

Having little or no warning of planned power outages could also cause disruption to everyday activities for families on the land.

“If a farmer hasn’t seen their mail for a while or not been home to hear the phone, they can easily miss notification of works being done,” Mrs Agnew said.

“But now Horizon Power workers will call them on the UHF and let the farmer know before they come onto the property or turn the power off.”

Labeling it a ‘huge step forward’, Mrs Agnew said that previously there had been no opportunity to alert those entering the properties of bio-security risks if farmers were not present when Horizon Power called.

UHF was a dramatic improvement, in that farmers continued to have access while on the tractor or driving through the area.

“My staff and contractors regularly enter properties for maintenance or fault response, [which] can lead to potential weed and pest contamination between properties if our staff are unaware of the possible problems and have not been able to contact the respective farmer for advice,” Horizon Power Esperance district network officer Aaron Thiel said.

“This was a great opportunity to understand the problem from the farmer’s perspective and resolve a long ongoing issue.”

New connections made easier

For customers building new homes or business premises, getting power connected can often be a difficult task with confusion surrounding who is responsible for setting up new accounts and providing the detailed electrical information that is required.

A new process implemented by Horizon Power during the year sees new customers provided with a reference number to give to their builder or electrical contractor for all their dealings with Horizon Power during the building process.

This way, customers are able to establish a relationship with Horizon Power and receive the correct information about their power supply with their information protected as they deal directly with Horizon Power customer representatives.

Builders and electrical contractors can then liaise with Horizon Power using the customer’s reference number, ensuring technical details and timing requirements are captured accurately.



Hardship Policy designed to help

During the year, Horizon Power operated a Hardship Policy to assist customers who are unable to meet payment commitments.

The policy sees customer circumstances taken into consideration as part of ongoing credit management practice and customers who are experiencing difficulties are presented with a range of options that can help them, not only in paying the outstanding debt, but in avoiding similar problems in the future.

The types of advice on offer include setting up payment plans so the bill can be paid in instalments, directing the customer to financial counselling services and providing them with brochures containing advice that can assist households in reducing the amount of electricity they use.

The Horizon Power Assist Scheme has continued offering financial assistance to customers through an emergency relief fund.

Qualifying customers who are experiencing financial hardship can contact their local emergency relief or financial counselling agencies to access financial assistance that is distributed quarterly and administered by Anglicare.

Preparing for cyclone threat

After the 2005/06 cyclone season, in which Cyclone Glenda battered Onslow and the surrounding coast, audits were undertaken by Horizon Power and its commercial partners in Onslow, to ensure the town's electricity supply was reliable and secure.

The audits led to considerable work conducted on power infrastructure in and around the town.

To supplement these works, Horizon Power relocated two 1 megawatt diesel generators from the Exmouth Power Station to the Onslow site, before the cyclone season began this year.

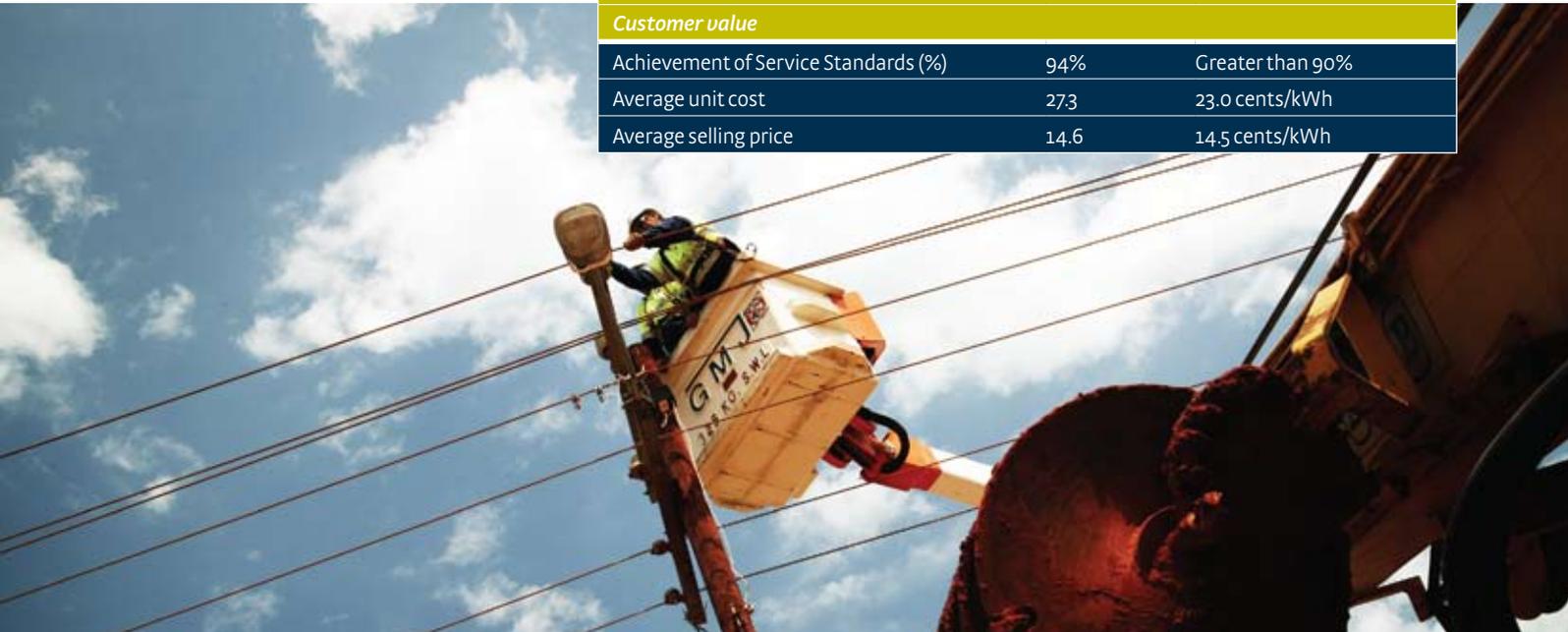
The generators were also intended to provide power to the majority of Horizon Power customers, in the event that faults occurred at the Onslow power station or due to issues with gas supplies as were experienced during the previous cyclone season.

Underground power in Port Hedland

Port Hedland's powerlines have been progressively placed underground over the course of the year as part of the State Underground Power Project.

The move to underground supplies will bring a raft of benefits to the Port Hedland community. The provision of underground service will significantly improve the reliability of power supplies in the cyclone-prone town as well as improving safety, aesthetics and property values.

Performance indicators (Rolling 12 months)	Actual	Target
Customer value		
Achievement of Service Standards (%)	94%	Greater than 90%
Average unit cost	273	23.0 cents/kWh
Average selling price	14.6	14.5 cents/kWh



Meeting East Kimberley challenge

After the failure and subsequent restoration of the East Kimberley hydro power station in late 2006, WA Energy Minister, Hon Francis Logan MLA, met with Horizon Power staff, contractors and customers in Kununurra, praising them for their rapid response to the failure of the power station.

The power station failed in late August, putting at risk power supplies to the towns of Kununurra, Wyndham and Lake Argyle. It took quick action by Horizon Power to contain the situation and the business was able to manage electricity supplies to the region by employing back-up equipment and introducing contingency plans until the station could be restored.

Minister Logan said the swift response from Horizon Power had proved the value of creating an electricity business that focused on the needs of regional Western Australia.

“The reform of the electricity industry in WA was not just about bringing competition into the metropolitan area,” Mr Logan said at a breakfast with Horizon Power staff, contractors and customers.

“The creation of Horizon Power was all about the formation of a regional service provider which understood the specific needs of regional WA and was structured to respond quickly and decisively to regional issues.”

“The Ord Hydro suffered a major failure which caused its plant to go off-line for nearly seven weeks, but most people in the Kimberley experienced only a three-hour interruption to power supplies.”

Horizon Power staff and contractors from across the state were mobilised to Kununurra for round-the-clock management of the back-up equipment.

“The beauty of being regionally based meant Horizon was able to respond, both to the emergency and to the needs of the community, to ensure that everyone was kept fully informed.”

“Horizon’s response is a model of how regional businesses can deal with emergency situations in an efficient and focussed way, while engaging communities and keeping stakeholders informed along the way,” he said.

Social benefit

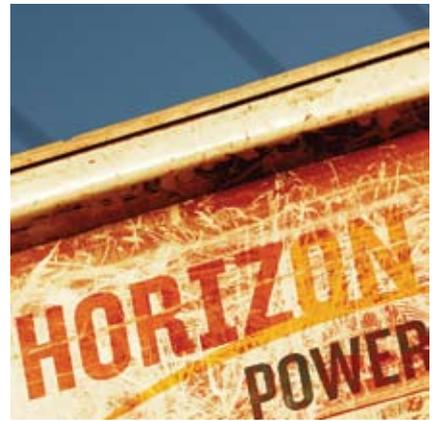
Horizon Power conducts its business in ways that add to the capacity, capability and opportunity of regional communities.

The business places particular focus on meeting its work program and employment needs from local communities and ensuring the development of skills within those communities. Not only does such an approach provide social benefit, it makes sound economic sense given the large distances involved in servicing our communities.

A safe and reliable power supply adds considerably to the lives of people living and working in regional towns. Horizon Power acknowledges there is room for improvement in the delivery of power supplies to regional communities and one of the key elements of the business’ five year strategic plan is to ensure that all networks are ‘fit for purpose’ by 2012.



Horizon Power is becoming increasingly well known in our regional locations.



Horizon Power is also investing considerable effort in ensuring regional networks are strengthened to cope with the increasing impact of extreme weather.

Measuring social benefit takes into account the reliable delivery of Horizon Power's core product – electricity – however specific attention is paid to community and stakeholder perception of the quality of service delivery. Horizon Power measures customer and stakeholder satisfaction to provide insight into the best way to scope and direct the business' engagement with customers and stakeholders.

The views and perceptions of internal stakeholders are also measured and viewed as lead indicators of the way external audiences feel about the value the business provides.

Aboriginal and Remote Communities Power Supply Project

The Aboriginal and Remote Communities Power Supply Project (ARCPSP) is a significant project aimed at normalising power supplies in five remote Aboriginal communities in the Kimberley.

ARCPSP is a joint project with the Office of Energy, with funding provided by the State Government and Commonwealth Department of Families, Community Services and Indigenous Affairs.

Incorporating the upgrade of power systems, the ARCPSP will provide a reliable supply of electricity to the communities of Bidyadanga, Ardyaloon (Bardi), Beagle Bay, Djarindjin/Lombadina and Warmun.

The project involves:

- A power procurement project;
- Audit and upgrade of the distribution network;
- Retail to customers at the uniform tariff.

In August 2006, Horizon Power signed a 10-year Power Purchase Agreement with Energy Generation Pty Ltd (enGen) to build, own and operate the five new power stations.

The new power stations use modern generating technology, which reduces noise and air pollutants and are located away from the communities, which frees up land used by the existing power stations for more valuable community use.

With the new power supply arrangements in place, the communities will be supplied at the State uniform tariff and residents with eligible benefits cards will be able to receive subsidies.

A major milestone for the project was reached in Warmun community on 12 December 2006, when Horizon Power went 'live' with retail services, the first of the ARCPSP communities to benefit from the project.

The Warmun power station, the first to be commissioned through the project, was officially opened in April 2007.



Minister Logan said the swift response from Horizon Power had proved the value of creating an electricity business that focused on the needs of regional Western Australia.

State-of-the-art support for Esperance emergency volunteers

Sometimes being in the right place at the right time has its benefits; at least this was the case for Horizon Power's regional network manager in Esperance, to whom it became known that an ageing caravan used by the Shire of Esperance as a mobile command centre for fire and other emergencies was overdue for replacement.

Horizon Power intervened, offering a substantial sponsorship proposal that included a new custom-built mobile command centre that could be used throughout the Shire in emergencies.

The Horizon Power Incident Control Vehicle (ICV) has now been fitted out with state-of-the-art electronics, communications and a global positioning system and can be used in the region to coordinate fire or emergency response activities.

The Horizon Power ICV was officially launched at the annual Emergency Services fun day in Esperance in November 2006 and has already attracted plenty of notice.

The vehicle is a trailblazer in the industry, being a one-off specifically customised vehicle for emergency response services. Even before the vehicle was launched it had attracted a lot of interest around the State.

The project was a fantastic opportunity for Horizon Power to work with the Esperance community and is one of those contributions that the business is able to make that directly impacts on the entire community.



Improving town reserve power supplies

The Town Reserves Regularisation Project, a joint project between Horizon Power and the Department of Housing and Works, continued during this year.

The project aims to regularise the power supply arrangements in Aboriginal town reserve communities.

Under the project, Horizon Power has:

- Upgraded the existing distribution networks in the communities; and
- Established a direct retail arrangement with customers instead of the existing master meter arrangement.

Through the regularisation project, Ready Power, a pay as you go electricity system using pre-payment meters has been introduced into the communities removing the burden of the 'chuck in' payment system that was often difficult for communities to sustain.

The following communities' power supplies were normalised during the financial year:



Mindi Rardi and Kurnangki in Fitzroy Crossing; Red Hill and Nicholson Camp at Halls Creek; Djimund Nguda, Burrununga, and Karmulinunga in Derby.

Committed to regional capacity building

Horizon Power has exceeded its internal target of employing 10 new local trainees in the business.

Employing local trainees brings a number of benefits to the business and the community including developing the capacity and capability of regional communities that are not developed by bringing new employees into a town.

Horizon Power's experience suggests staff that are recruited from the local community are more inclined to stay working in the community than those that come into a town for work – a valuable benefit given tight labour markets.

Crews from Kununurra to Esperance are now enjoying the benefits of developing local talent.

Environmental benefit

Horizon Power will seek to minimise the negative environmental impacts of its operations and future projects.

In particular, Horizon Power will focus on the identification and application of sustainable technologies to lessen environmental impacts and to ensure viable and cost-effective long-term supplies are maintained.

The business will strive to minimise pollutant and greenhouse gas emissions from its operations through reducing dependence on diesel-fuelled generating plant and extracting maximum efficiency from existing and future generating plant.

Horizon Power's key performance indicator for environmental performance is the penetration of renewable generation in the Horizon Power generation portfolio. This measure will become more important as governments commit to meeting threshold targets for renewable energy generation. Horizon Power is well on track to meet the State Government's 15% renewable energy target by 2020.

Wind/diesel systems power coastal communities

Two major additions to the Horizon Power generating portfolio over the past year have been the wind/diesel projects at Coral Bay and Hopetoun.

The Hopetoun power station was commissioned in May, with the planning and construction of the Coral Bay power station largely completed during the financial year.

Both power stations were constructed in partnership with Verve Energy and replace existing lower-efficiency diesel-fired plants.

With the construction of the Hopetoun power station, up to 40% of the town's power requirements will be supplied by wind generation – displacing 700,000 litres of diesel fuel and reducing greenhouse gas emissions equivalent to taking 500 cars off the road for a year.

Performance indicators (rolling 12 months)	Actual	Target
Social benefit		
SAIDI: System outage duration	383 (774*)	Less than 245
SAIFI: Frequency of outages	5.58 (6.11*)	Less than 5
CAIDI: Duration of customer outages	68.6 (127*)	Less than 49
Complying Towns	15	Greater than 20/29
Corporate reputation index (%)	65%	Greater than 65%
Employee perception survey rating	67%	Greater than 74%
Leadership survey rating	64%	Greater than 70%

* Includes the impact of major events (cyclones etc)

Reducing emission intensity

The West Kimberley Power Project, which will see the replacement of five ageing diesel-fired power stations with one high-efficiency diesel plant and four Liquefied Natural Gas (LNG) powered power stations underwent substantial progression during the year.

The new Broome, Derby, Fitzroy Crossing and Halls Creek power stations will be fuelled by LNG from a new plant being built near Karratha. LNG will be transported to the power stations via a fleet of specially built road tankers.

The new diesel-fired Looma power station was commissioned in early June.

Horizon Power has entered into a 20-year agreement for the project with Energy Developments Limited (EDL). Under the agreement, EDL will build, own and operate the five power stations and supply the electricity to Horizon Power to sell to its customers.

Efficiency advice

In early 2007, Horizon Power launched a series of new Energy Saving Ways brochures for customers, containing information and tips on how to reduce the amount of power they use each day.

The brochures include Energy Saving Ways for Home Builders, Energy Saving Ways at Home and Energy Saving Ways To Use Your Refrigerative Air Conditioner. Importantly, the advice is specific to different areas of the State, so regional customers can tailor their activities to their climate.

The information contained in the brochures can help customers reduce the size of their power bills, while helping the environment by using less electricity.

Customers were invited to obtain a copy of the brochures through their local depot or by calling Horizon Power's Customer Call Centre.

Climate change working group

Like many organisations, Horizon Power is taking proactive measures to reduce the business' contribution to the raft of emissions that are responsible for the climate change phenomena.

The business is looking at a number of initiatives related to emissions generated in the production and sale of electricity such as demand management, reducing the carbon intensity of generation and other operational programs to respond to climate change.

To complement those programs, Horizon Power has formed a working group to investigate ways the business can change the way it uses energy as a business. Early suggestions include:

- Reducing travel by using video conferencing and job scheduling;
- Reducing internal electricity use (Horizon Power's current internal electricity use equates to approximately 600 tonnes CO₂);





Horizon Power staff enjoy a range of opportunities to develop and employ a broad range of skills.

- Fleet efficiency – considering options for other types of vehicles such as hybrid-powered vehicles; and
- Housing and accommodation – ensuring the business promotes the best practice design for housing in terms of energy consumption (this may extend to the type of housing supplied for staff in regional areas).

Curtain drawn on asbestos town

The first day of the 2006/07 financial year saw the decommissioning of the Wittenoom power station.

Supplying power to the asbestos town presented a considerable environmental and safety risk to Horizon Power staff and contractors, however a Ministerial Direction not to apply for a licence to supply power to the town spelled the end of Horizon Power's commitment to the town.

Considerable effort was spent in engaging with the few remaining residents to help them to prepare for the shutdown. This included visiting residents and explaining the reason for the closure and timetable for withdrawal of services.

Since 1998, all government-owned buildings in the town have been closed, including the school and nursing post. The Water Corporation also down-sized its water supply system and terrestrial telephone services were withdrawn.



Like many organisations, Horizon Power is taking proactive measures to reduce the business' contribution to the raft of emissions that are responsible for the climate change phenomena.

With its Statewide footprint and dedicated regional focus, Horizon Power is in a strong position to grow the value of the business in a staged manner through the development of various opportunities that expand or augment existing business activities.

Development activities put the business in regular contact with project proponents, Government stakeholders, industry consultants and contractors. Through this network Horizon Power is almost uniquely placed to identify and make the links between various opportunities in regional WA that will increase the value of the business and deliver lasting value to the State.

The business environment in which these regional opportunities arise is dynamic and the drivers for change that create them vary from one-off situations to longer-term trends and developments.

Training and development program

Building the skills and capabilities of its workforce is an important element of Horizon Power's drive to achieve sustainable success.

During the year Horizon Power implements a training and development program focussed on building the capacity of the organisation to make the most of the myriad opportunities that are presented.

The training and development program has eight modules:

- Leading the business
- Business acumen
- Negotiation
- Project management
- People management
- Commercial acumen
- Customer service
- Contract management

The first to be implemented was the project management module and a number of the business' project management staff have been trained in a specialist project management methodology that will enable the business to achieve a consistent and professional approach to the management of major internal and external projects.

Business Excellence Framework

Horizon Power aims to achieve a position whereby the business consistently operates at, or above, industry standards and is calmly in control of both current operations and the growth and project management aspects of the business. The Australian Business Excellence Framework has been adopted to assist the business to adopt a strategic and systematic approach to this aim.

The Framework brings an element of rigour and clarity in an environment where there are many projects being developed and significant internal competition for resources.

The Business Excellence Framework ensures a coordinated, structured approach to business where the expected benefits of projects and initiatives are clear, competing needs are intelligently prioritised, synergies are achieved where they are available and duplication of effort is avoided.

The Framework brings an element of rigour and clarity in an environment where there are many projects being developed and significant internal competition for resources.

Business improvement program

In the same way the Business Excellence Framework has been adopted to ensure clarity and consistency across the business' operations, it has also been adopted to form the overarching framework to guide business improvement initiatives.

Using the Framework, Horizon Power has been able to implement a process to identify and manage improvement projects; develop a gating process to be used for project approvals depending on the risk, value or cross-divisional requirements and provide customised tools and training for staff leading business improvement projects across the business.

Governance Framework

A Governance Framework was developed during the year that provides the 'running rules' which support the business by:

- Providing a structure and consistency to the way Horizon Power does business;
- Promoting the business' values, corporate governance principles, systems and practices, including the roles, responsibilities and authorities of the Board and Executive;

- Encouraging the creation of lasting value consistent with the business model;
- Aligning with Horizon Power's Strategic and Business Plans; and
- Providing accountability and control systems consistent with the risks involved.

Horizon Power's governance principles are driven by the importance placed upon providing staff with the necessary knowledge (supported by structure, systems and processes) to allow them to appropriately respond to circumstances, issues and opportunities with a clear understanding of Horizon Power's context.

This 'Response within Context' means that employees are able to perform their activities in a responsible, thoughtful, knowledgeable and consistently professional manner, which contributes to the overall direction and success of the business.



Horizon Power is committed to delivering a quality, reliable, electricity supply in an environmentally sustainable and responsible manner.

The business recognises that innovative programs and on-going management procedures must protect the rights of future generations to a sustainable and diverse natural environment. Horizon Power will look for every opportunity to enhance environmental performance and to contribute to sustainable practices.

Horizon Power is committed to measuring environmental actions as a way of improving our performance, allocating resources efficiently and identifying areas of weakness. Environmental performance is tracked using a number of performance indicators.

Greenhouse gas emissions

Horizon Power's key performance indicator for greenhouse gas emissions is carbon intensity, measured in emissions per unit of electricity sent out (kg CO₂e/kWh). The following table provides a breakdown of emissions, not only from electricity directly generated by Horizon Power, but also by organisations that generate electricity which the company on-sells, as well as fleet vehicle and office energy emissions.

Greenhouse Response

Horizon Power sold a total of 787 GWh in electricity during the reporting period. Direct greenhouse gas emissions associated with the electricity generated by Horizon Power amounted to 160,589 tonnes of carbon dioxide equivalent (CO₂-e).

A further 485,177 tonnes of CO₂-e was generated by other entities from whom we purchased electricity to distribute to Horizon Power customers.

Renewable energy generation has led to the offset of 59,156 tonnes of CO₂-e. The net greenhouse gas emissions associated with the corporation's electricity sales in the reporting period is 635,119 tonnes.

Greenhouse gas emissions by source

Performance indicator	Tonnes of CO ₂ Equivalents
Electricity generated for export/fleet vehicles (Internally produced)	160,589
Electricity purchased for sale/office energy use (Externally produced)	485,177
Total emissions allocated to kWh sent out	635,119

Performance Indicator

Kg of CO₂ equivalents

Overall carbon intensity

0.820

Abatement from renewable generation

Facility	Tonnes of CO ₂ Equivalents
Esperance wind farm	15,043
Denham wind farm	1,045
Hopetoun wind farm	737
Ord River Hydro	42,331
Renewable Energy Buy Back Scheme	20
TOTAL	59,156



Horizon Power works to provide a friendly, tailored service to all our customers.

Atmospheric emissions

Horizon Power's emission details are provided annually to the National Pollutant Inventory (NPI). This information can be accessed via <http://www.npi.gov.au>. The following tables provide information on the main atmospheric emissions from the business' major power stations.

Environmental monitoring

Horizon Power conducts regular monitoring at Carnarvon, Exmouth and Derby. The business has also commenced a monitoring program in Ardyaloon and Bidyadanga as part of a commitment to ensure drinking water protection for the communities.

Contaminated sites

On the first of December 2006 the Contaminated Sites Act 2003 came into force in Western Australia. This legislation requires the reporting to the Department of Environment and Conservation (DEC) of all sites known or suspected to be contaminated. Horizon Power reported 28 sites to the DEC under the Act.

Horizon Power maintains a close working relationship with the DEC and is committed to the careful remediation of all contaminated sites. The business has made significant progress over the last year towards fulfilling this remediation goal.

Horizon Power has conducted Detailed Site Investigations at 12 decommissioned power station sites in the past year and has completed groundwater monitoring at two other sites. Preliminary Site Investigations for six more sites have been commissioned and are due for completion in the near future.

<i>Environmental licenses held by Horizon Power</i>	<i>Number</i>
Western Australia Department of Environmental Protection License	3
Department of Industry and Resources License to Store Dangerous Goods	11

<i>Performance indicator</i>	<i>Kilograms of CO₂ Equivalent</i>
Sulphur Dioxide emissions by regional power stations	0.23
Nitrogen Oxides emissions by regional power stations	16.13



Horizon Power is committed to measuring environmental actions as a way of improving our performance, allocating resources efficiently and identifying areas of weakness.

Facts and figures

Electricity Generation and Sales Statistics (kWh)

Town	Generated power (kWhs)	Wind power generated (kWhs)	Purchased power (kWhs)	Total power generated / purchased (kWhs)	Used in works (kWhs)	Power sent out (kWhs)
Broome	71,425,838	-	-	71,425,838	1,788,604	69,637,234
Broome Aggreko	-	-	51,435,600	51,435,600	-	51,435,600
Camballin	2,706,087	-	292,416	2,998,503	85,769	2,912,734
Carnarvon	46,143,974	-	-	46,143,974	2,093,134	44,050,840
Cue	-	-	1,939,814	1,939,814	-	1,939,814
Denham	3,241,246	-	-	3,241,246	51,467	3,189,779
Denham Wind Farm	-	1,968,169	-	1,968,169	-	1,968,169
Derby	31,262,050	-	-	31,262,050	1,182,012	30,080,038
Esperance	-	-	51,008,501	51,008,501	-	51,008,501
Esperance Wind Farm	-	17,014,822	-	17,014,822	-	17,014,822
Exmouth	3,994,323	-	16,653,589	20,647,912	99,945	20,547,967
Fitzroy Crossing	11,296,228	-	-	11,296,228	187,075	11,109,153
Gascoyne Junction	-	-	657,536	657,536	-	657,536
Halls Creek	10,247,434	-	-	10,247,434	94,141	10,153,293
Hopetoun	3,361,993	-	647,167	4,009,160	695,867	3,313,293
Hopetoun Wind Farm	-	929,728	-	929,728	-	929,728
Kununurra	6,908,972	-	50,061,112	56,970,084	4,001,924	52,940,360
Lake Argyle	43,200	-	256,278	299,478	-	327,278
Laverton	-	-	3,598,363	3,598,363	-	3,598,363
Leonora	-	-	8,361,705	8,361,705	10,773	8,350,932
Marble Bar	2,152,503	-	-	2,152,503	21,340	2,131,163
Meekatharra	-	-	7,272,080	7,272,080	-	7,272,080
Menzies	-	-	547,805	547,805	-	547,805
Mount Magnet	-	-	4,573,350	4,573,350	-	4,573,350
Norseman	-	-	4,681,335	4,681,335	-	4,681,335
Nullagine	1,229,698	-	-	1,229,698	38,710	1,190,988
Onslow	201,716	-	5,190,330	5,392,046	2,312	5,389,734
Sandstone	-	-	800,045	800,045	-	800,045
Wiluna	-	-	2,469,713	2,469,713	-	2,469,713
Wyndham	822,438	-	7,306,877	8,129,315	84,800	8,044,515
Yalgoo	-	-	855,289	855,289	-	855,289
NWIS	-	-	369,048,770	369,048,770	-	369,048,770
TOTAL	195,037,700	19,912,719	587,657,675	802,608,094	10,437,873	792,170,221



<i>Network assets</i>		
Transmission lines		446kms
Distribution lines	High voltage overhead	2575 kms
	High voltage single phase	2605 kms
	Low voltage overhead	2066kms
Distribution cable underground	High voltage	274 kms
	Low voltage	365kms
Total transformer capacity	-	471,251 kVA
Number of street lights	-	12,016

<i>Division</i>	<i>Full time employees (F.T.E)</i>
Office of the Managing Director	8
Governance & Legal	10
Commercial & Strategy	10
Network Customer Services	87
Finance & Corporate Services	38
Generation & Technical Services	45
Retail	7
Public Affairs	4
TOTAL	209





Brendan Hammond
(Chairman)

Brendan brings with him 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.



Alan Dundas
(Deputy Chairman)

Alan has accumulated almost 30 years of experience in the resources industry both in Australia and overseas, most recently with WMC Resources where he served in senior management and Board roles.

Alan has also held company representative roles with the Chamber of Minerals and Energy in Western Australia and the Northern Territory.

He is Director of Ripstone Consulting and a non-executive Director of Westralia Airports Corporation. Alan is non-executive Chairman of Barhold Co. Pty Ltd (effective 1/9/07 and includes Chairmanship of subsidiaries Barbid Co. and Barmin Co.)

The Board

Role of the Board

The Board of Directors is the governing body of Horizon Power and is responsible to the Minister for Energy for the performance of the business.

Composition of the Board

In accordance with the Electricity Corporations Act 2005 (the Act), Horizon Power is to have a Board of between four and six directors appointed by the Governor on the nomination of the Minister. The Chief Executive Officer may be a Director.

In making nominations for the Board, the Minister is to ensure that each nomination is made only after consultation with the Board. A majority of the Board must comprise of Directors that are resident in an area of the State not serviced by the South West Interconnected System.

Directors

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





Peter Yu

Peter owns a consultancy company and specialises in providing strategic policy advice at the senior executive level in both the public and private sectors.

He has a strong interest and involvement in indigenous governance, and in promoting the development of commercial partnership relationships between corporate and Aboriginal interests. Past roles have included positions with the Kimberley Land Council and the Kimberley Development Commission.



Susan Bradley

Susan's extensive business and community experience in the Kimberley has included owning and operating cattle stations, farms on the Ord Irrigation Area and a caravan park in Kununurra. She has lived in the Kimberley for more than 35 years and held positions including the Wyndham-East Kimberley Shire President, Chair of the Ord Development Study, Inaugural Chairman of the Kimberley Development Commission and Chair of the Kimberley Regional Water Resources Development Study.

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

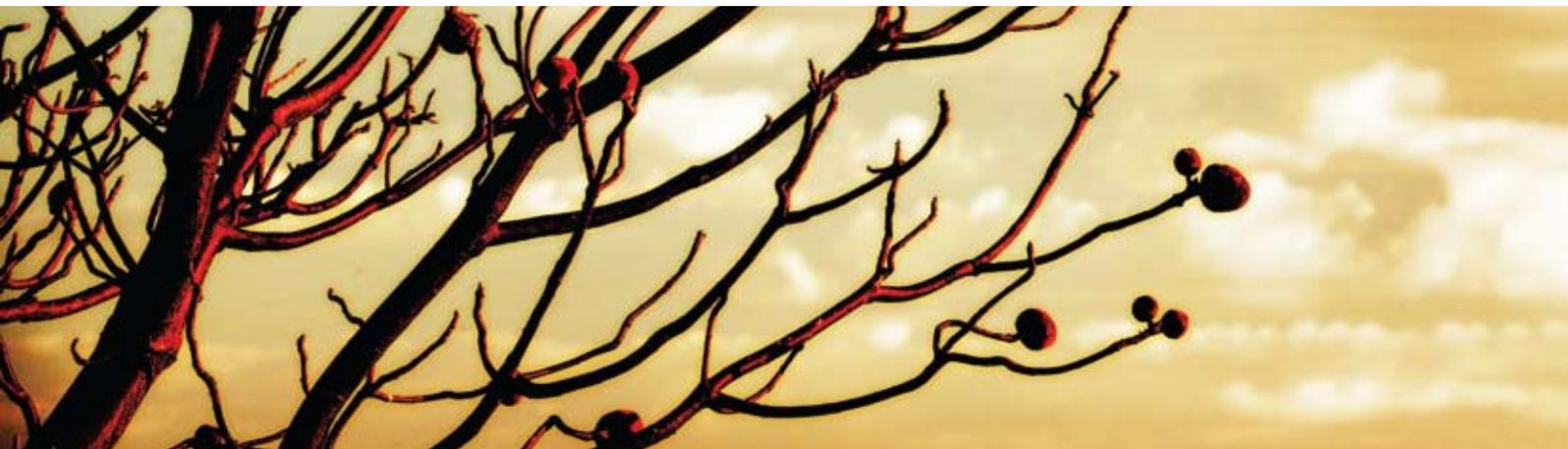
She is a Director of the Kimberley Foundation Australia Ltd.



Tony Chilvers

Tony is a solicitor with his own Karratha-based legal practice. He has lived and worked in the north west of Western Australia for more than 22 years and has a demonstrated knowledge of the concerns and interests of both residents and small businesses in the region.

Tony has a strong commitment to the development of the Pilbara region and to improving services and benefits to the communities in the north west.



The Board of Directors is the governing body of Horizon Power and is responsible to the Minister for Energy for the performance of the business.



Rod Hayes
(Managing Director)

Rod has 11 years of experience in Australia's utilities sector and a record of strong and dynamic leadership.

Before joining Horizon Power, he served for more than three years as the Chief Executive Officer of the Gladstone Area Water Board, a government-owned commercialised business servicing one of Queensland's biggest coastal cities.

Rod brings previous experience in senior management roles in the electricity sector, after spending several years with Tasmanian electricity distribution and retail company Aurora Energy. Rod is a Fellow of the Australian Institute of Management.



Pete Feldhusen
(Company Secretary)

Pete is Horizon Power's General Manager Legal and Governance.

He has held Board, Company Secretarial, Financial and Operating Management positions in a number of mining, legal and utility organisations.

Pete joined Horizon Power from Western Power where he held the position of Manager Finance and Corporate Services for the Regional Business Unit, before which he was Manager Risk Assurance and Audit for Western Power Corporation.

Angela Riley
(Special Advisor to the Board)

The Horizon Power Board has retained the services of Ms Angela Riley as a specialist adviser to the Board to enable the Board to prudently discharge its Audit and Risk obligations.

Role of the Company Secretary

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

Attendance at Board meetings

The Board meets bi-monthly.

A key role of the Committee 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, within an appropriate framework of internal control and risk management.

Board Meetings		
	A	B
Mr Brendan Hammond (Chairman)	12	15
Mr Alan Dundas (Deputy Chairman)	15	15
Mr Peter Yu	14	15
Ms Susan Bradley	13	15
Mr Anthony Chilvers	14	15
Mr Rod Hayes	14	14

Board Meetings

A – Number of meetings attended.

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

Declarations of Interest

Brendan Hammond:	Seymour Associates (Director/Owner)
	Jirrawun Arts (Director)
	Jirrawun Health (Director)
	Water Corporation (Director)
Alan Dundas:	Ripstone Consulting (Director)
	Westralia Airports Corporation Pty Ltd (Non-executive Director)
Angela Riley:	MG Community Foundation Pty Ltd (Director)
	MG Dawang Land Pty Ltd (Director)
	MG Developments Pty Ltd (Director)

Role of the ARMC

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

Specialist adviser, Angela Riley, who has a strong financial and auditing background, chairs the Committee and along with Alan Dundas and Peter Yu makes up the membership of the ARMC.

A key role of the Committee 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, within an appropriate framework of internal control and risk management.



Financial reporting

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

- Consider the appropriateness of Horizon Power's accounting policies and principles;
- Assess significant estimates and judgments in the financial reports;
- Review management's process for ensuring compliance with laws, regulations and other requirements relating to the external reporting of Horizon Power;
- Assess information from the internal and external auditors regarding the quality of financial reports; and
- Review 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 Committee also assesses and adds value to Horizon Power's corporate governance, including its systems of internal control and internal audit function.

Composition of ARMC

The ARMC comprises of:

- Angela Riley, Chair
- Alan Dundas
- Peter Yu

ARMC meetings are attended by:

- Rod Hayes, Managing Director
- Tony Cocks, General Manager Finance and Corporate Services
- Pete Feldhusen, Company Secretary, General Manager Governance and Legal
- Andrew Georgiades, Manager Risk and Audit

ARMC meetings attended

Audit and Risk Management Committee meetings		
	A	B
Mr Alan Dundas	7	7
Mr Peter Yu	6	7
Ms Angela Riley *	7	7

A – Number of meetings attended.

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

* Specialist Adviser to the Board appointed to enable the Board to prudently discharge its Audit and Risk obligations.



Principal activities

The principal functions of Horizon Power are:

- to generate, purchase or otherwise acquire electricity from sources of energy, including renewable sources;
- to manage, plan, develop, expand, enhance, improve and reinforce electricity transmission and distribution systems and provide and improve electricity transmission and distribution services; and
- to supply to consumers electricity and services which improve the efficiency of electricity supply.

Horizon Power also performs other duties as described in the Act in accordance with prudent commercial principles and must endeavour to make a profit to maximise its long-term value.

Restriction on area in which Horizon Power may operate

Within Western Australia, the performance of Horizon Power's functions relating to electricity and provision of telecommunication services is limited to electricity systems in those parts of the State that are not served by the South West Interconnected System.

Financial performance

The net profit for the year ended 30 June 2007 was \$4.8m. The Minister's profit target for the year is set at \$3.6m. This is the sum of the budgeted net profit of \$1.4m plus 'efficiency gains' (after tax) of \$2.2m. Full year net profit variance after tax is a positive \$3.4m, compared to budgeted profit of \$1.4m. Factors are:

- Developer Contribution on the Port Hedland Underground project was \$4.1m above the budget of \$2.2m.
- Costs consequent to the Ord Hydro failure \$ 4.4m.

- Costs associated with damages from Tropical Cyclone Isobel/Esperance storms and Tropical Cyclone George stand at \$2.3m.
- Write-back of \$4.4m on the fuel hedge program, previously accounted as 'unrealised gains' in financial statements for 2005-06.
- Net negative impact of the West Kimberley IPP delay \$2.1m.
- Average fuel oil cost exceeded budget by \$5.3m.
- Provision for decommissioning costs \$2.7m.
- Net positive variance of \$5.9m on finance lease accounting treatment of electricity purchases, depreciation and interest.
- Higher overall expenditure partially offset by above-budget misc. revenue and developer contributions.

Horizon Power ended the period with a capital employed of \$367.8m, an increase of \$6.6m over the year. Included in capital employed are interest-bearing liabilities of \$250.6m and increase of \$49.3m. The ratio of interest-bearing liabilities to capital employed as at 30 June 2007 was 68.1%. Expenditure on capital activity work was \$54m.

Further information on the operations of the business is available from the body of the attached annual report.

Dividends

No dividends have been paid or recommended in respect of the period ended 30 June 2007.



*The net profit for the year ended 30 June 2007 was \$4.8m.
The Minister's profit target for the year is set at \$3.6m.*

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.

Significant events after balance date

Ardyaloon

Work has finished to underground the power supply in the community of Ardyaloon, with Horizon Power connecting the new system to the existing power station earlier this month and metering services now completed.

Ardyaloon is a large Aboriginal community of 400 people located north of Broome at Cape Leveque.

Aboriginal Remote Communities Power Supply Project

A major milestone for the Aboriginal Remote Communities Power Supply Project was reached in July with the successful changeover of the WA's largest Aboriginal community of Bidyadanga.

It is the third system that Horizon Power has taken over and the third community in which the business commenced retail operations.

The new enGen power station commenced operations at the same time. This involved Horizon Power coordinating with enGen for the construction of a new diesel fired power station, works to bring the network up to standard, installation of Ready Power pre-payment meters, education campaigns, community consultation and finally the changeover to the new power station.

Coral Bay

The normalisation of power supplies in Coral Bay commenced in August 2007. The \$14m project has seen Horizon Power assume responsibility for power supplies in Coral Bay.

Horizon Power has constructed a new 22,000-volt underground power network for distribution of the electricity, using nine kilometres of cable. Street lighting has been replaced with modern high-pressure sodium lights. Horizon Power has also established retail services to customers.

Horizon Power partnered with Verve Energy to build a new wind farm and low-load diesel power station on the fringe of the town. The power station consists of seven 320kW low-load diesel engines, with a total capacity of 2240kW. Three 275kW wind turbines have been installed and will generate, on average, 45% of Coral Bay's electricity requirements. The turbines can be lowered in extreme weather conditions.



The normalisation of power supplies in Coral Bay commenced in August 2007. The \$14m project has seen Horizon Power assume responsibility for power supplies in Coral Bay.

Likely developments and future results

Horizon Power forecasts no events likely to have a deleterious impact on the effective and efficient operation of the business.

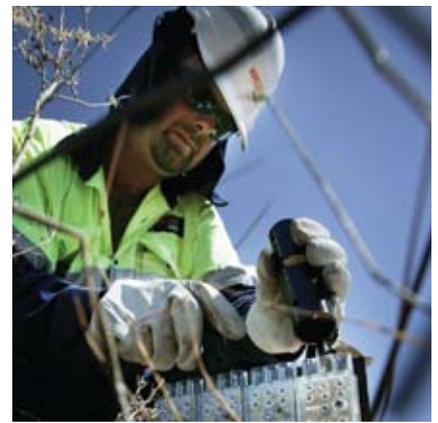
During the 07/08 Horizon Power expects to undertake the normalisation of a further three remote indigenous communities in the Kimberley region.

Environmental regulation and performance

Horizon Power acts responsibly to ensure compliance to all state and federal environmental Acts and regulations that apply. The main environmental legislation that impacts on its operation is the Environmental Protection Act 1986. This is an Act of the Western Australian Parliament and gives rise to many regulations with the main ones referred to below.

(Controlled Waste) Regulations 2004 specifies that certain wastes (used lube oil, 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 two experienced companies to perform this service, Nationwide and Intercon Logistics.

(Noise) Regulations 1997. Horizon Power has operated several regional power stations under exemption from these regulations. The exemptions were provided while Horizon Power has been conducting the Regional Power Procurement Program (commenced 1998), which aims to replace or upgrade the non-conforming power stations with more modern, efficient and environmentally friendlier facilities.



Other state and federal regulations and Acts that Horizon Power operates to, but which have a lesser impact on the business include:

- *(Unauthorized Discharge) Regulations 2004*
- *Contaminated Sites Act 2003*
- *Dangerous Goods Safety Act 2004*
- *Explosive and Dangerous Goods Act 1961*
- *Environmental Protection and Biodiversity Conservation Act 1999*

Horizon Power has site-specific licenses to operate power stations at Broome, Derby and Carnarvon. These licenses contain specific requirements that must be met in order to continue operating. The conditions include reporting air emissions, testing stacks annually for emissions, guidelines for storing liquid fuels and chemicals and supplying an annual report to the Department of Environment and Conservation on power station operations.

Code of Conduct

Horizon Power has a Code of Conduct, which sets down standards for ethical and professional behavior for employees (including Directors). It sets out the fundamental values, which form the basis of and underpins Horizon Power's business relationships. The Code abides by standards established by the Commissioner for Public Standards.



Remuneration report

Principles used to determine remuneration

The Minister for Energy (the Minister) approves the remuneration of all non-executive directors. The Board, subject to the concurrence of the Minister, approves the remuneration of the Managing Director (also referred to as the Chief Executive Officer).

The Board, on recommendation of the Managing Director, approves the remuneration of all Executive Officers.

Key management personnel remuneration

Horizon Power's compensation policy is designed to:

- Provide market competitive remuneration to employees having regard to both the level of work assigned and the personal effectiveness in its performance;
- Allocate remuneration to employees on the basis of merit and performance;
- Adopt performance measures that align the interests of employees with the interests of key stakeholders; and
- Adopt a remuneration structure that provides an appropriate balance in 'risk and reward sharing' between the employee and Horizon Power.

Non-executive Directors

Payment to Non-executive Directors consists of base remuneration and superannuation.

Managing Director and Executives

The Managing Director and Executives compensation framework is based upon total target remuneration that includes a total fixed remuneration structured with:

- Cash
- Selection of prescribed non-financial benefits
- Superannuation
- Cost of the fringe benefit tax

In addition to total target remuneration, those Executives resident in remote locations are also provided housing benefits and location allowances.

Annual At Risk Remuneration (ARR) element

At the Board's discretion, with the concurrence of the Minister, the Managing Director and General Managers are eligible for incentive payments for achievement of specific performance targets covering Horizon Power's major measurable outcomes, in line with the Strategic Development Plan Balanced Scorecard of key performance indicator's including:

- Contribution to the progression of major identified corporate projects and initiatives;
- Personal contribution through leadership and behaviour, focused on alignment with Horizon Power's values; and
- Developing and enhancing Horizon Power's reputation and relationship management.



Details of compensation

Year ended 30 June 2007	Primary			Post-employment			Total
	Salary & fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Pre-scribed benefits \$	Other \$	
<i>Non-executive Directors' remuneration</i>							
B Hammond	94,337	-	663	8,550	-	-	103,550
A Dundas	59,337	-	663	5,400	-	-	65,400
P Yu	45,000	-	-	4,050	-	-	49,050
S Bradley	44,337	-	663	4,050	-	-	49,050
T Chilvers	45,000	-	-	4,050	-	-	49,050
Total	288,011	-	1,989	26,100	-	-	316,100

Year ended 30 June 2007	Post-employment			Post-employment			Total
	Salary & fees \$	Bonus \$	Non-monetary \$	Superannuation \$	Prescribed benefits \$	Other \$	
<i>Executives' remuneration</i>							
R Hayes	326,906	-	87,663	32,157	-	-	446,726
T Cocks	134,954	-	40,097	22,651	-	-	197,702
P Feldhusen	160,922	-	12,187	18,297	-	-	191,406
M Laughton-Smith	172,154	-	10,704	20,348	-	-	203,206
D McDonald	163,253	-	85,331	17,224	-	-	265,808
D Martin	137,745	-	3,300	12,572	-	-	153,617
F Tudor	189,687	-	256	23,616	-	-	213,559
Z Wilk	166,383	-	81,075	20,225	-	-	267,683
Total	1,452,004	-	320,613	167,090	-	-	1,939,707

A major milestone for the Aboriginal Remote Communities Power Supply Project was reached in July with the successful changeover of the WA's largest Aboriginal community of Bidyadanga.

The Non-executive Directors of Horizon Power during the period were:

- B Hammond – Chairman
- A Dundas – Deputy Chairman
- P Yu – Director
- S Bradley – Director
- T Chilvers – Director

The other key management personnel of Horizon Power during the period were:

- R Hayes – Managing Director
- T Cocks – General Manager Finance & Corporate Services
- M Laughton-Smith – General Manager Generation & Technical Services
- D McDonald – General Manager Retail
- D Martin – General Manager Public Affairs
- F Tudor – General Manager Commercial & Strategy
- Z Wilk – General Manager Network Customer Services
- P Feldhusen – General Manager Governance & Legal, Company Secretary

State Records Act 2000

Horizon Power maintains and supports quality record-keeping practices in its day-to-day business activities. The function of managing records resides within the Finance and Corporate Services Division of Horizon Power. During the year Horizon Power's Record-Keeping Plan was updated and submitted to the State Records Office and subsequently approved by the Minister for Energy.

The record-keeping plan ensures all records are managed according to the requirements of the State Records Act 2000 and demonstrates an ongoing commitment to the training of staff in record-keeping principles and practices.

Western Australian 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) incurred by, or on behalf of, Regional Power Corporation during the financial period ended 30 June 2007 is as follows:

Advertising Agencies	\$85,057
Market research Organisations	\$84,440
Direct Mail Organisations	
Media Advertising Organisations	\$145,437



Horizon Power maintains and supports quality record-keeping practices in its day-to-day business activities.

Disability Access Disclosures

Horizon Power has prepared a Disability Access and Inclusion Plan in accordance with the Disability Services Act 1993. The plan will facilitate the provision of accessible services, facilities and information for people with disabilities.

Public Interest Disclosures

Horizon Power complies with various corporate obligations of the Public Interest Disclosure (PID) Act 2003.

The PID Act enables employees to make disclosures about improper conduct within the organisation and aims to ensure openness and accountability in government by encouraging people to make disclosures and protecting them when they do. Horizon Power supports the principles of this plan and has commenced developing appropriate procedures and processes to comply with the Act.

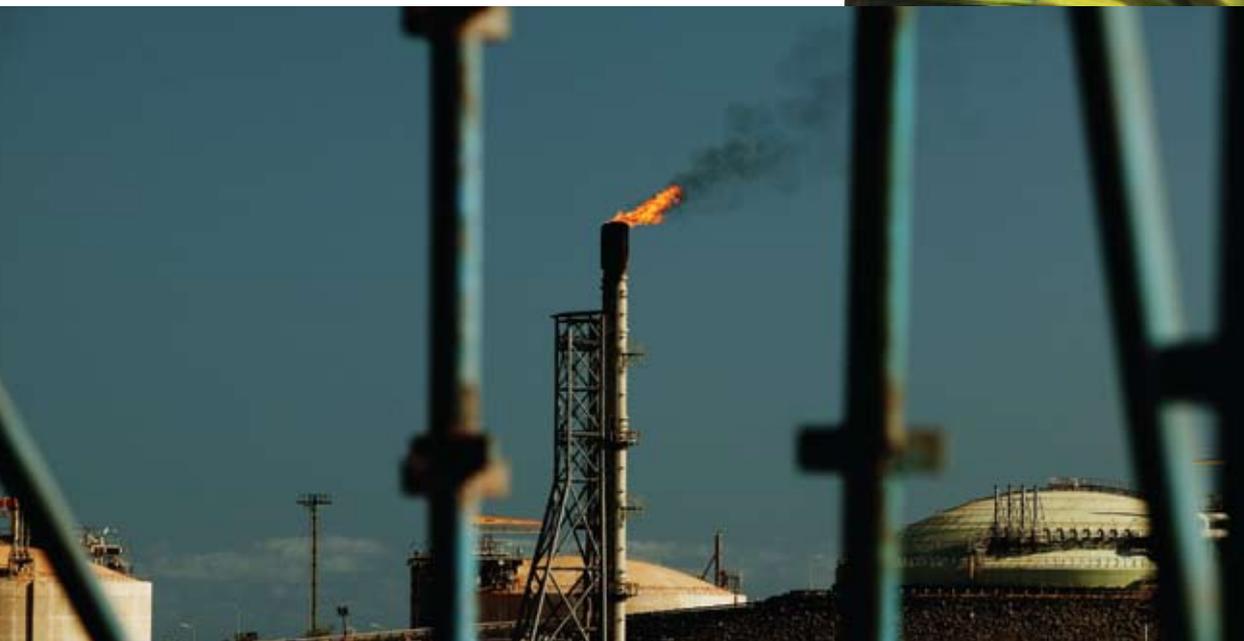
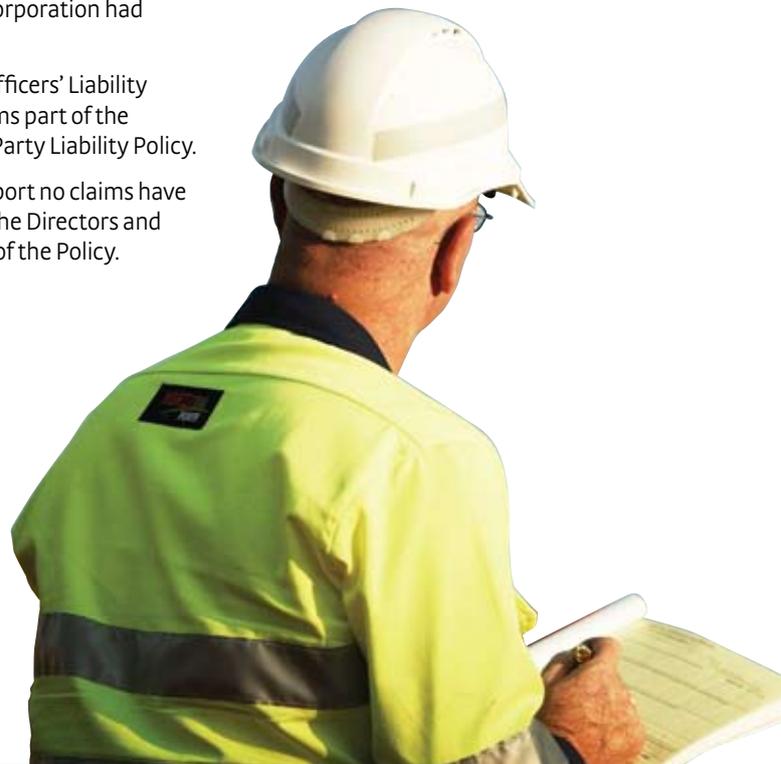
There were no Public Interest Disclosures during the year.

Indemnification of Directors

During the financial year, the Directors' and Officers' Liability Insurance Policy was obtained to ensure that the Directors and officers of the Corporation had adequate coverage.

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

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



DIRECTORS' 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 2007 and of its performance for the 12 month period ended on that date; and
 - (ii) complying with Accounting Standards, Urgent Issues Group 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



Alan Dundas
DEPUTY CHAIRMAN



Rod Hayes
MANAGING DIRECTOR

22 August 2007

DMS#: 3071137v1

STATEMENT OF FINANCIAL PERFORMANCE



Income Statement

For the year ended 30 June 2007

	Note	Year ended 30 June 2007	Quarter ended 30 June 2006
		\$'000	\$'000
Revenue from ordinary activities	2(a)	145,069	29,089
Cost of sales	2(b)	(143,627)	(34,765)
Gross Profit/(Loss)		1,442	(5,676)
Other income	2(c)	74,401	3,274
Other expenses	2(d)	(54,208)	(11,068)
Borrowing costs	2(e)	(14,905)	(3,869)
Profit/(Loss) before income tax benefit	2(f)	6,730	(17,339)
Income tax benefit/(expense)	5(a)	(1,916)	5,260
Profit/(Loss) for the year/period		4,814	(12,079)

This Income Statement should be read in conjunction with the notes to the financial report included on pages 6 to 44.

STATEMENT OF FINANCIAL PERFORMANCE CONTINUED

Balance Sheet

As at 30 June 2007

	Note	As at 30 June 2007 \$'000	Re-stated as at 30 June 2006 \$'000
Current assets			
Cash and cash equivalents		11,807	1,209
Trade and other receivables	6	17,005	15,600
Inventories	7	5,171	5,431
Derivative assets	8	–	4,403
Other assets	9	345	466
Total current assets		34,328	27,109
Non-current assets			
Intangible assets	10	234	389
Property, plant and equipment	11	371,587	297,659
Net deferred tax assets	5(c)	16,732	17,871
Total non-current assets		388,553	315,919
Total assets		422,881	343,028
Current liabilities			
Trade and other payables	12(a)	28,237	22,509
Tax liability		741	–
Interest-bearing liabilities	13(a)	44,359	38,436
Provisions	14(a)	7,605	7,614
Other liabilities	16	5,208	3,169
Total current liabilities		86,150	71,728
Non-current liabilities			
Other payables	12(b)	1,515	1,608
Interest-bearing liabilities	13(b)	206,221	162,908
Provisions	14(b)	11,736	5,289
Total non-current liabilities		219,472	169,805
Total liabilities		305,622	241,533
Net assets		117,259	101,495
Equity			
Contributed equity		124,524	113,574
Accumulated losses		(7,265)	(12,079)
Total equity		117,259	101,495

This balance sheet should be read in conjunction with the notes to the financial report included on pages 6 to 44.



Cash flow Statement

For the year ended 30 June 2007

	Note	Year ended 30 June 2007	Quarter ended 30 June 2006
		\$'000	\$'000
Cash flows from operating activities			
Receipts from ordinary activities		135,241	28,767
Other revenue from ordinary activities		71,594	2,525
Interest received		1,393	248
Net GST and Fuel Tax Credits received		9,476	853
Payments to suppliers and employees		(188,247)	(39,128)
Borrowing costs		(14,675)	(2,474)
Net cash inflows/(outflows) from operating activities	21(c)	14,782	(9,209)
Cash flows from investing activities			
Payments for property, plant and equipment		(55,086)	(6,652)
Proceeds on Sale of Property, Plant and Equipment		1,177	
Payments for intangible assets		–	(342)
Net cash outflows from investing activities		(53,909)	(6,994)
Cash flows from financing activities			
Net proceeds from borrowings		14,742	11,426
CES, customers' and contractors' deposits/(refunds)		(228)	396
Developer and customer contributions to capital works		23,186	2,512
Proceeds from contributed equity		12,025	1,290
Net cash inflows from financing activities		49,725	15,624
Net increase/(decrease) in cash and cash equivalents held		10,598	(579)
Cash and cash equivalents held at the beginning of year/period		1,209	1,788
Cash and cash equivalents held at the end of the year/period	21(a)	11,807	1,209

This Cashflow Statement should be read in conjunction with the notes to the financial report included on pages 6 to 44.

Statement of Changes in Equity

For the year ended 30 June 2007 – Restated

	Year ended 30 June 2007	Quarter ended 30 June 2006
	\$'000	\$'000
Accumulated losses:		
Balance at beginning of year/period	(12,079)	–
Net profit/(loss) for the year/period	4,814	(12,079)
Balance at End of Year/Period	(7,265)	(12,079)
Contributed equity:		
Contributed equity at beginning of year/period as previously stated	112,499	–
Prior year adjustment (ii)	1,075	–
Contributed equity at beginning of year/period as re-stated	113,574	–
Equity contributed during the year/period (i)	10,950	113,574
Contributed equity at end of year/period	124,524	113,574
Total equity at end of year/period	117,259	101,495

- (i) Contributed equity for 3 months ended 30 June 2006 is in respect of equity contributed by State Government on inception of Horizon Power on 1 April 2006, as well as contributions by the State Government in support of Aboriginal Remote Community Power Supply Program Phase 1. Contributed equity for year ended 30 June 2007 is in respect of contributions by the State Government in support of Aboriginal Remote Community Power Supply Program Phase 1 (\$5,285 thousand), Coral Bay Project (\$4,240 thousand) and reimbursement for unavoidable costs relating to the Ord River hydroelectric scheme failure (\$1,425 thousand).
- (ii) Adjustment for 3 months ended 30 June 2006 is in respect of a tax refund received in June 2007 relating to a reimbursement of overpaid income tax instalments by the Department of Treasury and Finance that was allocated to Horizon Power from Western Power Corporation by the Electricity Corporations (Order for Re-Allocation) Order 2006, gazetted on 29 September 2006.

This Statement of Change in Equity should be read in conjunction with the notes to the financial report included on pages 6 to 44.

NOTES TO THE FINANCIAL REPORT



Notes to the Financial Report

For the year ended 30 June 2007

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Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES

Statement of compliance

This financial report is a general-purpose financial report for the year ended 30 June 2007 that has been prepared in accordance with Australian Accounting Standards and Urgent Issues Group Interpretations and complies with other requirements of the law, including Schedule 4 of the Electricity Corporations Act 2005. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the Financial Statements and Notes of Horizon Power comply with International Financial Reporting Standards (IFRS).

The Financial Report was authorised for issue by the Board of Directors on 22 August 2007.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of derivative financial instruments that have been measured at fair value in accordance with A-IFRS.

In the application of A-IFRS, management is required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of A-IFRS that have significant effects on the financial report and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial report.

Going concern

The financial report has been prepared on a going concern basis of accounting, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

At 30 June 2006, Horizon Power had current assets of \$27,109 thousand and current liabilities of \$71,728 thousand, resulting in net current liabilities of \$44,619 thousand. At 30 June 2007, Horizon Power had current assets of \$34,328 thousand and current liabilities of \$86,150 thousand, resulting in net current liabilities of \$51,822 thousand – an increase of \$7,203 compared to 30 June 2006, which is attributable to an increase in interest bearing liabilities to finance capital projects and also trade payables.

For the period from 1 April 2006 to 30 June 2006 Horizon Power incurred a negative operating cash flow of \$9,209 thousand and a loss for the period of \$12,079 thousand. For the year ended 30 June 2007, Horizon Power incurred a positive operating cash flow of \$14,782 thousand and a profit for the year of \$4,814 thousand. The 30 June 2006 result is for a 3 month period only and can be viewed as a transition period to the new business structure.

It has been determined that Horizon Power will receive sufficient revenue from the Tariff Equalisation Fund described in Note 26 and therefore will be able to meet current liabilities as and when they are due, to support the going concern assumption.

Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements for the year ended 30 June 2007, as well as the comparative period from 1 April 2006 to 30 June 2006:

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Horizon Power and the revenue can be reliably measured. It is valued at the fair value of the consideration received, or to be received, net of the amount of goods and services tax (GST). The following specific recognition criteria must also be met before revenue is recognised:



Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Sale of electricity

Sale of electricity comprises revenue earned from the provision of electricity to entities outside Horizon Power and is recognised when the electricity is provided. As at each reporting date, sales and trade receivables incorporate amounts attributable to 'unread sales', which are an estimate of electricity delivered to customers that has not been billed at the reporting date.

Other revenue from ordinary activities

Other revenue comprises revenue earned from the provision of core activities of Horizon Power, i.e. the generation, transformation and sale of electricity. Other revenue includes:

- Account establishment fees
- Receipts from Government for community service obligations (CSOs)
- Developer and Customer Contributions
- Community service obligations
- External chargeable works

Revenue is recognised when the service is provided unless otherwise stated below.

Community service obligations

Community service obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of Horizon Power to perform. Where the Government agrees to reimburse Horizon Power for the cost of CSOs, the entitlement to reimbursement is recognised in the income statement on a basis consistent with the associated CSO expenses. Horizon Power recognises revenue in respect of the reimbursement of CSOs including:

- Air conditioning subsidy for seniors
- Caravan park rebates
- Supply charge rebates
- Tariff migration reimbursement
- Aboriginal and regional community services

Other income

Other income comprises revenue earned from the provision of activities incidental to the core activities of Horizon Power. Other income includes:

- Joint ventures
- Interest income
- Property rent
- Grant income (Tariff Equalisation Fund)

Developer and customer contributions

Horizon Power receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. Contributions can be in the form of either cash or assets and consist of:

- Work performed for developers – developers make cash contributions to Horizon Power for the construction of electricity infrastructure within a subdivision;
- Handover works – developers have the option to independently construct electricity infrastructure within a subdivision. Upon approval by Horizon Power of the completed work, these network assets are vested in Horizon Power; and
- Upgrade and new connections – customers (including generators) make cash contributions for the upgrade or extension of electricity infrastructure to existing lots, or for the construction of electricity infrastructure to new lots in existing areas.

Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Cash contributions received are recognised as revenue when the customers/developers are connected to the network in accordance with the terms of the contributions. Vested assets are recognised as revenue at the point of handover and are measured at their fair value. The network assets resulting from contributions received are recognised as property, plant and equipment and depreciated over their useful life.

Grant income

Government grants are assistance by the government in the form of transfers of resources to Horizon Power in return for past or future compliance with certain conditions relating to the operating activities of Horizon Power. Government grants include government assistance where there are no conditions specifically relating to the operating activities of Horizon Power other than the requirement to operate in certain regions or industry sectors.

Revenue is recognised in respect of grants when control of the resources or the right to receive the resources is obtained.

(b) Cost of Sales

Cost of sales are those costs attributable to the integrated manufacturing process involved in the generation and transformation of electricity into a saleable commodity. It includes costs associated with purchasing fuel and electricity as well as costs involved in operating and maintaining the transmission and distribution systems.

Fuel costs

Liquid fuels are assigned on the basis of weighted average cost. Gas costs comprise payments made under the sale and purchase agreement.

Electricity costs

Electricity purchased from independent generators is recognised at the contracted price on an accruals basis.

Transmission and distribution operating costs

Costs to operate and maintain the electricity transmission and distribution systems are recognised on an accruals basis.

(c) Borrowing costs

Borrowing costs are recognised in the income statement as an expense when incurred, except where they are included in the costs of qualifying assets as described in note 1(k). Borrowing costs are capitalised where they relate to the financing of significant projects under construction for more than one year up to the date of commissioning or sale. Borrowing costs are capitalised at the weighted average interest rate applicable to Horizon Power's outstanding borrowings during the period of capitalisation.

Borrowing costs may include:

- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- Amortisation of discounts or premiums relating to borrowings
- Discount rate adjustment for the movement in present value over time in connection with the contributory extension scheme payables and decommissioning costs
- Finance charges in respect of finance leases recognised
- Interest on bank overdrafts, short-term and long-term borrowings
- Guarantee fees on borrowings from the Western Australian Treasury Corporation (WATC)

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, deposits held at call with financial institutions and other short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.



Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

(e) Trade and other receivables

Trade receivables, which generally have 21-day terms for tariff customers and 14-day terms for contract customers, are recognised and carried at original invoice amount less a provision for any irrecoverable amounts. This provision is raised when collection of the full amount is no longer probable.

The impairment of trade receivables is reviewed on an ongoing basis with bad debts written off as they are identified.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost incurred in bringing inventories to their present location and condition is assigned on the following basis:

- Liquid fuels – weighed average cost basis
- Consumables – weighted average cost basis
- Rotational spares – refurbished cost basis

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

A provision to allow for the expected impairment in value of materials inventory, due to obsolescence and items being surplus to requirements, has been determined by periodic review.

(g) Intangible assets

Intangible assets acquired separately are capitalised at cost at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible asset.

Amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. For intangible assets with finite useful lives, an amortisation expense is recognised in the income statement over the useful lives of the assets.

Computer software assets have finite useful lives. Amortisation is calculated using the straight-line method. The useful lives of Horizon Power's computer software are 2.5 years.

Amortisation rates are reviewed annually and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

Disposal of assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

(h) Renewable Energy Certificates

The Renewable Energy (Electricity) Act that took effect on 1 April 2001 requires electricity wholesale purchasers to source specified amounts of electricity from renewable energy (RE) sources. The Act imposes an annual liability, on a calendar year basis, by applying the specified renewable power percentage to relevant wholesale acquisitions. The requirements of the Act are applicable until 31 December 2020. No certificates can be created and no liability arises, in respect of electricity generated after this date.

The RE liability is extinguished by annual surrender of an equivalent number of renewable energy certificates (RECs) with a penalty applying for any shortfall. Horizon Power's liability is recognised at a value equivalent to the agreed contract price with Verve Energy.

Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Horizon Power extinguishes its REC liability by the surrender of RECs that are either purchased in the open market or self produced. RECs purchased from external sources are recognised as current intangible assets at their purchase price. Self-produced RECs are not recognised in the financial statements until they are sold or surrendered.

(i) Interest in joint ventures

Joint ventures are a contractual arrangement in which Horizon Power and other parties undertake an economic activity subject to joint control. Joint control exists when no party is in a position to unilaterally control the economic activity.

Interest in joint venture operations

Where material, Horizon Power's interests in joint venture operations are accounted for in the financial statements by recognising Horizon Power's:

- Assets employed in the joint ventures
- Liabilities incurred in relation to the joint ventures
- Expenses incurred in relation to the joint ventures
- Share of income earned from the joint ventures

(j) Prepayments

Current and non-current prepayments include bond monies, insurance, worker's compensation and other payments. Prepaid expenses are recognised in the income statement in the reporting period in which the associated benefit is consumed.

(k) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition.

Direct costs together with associated indirect costs in respect of assets being constructed are capitalised.

Decommissioning costs

Upon recognition of an item of property, plant and equipment, the cost of the item includes the anticipated costs of dismantling and removing the asset and restoring the site on which it is located, discounted to their present value as at the relevant date of acquisition.

Capitalisation of borrowing costs

Borrowing costs are capitalised during the construction of major capital projects that have construction periods extending beyond one year. Capitalised borrowing costs are broadly determined as the amount of borrowing costs that would have been avoided but for the construction of the asset.

Depreciation

Discrete assets that are not subject to continual extension and modification are depreciated using the straight-line method. Such assets include power stations, the transmission network and buildings.

Other assets, primarily the electricity distribution network, that are continually extended and modified are depreciated using the reducing balance method. Land is not depreciated.



Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

The useful lives of Horizon Power's major property, plant and equipment classes are as follows:

- Buildings – 40 years
- Plant and equipment – 10 to 50 years
- Equipment under finance leases – based on term of contract, which typically ranges between 10 to 20 years
- Construction in progress – no depreciation

Depreciation rates are reviewed annually and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

Disposal of assets

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from derecognition of an asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the income statement when the asset is derecognised.

(l) Impairment of assets

At each reporting date Horizon Power assesses whether there is any indication that an asset may be impaired, that is, where events or changes in circumstances indicate the carrying value may not be recoverable. Where an indicator of impairment exists, Horizon Power makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets of groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows and where Horizon Power would, if deprived of the asset, replace its remaining future economic benefits, the value in use is the depreciated replacement cost.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to Horizon Power prior to the end of the reporting period that are unpaid. The amounts are unsecured and are settled within prescribed periods.

(n) Interest-bearing liabilities

All interest-bearing liabilities are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition interest-bearing liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Any difference between the cost and the redemption amount is recognised in the income statement over the period of the interest bearing liabilities using the effective interest method.

(o) Leases

Finance leases that transfer to Horizon Power substantially all the risks and benefits incidental to ownership of the leased item are brought to account by recognising an asset and liability at the inception of the lease equal to the fair value of the leased item or, if lower, the present value of the minimum lease payments.

Lease payments are apportioned between borrowing costs in the income statement and reduction of the lease liability in the balance sheet so as to achieve a constant rate of interest on the remaining balance of the liability.

Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Horizon Power has recognised finance leases implicit in existing electricity purchase agreements in accordance with UIG Interpretation 4 'Determining whether an Arrangement contains a Lease' and AASB 117 'Leases'. Horizon Power does not have any other finance leases as at 30 June 2007.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Horizon Power's operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in the income statement in the reporting periods in which they are incurred.

(p) National Taxation Equivalent Regime

The calculation of the liability in respect of Horizon Power's taxes is governed by the Income Tax Administration Acts and the National Taxation Equivalent Regime (NTER) guidelines as agreed by the Western Australian State Government.

Income tax on the profit or loss for the reporting period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the reporting period using tax rates enacted or substantially enacted at the reporting date and any adjustment to tax payable in respect of previous periods. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised in respect of tax losses only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities that are recoverable from, or payable to, the taxation authority is classified as an operating cash flow.

(r) Provisions

Provisions are recognised when:

- Horizon Power has a present obligation (legal or constructive) as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the amount of the obligation.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are appropriately authorised by the Board and no longer at the discretion of Horizon Power, but which are not yet distributed.



Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include annual leave and long service leave.

Liabilities arising in respect of annual leave, unconditional long service leave and any other employee benefits due within twelve months from the reporting date are measured at their nominal amount based on remuneration rates that are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield at the reporting date on selected Commonwealth Government securities, which have terms to maturity approximating the terms of the related liability, are used.

A provision for the on-costs attributable to annual leave and unconditional long service leave benefits is recognised in other provisions, not as employee benefits.

Decommissioning costs

Provision is made for the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation arises. The nature of decommissioning activities includes the removal of generating facilities and restoration of affected areas, including the treatment of contaminated sites.

Typically, the obligation arises when the asset is installed at the location. When the provision is initially recognised, the estimated cost is capitalised by increasing the carrying amount of the related generating facility. Over time, the provision is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within borrowing costs. The carrying amount capitalised in generating assets is depreciated over the useful life of the related assets (refer note 1(k)).

Costs incurred that relate to an existing condition caused by past operations and do not have a future economic benefit, are expensed.

Other provisions

Provision is made for current and non-current sundry obligations of Horizon Power.

(s) Retirement benefit obligations

All employees of Horizon Power are entitled to benefits upon retirement, disablement or death from one of many superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

The defined contribution section, being the Superannuation Trust of Australia and other employee nominated funds, receive fixed contributions and Horizon Power's legal and constructive obligation is limited to these contributions.

The defined benefit sections provide either a pension or lump sum benefit based upon years of service and final salary, averaged over a number of years in accordance with the relevant governing rules. Each of the defined benefit sections, being the Pension Scheme and the Gold State Superannuation Scheme, is closed to new members.

The Pension Scheme and Gold State Superannuation Scheme are State plans.

In the case of the Superannuation Trust of Australia, the defined benefit section is immaterial in terms of the number of members and employer contributions. As the substance of the superannuation plan is primarily a defined contribution plan and the separate treatment of the defined benefit section is not expected to add any material information to the users of the financial report, the entire Superannuation Trust of Australia has been treated as a defined contribution plan.

Defined contribution superannuation plans

Obligations for contributions to defined contribution plans are recognised in the income statement as incurred.

Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Defined benefit superannuation plans

A provision in respect of the defined benefit superannuation plans is recognised in the balance sheet and is measured at the present value of the defined benefit obligations, based upon services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cash flows consistent with the projected unit credit method. Consideration is given to the expected future wages and salaries level, experience of employee departures and periods of service.

Expected future payments are discounted using the market yield, as at the reporting date, on selected Commonwealth Government securities with terms to maturity approximating the terms of the related liability.

The defined benefits of the Pension Scheme are wholly unfunded. Horizon Power meets the cost of these benefits when the employee leaves the service of Horizon Power.

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in the income statement.

Retirement benefit obligations are paid as an untaxed amount to the employee and therefore no provision is required to be made for future taxes in measuring the net asset or liability relating to retirement benefit obligations.

The balance of the retirement benefit obligations provision is actuarially reviewed annually. Mercer Human Resource Consulting performed an actuary review as at 30 June 2006 that confirmed Horizon Power's 05/06 provision for retirement benefit obligations was adequate. A provision has been raised for the period 1 July 2006 to 30 June 2007 to allow for actuarial adjustments and present value adjustments during this period, with any adjustment to this provision to be made when the next actuary review has been made, which is planned for December 2007.

(t) Contingent liabilities and contingent assets

Horizon Power's policy is to disclose details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote, as well as details of contingent liabilities and contingent assets, which although considered remote, Horizon Power considers should be disclosed.

(u) Foreign currency translation

The functional and presentation currency of Horizon Power is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All currency translation differences in the financial statements are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

(v) Derivative financial instruments

Through its operations, Horizon Power is exposed to changes in interest rates, foreign exchange rates and commodity prices. These risks may be managed with the prudent use of derivative financial instruments such as commodity swaps and forward foreign exchange contracts. Horizon Power only uses derivatives in liquid markets and all hedge activities are conducted within Horizon Power's Board approved policy. Comprehensive systems are in place and compliance is monitored closely. Horizon Power uses derivatives solely for hedging and not for speculative purposes.



Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to fair value. The fair value of forward foreign exchange contracts and commodity price (oil) hedging contracts is obtained from an external financial risk adviser. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument. Derivative financial instruments that are not designated as hedging instruments are recognised at fair value, and any adjustments to fair value is recognised in the income statement.

Hedge accounting is applied to derivative financial instruments that are designated as hedging instruments. Horizon Power designates such derivatives as either:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or recognised liability; or
- Cash flow hedges when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or recognised liability or a forecasted transaction.

Horizon Power documents at the inception of the transaction the relationship between hedging instruments and hedge items, as well as its risk management objective and strategy for undertaking various hedge transactions. Horizon Power also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 8.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or hedged liability that are attributable to the hedged risk. There is no impact on the equity reserves.

Horizon Power has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges.

Cash flow hedges

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gains or losses relating to the ineffective portion are recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the period when the forecast purchase that is hedged takes place. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (i.e. qualifying assets) or non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the acquisition cost or carrying amount of the asset or liability.

When a hedging instrument expires, is sold, is terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the net cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Horizon Power has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges.

Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting, any changes in fair value are recognised immediately in the income statement.

Embedded derivatives

Derivatives embedded in contracts that change the nature of the host contract's risk are separately recorded at fair value with movements recorded in the income statement.

At 30 June 2007, Horizon Power did not have any derivatives embedded in contracts.

Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

(w) De-recognition of financial instruments

The de-recognition of a financial instrument takes place when Horizon Power no longer controls the contractual rights that comprise the financial instrument. This is normally when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(x) Accounting standards issued during financial period

The following Australian Accounting Standards have recently been issued or amended and will be effective during the 2007/08 financial year:

<i>Affected Accounting Standards</i>	<i>Application date of standard (reporting period commences on or after)</i>	<i>Nature of change to Accounting Policy</i>
AASB 116: Property Plant & Equipment	1 July 2007	Carrying value may be reduced as allowed under AASB120
AASB 107: Cashflow Statements	1 July 2007	Changes to allow reporting of cashflow activities by either direct or indirect method. Horizon Power accounting policy is to use Direct Method.
AASB 112: Income Taxes	1 July 2007	New options for tax expense disclosures
AASB 119: Employee Benefits	1 July 2007	New direction on calculation and disclosure of outstanding contributions to a defined contribution plan
AASB 120: Accounting for Government Grants & Disclosure of Govt. Assistance	1 July 2007	Grants related to income shall be either disclosed as income, or deducted from the relevant expense
UIG 4: Determining whether an Arrangement Contains a Lease	1 January 2008	Supersedes Feb 2005 version, but does not mandate any changes to existing policy
AASB 132: Financial Instruments: Presentation	1 July 2007	Minor changes and no impact on accounting policy
AASB 128 – Investments in Associates	1 July 2007	Financial Statement in which the equity method is applied are not separate financial statements
AASB 131: Interest in Joint Ventures	1 July 2007	A venturer's interest in a joint venture may be recorded either on proportional consolidation or using the equity method
AASB 134: Interim Financial Reporting	1 July 2007	Interim Financial Statements should be prepared on consolidated basis if consistent with prior year financial statements
AASB 121: Effects of Changes in Foreign Exchange Rates	1 July 2007	Minor changes and no impact on accounting policy
AASB 138: Intangible Assets	1 July 2007	Government grants in the form of intangible assets may be measured at fair value or nominal value plus expenses incurred to put asset to work



Notes to the Financial Report

For the year ended 30 June 2007

1. SUMMARY OF ACCOUNTING POLICIES CONTINUED

The following amendments are not applicable to Horizon Power and therefore have no impact:

Affected Standards

- AASB 1: First-time Adoption of Australian Equivalents to IFRS
- AASB 2: Share Based Payments
- AASB 3: Business Combinations
- AASB 4: Insurance Contracts
- AASB 5: Non-current Assets Held for Sale & Discontinued Operations
- AASB 6: Exploration For and Evaluation of Mineral
- AASB 7: Financial Instrument Disclosures
- AASB 8: Operating Segments
- AASB 102: Inventories
- AASB 108: Accounting Policies, Changes in Accounting Estimates & Errors
- AASB 10: Events After Balance Sheet Date
- AASB 114: Segment Reporting
- AASB 117: Leases
- AASB 118: Revenue
- AASB 127: Consolidated and Separate Financial Statements
- AASB 129: Financial Reporting in Hyperinflationary Economies
- AASB 130: Disclosures in Financial Statements of Banks & Other Financial Institutions
- AASB 133: Earnings per Share
- AASB 136: Impairment of Assets
- AASB 137: Provisions, Contingent Liabilities and Contingent Assets
- AASB 141: Agriculture
- AASB 1023: General Insurance Contracts
- AASB 1038: Life Insurance Contracts

Notes to the Financial Report

For the year ended 30 June 2007

	<i>Year ended 30 June 2007</i>	<i>Quarter ended 30 June 2006</i>
	<i>\$'000</i>	<i>\$'000</i>
2. PROFIT/(LOSS) FROM OPERATIONS		
(a) Revenue from ordinary activities		
Revenue from ordinary activities consisted of the following items:		
Sale of electricity	109,520	22,449
Other revenue from ordinary activities:		
Developer and customer contributions (i)	21,147	2,815
Account establishment fees	779	215
Community service obligation revenue	12,716	3,205
External chargeable works	614	230
Other revenue	293	175
Total revenue from ordinary activities	145,069	29,089
(b) Cost of sales		
Cost of sales consisted of the following items:		
Fuel purchases	59,269	17,460
Electricity purchases	46,679	9,232
Labour, materials and services	37,679	8,073
Total cost of sales	143,627	34,765
(c) Other income		
Other income consisted of the following items:		
Derivative financial gains realised	381	1,462
Interest	1,393	248
Joint ventures	1,398	662
Property rent	340	71
Change in fair value of derivatives	–	501
Tariff Equalisation Fund revenue	69,706	–
Gain on disposal of property	1,174	–
Other income	9	330
Total other income	74,401	3,274

- (i) Developer and customer contributions recognised are in respect of electricity network assets vested to Horizon Power or constructed using cash contributions. As at 30 June 2007, cash contributions of \$5,208 thousand have also been recognised as deferred income in the balance sheet (Note 16) and will be recognised as revenue in future reporting periods when the customers/developers are connected to the network in accordance with the terms of the contributions. Horizon Power's developer and customer contributions accounting policy is disclosed in note 1(a).



Notes to the Financial Report

For the year ended 30 June 2007

	Year ended 30 June 2007	Quarter ended 30 June 2006
	\$'000	\$'000
2. PROFIT/(LOSS) FROM OPERATIONS CONTINUED		
(d) Other expenses		
Other expenses consisted of the following items:		
Labour, materials and services	16,961	3,634
Depreciation and amortisation	17,698	4,104
Operating lease costs	3,071	609
Bad debts:		
Recovered	(2)	(17)
Increase/(decrease) in provision for impairment of trade debts	82	(15)
Foreign exchange losses/(gains)	–	18
Change in fair value of derivatives	4,734	–
Insurance	434	241
Joint venture operations	1,584	800
Renewable energy certificates	208	59
Service Arrangements with Western Power	5,000	1,030
Allowance for contaminated sites clean-up	2,664	–
Other expenses	1,774	605
Total other expenses	54,208	11,068
(e) Borrowing costs		
Borrowing costs consisted of the following items:		
Finance lease interest	6,368	1,464
Interest on long term debt	8,207	2,344
Other borrowing costs	330	61
Total borrowing costs	14,905	3,869
(f) Profit/(loss) before income tax expense/benefit		
Profit/(loss) before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to ordinary activities:		
Employee benefit expense:		
Defined benefit plans	501	(1)
Salary, wages and other employee benefits (i)	21,833	5,299

(i) Year ended 30 June 2007 includes provision for redundancy of \$1,142 thousand.

Notes to the Financial Report

For the year ended 30 June 2007

	<i>Year ended 30 June 2007</i>	<i>Quarter ended 30 June 2006</i>
	<i>\$'000</i>	<i>\$'000</i>
3. REMUNERATION OF AUDITORS		
Auditing the financial report	82	76
Total remuneration of auditors	82	76
Horizon Power is audited by the Office of the Auditor General.		
4. CAPITALISED BORROWING COSTS		
No borrowing costs were capitalised during the reporting period.		
The cost of debt for outstanding financial liabilities are listed in Note 22, which are expensed as they are incurred.		
5. INCOME TAX		
(a) Income tax benefit/(expense)		
Income tax benefit/(expense) comprises:		
Current income tax benefit/(expense)	(6,296)	5,816
Deferred tax expense relating to the origination and reversal of temporary differences	4,390	(556)
Prior year adjustment to deferred tax expense/(income) relating to origination and reversal of temporary differences	(10)	–
Total income tax benefit/(expense)	(1,916)	5,260
The prima facie income tax benefit/(expense) on pre-tax accounting profit/(loss) from operations reconciles to the income tax benefit/(expense) in the financial statements as follows:		
Total Profit/(loss) from operations	6,730	(17,339)
Income tax benefit/(expense) calculated at 30%	(2,019)	5,202
Tax effect of non-assessable/deductible differences:		
Non-assessable developer customer contribution income	146	–
Non-deductible change in fair value of derivatives	–	65
Other differences	(33)	(7)
Net deferred tax assets (note 5(c))	(1,906)	5,260
Prior year adjustment	(10)	–
Total income tax benefit/(expense)	(1,916)	5,260



Notes to the Financial Report

For the year ended 30 June 2007

5. INCOME TAX CONTINUED

(b) Income tax recognised directly in equity

No deferred amounts were recognised directly in equity during the reporting period.

(c) Deferred tax assets and liabilities

	Opening balance	Tax return adjs	Charged to income	Acquisitions/ disposals	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Year Ended 30 June 2007					
Gross deferred tax assets:					
Tax losses – revenue (i)	5,816	(264)	(5,552)	–	–
Property, plant and equipment	8,300	224	73	–	8,597
Provisions	3,992	99	1,298	32	5,421
Community service obligation (CSO)	–	–	812	–	812
Accruals	–	–	25	–	25
Fringe benefit tax	2	–	18	–	20
Prepaid expenses	–	–	3	–	3
Workers compensation premium	–	–	11	–	11
Power purchase agreements – leases	26,521	–	8,909	–	35,430
	44,631	59	5,597	32	50,319
Gross deferred tax liabilities:					
Contributory Extension Scheme	(310)	(8)	8	–	(310)
Accruals	–	(64)	–	–	(64)
Prepaid expenses	(3)	3	–	–	–
Derivatives	(1,321)	–	1,321	–	–
Community service obligation (CSO)	(174)	–	174	–	–
Finance leased assets	(24,952)	–	(8,261)	–	(33,213)
	(26,760)	(69)	(6,758)	–	(33,587)
Net deferred tax assets	17,871	(10)	(1,161)	32	16,732

Notes to the Financial Report

For the year ended 30 June 2007

5. INCOME TAX CONTINUED

(c) *Deferred tax assets and liabilities (continued)*

	Opening balance	Tax return adjs	Charged to income	Acquisitions/ disposals	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000
Quarter Ended 30 June 2006					
Gross deferred tax assets:					
Tax losses – revenue (i)	–	–	5,816	–	5,816
Property, plant and equipment	8,428	–	(128)	–	8,300
Provisions	4,298	–	(306)	–	3,992
Community service obligation (CSO)	23	–	(23)	–	–
Fringe benefit tax	–	–	2	–	2
Power purchase agreements – leases	26,838	–	(317)	–	26,521
	39,587	–	5,044	–	44,631
Gross deferred tax liabilities:					
Contributory extension scheme	(445)	–	135	–	(310)
Prepaid expenses	(4)	–	1	–	(3)
Derivatives	(1,105)	–	(216)	–	(1,321)
Community service obligation (CSO)	–	–	(174)	–	(174)
Finance leased assets	(25,422)	–	470	–	(24,952)
	(26,976)	–	216	–	(26,760)
Net deferred tax assets	12,611	–	5,260	–	17,871

(i) Tax losses carried forward as at 30 June 2006 have been utilised during the year as a result of result of tax payable (\$6,296 thousand) being greater than the tax loss carried forward (\$5,552 thousand).

Unrecognised deferred tax balances:

As at 30 June 2007 there were no deferred tax amounts that had not been brought to account.



Notes to the Financial Report

For the year ended 30 June 2007

	30 June 2007	30 June 2006
	\$'000	\$'000
6. TRADE AND OTHER RECEIVABLES		
Trade receivables (i)	16,605	13,737
Provision for Impairment	(374)	(292)
Net trade receivables	16,231	13,445
Community service obligations rebates	–	578
Goods and services tax (GST) recoverable	641	502
Other Receivables (ii)	133	1,075
Total trade and other receivables	17,005	15,600
(i) The credit period on sales of goods is 14 to 21 days. No interest is charged on current trade receivables. An allowance has been made for estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience. The movement in the allowance of \$82 thousand was recognised in the income statement for the current reporting period;		
(ii) Other receivables at 30 June 2006 relates to a tax refund for \$1,075 thousand, which was received in June 2007, but related to the June 2006 financial year.		
7. INVENTORIES		
Fuel	973	2,112
Materials	3,289	2,351
Rotational spares	909	968
Total Inventories	5,171	5,431
8. DERIVATIVE FINANCIAL INSTRUMENTS		
<i>Derivative assets</i>		
Current:		
Commodity swaps	–	4,403
Total current derivative assets	–	4,403

Horizon Power did not have any non-current derivative assets as at 30 June 2007.

Notes to the Financial Report

For the year ended 30 June 2007

	30 June 2007	30 June 2006
	\$'000	\$'000
g. OTHER ASSETS		
Prepayments	245	466
Other	100	–
Total other assets	345	466
10. INTANGIBLE ASSETS		
<i>Computer software</i>		
Gross carrying amount:		
Opening balance	389	47
Additions	–	342
Closing balance	389	389
Accumulated amortisation and impairment:		
Opening balance	–	–
Amortisation expense (ii)	(155)	–
Closing balance	(155)	–
Net book value:		
Opening balance	389	47
Closing balance (i)	234	389

(i) As at the reporting date no intangible assets were assessed to have indefinite useful lives.

(ii) The software was commissioned in July 2006 and is deemed to have a useful life of 2½ years (40% amortisation rate).



Notes to the Financial Report

For the year ended 30 June 2007

11. PROPERTY, PLANT AND EQUIPMENT

30 June 2007

Gross carrying amount:

	Freehold land at cost	Buildings at cost	Plant and equipment at cost (ii)	Equipment under finance lease at cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2006	4,242	10,151	202,630	84,740	301,763
Additions (i)	3	–	56,977	34,494	91,474
Disposals	(3)	–	–	–	(3)
Total at 30 June 2007	4,242	10,151	259,607	119,234	393,234

Accumulated depreciation & impairment:

Balance at 1 July 2006	–	(145)	(2,393)	(1,566)	(4,104)
Disposals	–	–	–	–	–
Depreciation expense	–	(743)	(9,843)	(6,957)	(17,543)
Total at 30 June 2007	–	(888)	(12,236)	(8,523)	(21,647)

Net book value:

As at 30 June 2007	4,242	9,263	247,371	110,711	371,587
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30 June 2006

Gross carrying amount:

Balance at 1 April 2006	4,224	10,151	195,996	84,740	295,111
Additions	18	–	6,634	–	6,652
Disposals	–	–	–	–	–
Total at 30 June 2006	4,242	10,151	202,630	84,740	301,763

Accumulated depreciation and impairment:

Balance at 1 April 2006	–	–	–	–	–
Disposals	–	–	–	–	–
Depreciation expense	–	(145)	(2,393)	(1,566)	(4,104)
Total at 30 June 2006	–	(145)	(2,393)	(1,566)	(4,104)

Net book value:

As at 1 April 2006	4,224	10,151	195,996	84,740	295,111
As at 30 June 2006	4,242	10,006	200,237	83,174	297,659

(i) The increase in leased assets is due to the recognition of 2 new power stations under the power purchase agreements.

Notes to the Financial Report

For the year ended 30 June 2007

	30 June 2007 \$'000	30 June 2006 \$'000
11. PROPERTY, PLANT AND EQUIPMENT CONTINUED		
(ii) Expenditure recognised in plant and equipment in the course of construction.	54,084	25,120
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets, during the year:		
Buildings	743	145
Plant and equipment	9,843	2,393
Equipment under finance lease	6,957	1,566
Total depreciation allocated	17,543	4,104
12. TRADE AND OTHER PAYABLES		
<i>(a) Current trade and other payables</i>		
Trade payables (i)	28,017	22,187
Payroll liabilities	104	71
Contributory extension scheme payables (ii)	116	251
Total current trade and other payables	28,237	22,509
(i) Trade payables are non-interest bearing and are generally settled on 30-day terms. Other payables (excluding contributory extension scheme payables) are non-interest bearing and generally have settlement terms between 14 and 30 days.		
(ii) Contributory extension scheme (CES) payables represent contributions received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes. By 2022 when the scheme finishes, all scheme members will have their contributions refunded. CES payables are non-interest bearing and have an average term of 80 months.		
<i>(b) Non-current trade and other payables</i>		
Contributory extension scheme payables	1,515	1,608
Total non-current trade and other payables	1,515	1,608



Notes to the Financial Report

For the year ended 30 June 2007

	30 June 2007	30 June 2006
	\$'000	\$'000
13. INTEREST-BEARING LIABILITIES		
(a) Current interest-bearing liabilities		
At amortised cost:		
Loans (i)	38,410	34,058
Finance lease liabilities (Note 18(a))	5,949	4,378
Total current interest-bearing liabilities	44,359	38,436
(i) The domestic currency loans are ultimately secured by government guarantee. They are governed by a facility agreement that provides Horizon Power with the full discretion to refinance all or any part of maturing debt. For domestic currency loans maturing over the next twelve months, it is the intention to refinance all maturing debt under this facility agreement. At 30 June 2007 the carrying value of the domestic currency loans is considered a reasonable approximation of their fair value.		
(b) Non-current interest-bearing liabilities		
At amortised cost:		
Loans (i)	94,070	78,881
Finance lease liabilities (Note 18(a))	112,151	84,027
Total non-current interest-bearing liabilities	206,221	162,908
(i) At 30 June 2007 the amortised cost of the domestic currency loans is considered a reasonable approximation of their fair value.		
14. PROVISIONS		
(a) Current provisions		
Annual leave	2,344	2,020
Long service leave	1,352	1,551
Other employee entitlements	1,142	229
Decommissioning	2,767	3,814
Total current provisions	7,605	7,614
(b) Non-current provisions		
Long service leave	1,732	1,030
Superannuation (Note 15)	1,399	898
Decommissioning	8,605	3,361
Total non-current provisions	11,736	5,289

Notes to the Financial Report

For the year ended 30 June 2007

	Annual leave	Long service leave	Other employee entitlement	Super- annuation	Decommis- sioning
	\$'000	\$'000	\$'000	\$'000	\$'000
14. PROVISIONS CONTINUED					
30 June 2007					
Balance at 1 July 2006	2,020	2,581	229	898	7,175
Additional provisions recognised	1,743	702 ⁽ⁱⁱ⁾	1,142 ⁽ⁱ⁾	501	4,518 ⁽ⁱⁱⁱ⁾
Reductions arising from payments/other sacrifices of future economic benefits	(1,419)	(199)	(229)		(656)
Reductions resulting from re-measurement or settlement without cost	–	–	–	–	–
Unwinding of discount and effect of changes in the discount rate	–				335
Balance at 30 June 2007	2,344	3,084	1,142	1,399	11,372
30 June 2006					
Balance at 1 April 2006	2,097	2,522	267	899	8,233
Additional provisions recognised	163	149	–	–	–
Reductions arising from payments/other sacrifices of future economic benefits	(240)	(90)	(38)	(1)	(105)
Reductions resulting from re-measurement or settlement without cost	–	–	–	–	(1,002)
Unwinding of discount and effect of changes in the discount rate	–	–	–	–	49
Balance at 30 June 2006	2,020	2,581	229	898	7,175

- i. Additional provisions recognised for other employee entitlements refers to an increase for agreed employee redundancies after company decision to pursue power purchase agreements for new power stations.
- ii. Additional provision recognised for long service leave include an amount of \$262 thousand for on-costs applying the short hand method as in accounting standard AASB119.
- iii. The increase in decommissioning cost provision is a result of a review of decommissioning costs being undertaken, with an emphasis on providing for clean-up costs associated with contaminated sites, which was not provided for at 30 June 2006.



Notes to the Financial Report

For the year ended 30 June 2007

	30 June 2007	30 June 2006
	\$'000	\$'000
15. RETIREMENT BENEFIT OBLIGATIONS		
Retirement benefit obligations recognised in the balance sheet:		
Present value of unfunded obligations (i)	1,399	898
Fair value of plan assets	–	–
Total amounts recognised in the balance sheet	1,399	898
Reconciliation of movement in the present value of the unfunded obligations recognised in the balance sheet:		
Opening balance	898	899
Members transferred in (ii)	160	
Interest cost	–	9
Actuarial losses on liabilities	–	(17)
Other adjustments	341	7
Closing balance of retirement benefit obligations	1,399	898
Retirement benefit obligations recognised in the income statement:		
Members transferred in	160	–
Interest cost	–	9
Actuarial losses recognised	–	(17)
Other adjustments	341	7
Total amounts recognised in the income statement	501	(1)
Historic summary of retirement benefit obligations:		
Defined benefit plan obligation	1,398	898
Total	1,398	898
Experience adjustments arising on plan liabilities	7	7
Principal actuarial assumptions used:		
Discount rate	5.81%	5.81%
Expected future salary increases	4.50%	4.50%
Expected future pension increases	2.50%	2.50%

(i) The present value of the retirement benefit obligations liability was assessed by Price Waterhouse Coopers at 30 June 2006 as required under AASB119. For the period 1 July 2006 to 30 June 2007, a provision has been raised to recognise the increase in value of this liability over this period, however no actuarial assessment of this liability was undertaken at 30 June 2007.

(ii) At 30 June 2006, a member of the gold state superannuation scheme was not accounted for, thereby requiring the need to recognise this liability as at 30 June 2007.

Expected contributions

Employer contributions are made to meet the cost of the retirement benefit obligations as they fall due. For more details regarding the policy in respect of provision for retirement benefit obligations refer to Note 1 (s).

Notes to the Financial Report

For the year ended 30 June 2007

	30 June 2007	30 June 2006
	\$'000	\$'000
16. OTHER LIABILITIES		
Current other liabilities		
Deferred developer and customer contributions	5,208	3,169
Total current other liabilities	5,208	3,169
17. COMMITMENTS FOR EXPENDITURE		
(a) Capital expenditure commitments (ii)		
Plant and equipment (i)		
No longer than 1 year	24,595	10,980
Longer than 1 year and no longer than 5 years	29,240	870
Longer than 5 years	–	–
Total expenditure for plant and equipment	53,835	11,850

(i) At 30 June 2007 capital expenditure commitments principally related to the Kimberley Regional Office (\$1M), Southern Regional Centre (\$2.6M), network enhancement projects (\$23.5M), the Aboriginal and Remote Communities Project (\$5.1M), Coral Bay Power Project (\$4.2M), Town Regularisation Reserve Project (\$1M) and Esperance network upgrade (\$10M).

(ii) The amounts reported in this Note are based on budgeted capital expenditure for projects less actual expenditure incurred against capital projects.

(c) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 18 to the financial statements.

(d) Other expenditure commitments

Horizon Power did not have any other expenditure commitments extending over one year as at 30 June 2007.



Notes to the Financial Report

For the year ended 30 June 2007

18. LEASES

(a) Finance leases

Leasing arrangements

Finance leases relate to leases implicit in electricity purchase agreements identified in accordance with UIG Interpretation 4. Horizon Power has options to purchase the leased assets only in the event of unremedied default by the contract counterparty.

	Minimum future lease payments		Present value of minimum future lease payments	
	30 June 2007 \$'000	30 June 2006 \$'000	30 June 2007 \$'000	30 June 2006 \$'000
Finance lease liabilities				
No later than 1 year	13,342	10,076	5,949	4,378
Later than 1 year, no later than 5 years	52,455	39,800	26,996	20,218
Later than five years	116,169	87,778	85,155	63,809
Minimum lease payments (i)	181,966	137,654		
Less future finance charges	(63,856)	(49,249)		
Present value of minimum finance lease payments	118,110	88,405	118,100	88,405
Included in the financial statements as:				
Current lease liabilities			5,949	4,378
Non-current lease liabilities			112,151	84,027
			118,100	88,405

(i) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

(b) Operating leases

Leasing Arrangements

Horizon Power has recognised an operating lease over the Onslow Power Station in accordance with UIG Interpretation 4. The lease rental is paid monthly in arrears.

The lease rental comprises a base value per unit of capacity plus an escalation factor equal to the average Australian consumer price index (per annum). The lease term is 7 years and is not terminable except in circumstances of unremedied default.

Horizon Power has also recognised operating leases over wind farms at Esperance, Hopetoun and Denham in accordance with UIG Interpretation 4. Lease rentals are paid per unit of electricity supplied plus an escalation factor equal to the average Australian consumer price index (per annum). The lease term is 10 to 18 years and is not terminable except in circumstances of unremedied default. However, there is no minimum lease payment specified for these leases. Lease payments for energy received from these wind farms is typically \$993 thousand per annum.

	30 June 2007 \$'000	30 June 2006 \$'000
Non-cancellable operating lease payments		
No longer than 1 year	1,064	1,064
Longer than 1 year and no longer than 5 years	4,254	5,318
Longer than 5 years	2,570	2,570
Total non-cancellable operating lease payments	7,888	8,952

Notes to the Financial Report

For the year ended 30 June 2007

19. KEY MANAGEMENT PERSONNEL REMUNERATION

The Non-executive Directors of Horizon Power during the period were:

- B Hammond – Chairman
- A Dundas – Deputy Chairman
- P Yu – Director
- S Bradley – Director
- T Chilvers – Director

The other key management personnel of Horizon Power during the period were:

- R Hayes – Managing Director
- T Cocks – General Manager Finance & Corporate Services
- M Laughton-Smith – General Manager Generation & Technical Services
- D McDonald – General Manager Retail
- D Martin – General Manager Public Affairs
- F Tudor – General Manager Commercial & Strategy
- Z Wilk – General Manager Network Customer Services
- P Feldhusen – General Manager Governance and Legal Services

(a) Key management personnel remuneration

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

- Non-executive Directors: the Minister for Energy (the Minister) approves the remuneration of all non-executive directors.
- Managing Director: the Board, subject to the concurrence of the Minister, approves the remuneration of the Managing Director (also referred to as the Chief Executive Officer).
- Executive Officers: the Board, on recommendation of the Managing Director, approves the remuneration of all Executive Officers.

The compensation policy is to:

- Provide market competitive remuneration to employees having regard to both the level of work assigned and the personal effectiveness in its performance;
- Allocate remuneration to employees on the basis of merit and performance;
- Adopt performance measures that align the interests of employees with the interests of key stakeholders; and
- Adopt a remuneration structure that provides an appropriate balance in 'risk and reward sharing' between the employee and Horizon Power.

Non-executive Directors

Payment to Non-executive Directors consists of base remuneration and superannuation.



Notes to the Financial Report

For the year ended 30 June 2007

19. KEY MANAGEMENT PERSONNEL REMUNERATION CONTINUED

Managing Director and Executives

The Managing Director and Executives compensation framework is based upon total target remuneration that includes:

1. Total fixed remuneration structured with:
 - Cash
 - Selection of prescribed non-financial benefits
 - Superannuation
 - Cost of the fringe benefit tax
2. An annual at risk remuneration element.

In addition to total target remuneration, those Executives resident in remote locations are also provided housing benefits and location allowances.

Total fixed remuneration

The compensation framework is market competitive, performance based with flexibility for the package to be structured at the Executive's discretion upon a combination of cash, a selection of prescribed non-financial benefits, superannuation and cost of fringe benefits tax. External remuneration consultants provide analysis and advice to ensure remuneration is set to reflect the market for a comparable role. Remuneration for Executives is reviewed annually to ensure the level is market competitive. There are no guaranteed remuneration increases included in any executive contracts.

Non-financial benefits

Selection available: cost of novated or associated leasing of selected motor vehicle, electricity (to a maximum tax allowable figure), laptop computer, health check-up and the cost of fringe benefits tax. As stated above, housing benefits are also provided to Executives resident in remote locations.

Superannuation

Paid at not less than the amount that is required under the Superannuation Guarantee (Administration) Act 1992 (Cth), on the Executive's behalf to a superannuation fund that is a complying superannuation fund within the meaning of that Act.

Annual at risk remuneration (ARR) element

At the Board's discretion, as agreed by the Minister, the Managing Director and General Managers are eligible for incentive payments for achievement of specific performance targets covering Horizon Power's major measurable outcomes, in line with the Strategic Development Plan Balanced Scorecard of key performance indicators including:

- Contribution to the progression of major identified corporate projects and initiatives;
- Personal contribution through leadership and behaviour, focussing on alignment with Horizon Power's values; and
- Developing and enhancing Horizon Power's reputation and relationship management.

The first determination of ARR will be for the 15 month period ended on 30 June 2007, which will be performed within the first quarter of the 2007/08 financial year.

Notes to the Financial Report

For the year ended 30 June 2007

19. KEY MANAGEMENT PERSONNEL REMUNERATION CONTINUED

(b) Details of compensation

	Primary			Post-employment			Total
	Salary and fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	
	\$	\$	\$	\$	\$	\$	
Year Ended 30 June 2007							
Non-executive directors' remuneration							
B Hammond	94,337	—	663	8,550	—	—	103,550
A Dundas	59,337	—	663	5,400	—	—	65,400
P Yu	45,000	—	—	4,050	—	—	49,050
S Bradley	44,337	—	663	4,050	—	—	49,050
T Chilvers	45,000	—	—	4,050	—	—	49,050
Executives' remuneration							
R Hayes	326,906	—	87,663	32,157	—	—	446,726
T Cocks	134,954	—	40,097	22,651	—	—	197,702
P Feldhusen	160,922	—	12,187	18,297	—	—	191,406
M Laughton-Smith	172,154	—	10,704	20,348	—	—	203,206
D McDonald	163,253	—	85,331	17,224	—	—	265,808
D Martin	137,745	—	3,300	12,572	—	—	153,617
F Tudor	189,687	—	256	23,616	—	—	213,559
Z Wilk	166,383	—	81,075	20,225	—	—	267,683
Total	1,740,015	—	322,602	193,190	—	—	2,255,807

Quarter Ended 30 June 2006

Non-executive Directors' remuneration

B Hammond	39,308	—	166	3,552	—	—	43,026
A Dundas	14,847	—	166	1,350	—	—	16,363
P Yu	11,249	—	—	1,013	—	—	12,262
S Bradley	11,096	—	166	1,013	—	—	12,275
T Chilvers	11,249	—	—	1,013	—	—	12,262

Executives' remuneration

R Hayes	76,248	—	16,741	12,600	—	—	105,589
T Cocks	31,203	—	7,658	7,184	—	—	46,045
M Laughton-Smith	42,514	—	166	6,582	—	—	49,262
D McDonald	50,674	—	16,583	6,517	—	—	73,774
D Martin	30,436	—	500	3,177	—	—	34,113
F Tudor	44,996	—	—	4,049	—	—	49,045
Z Wilk	38,726	—	13,493	6,562	—	—	58,781

Total	402,546	—	55,639	54,612	—	—	512,797
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Notes to the Financial Report

For the year ended 30 June 2007

19. KEY MANAGEMENT PERSONNEL REMUNERATION CONTINUED

(c) Service Agreements

R Hayes – Managing Director

Term of Agreement – 2 years commencing from 30 January 2006.

Notice period – 26 weeks written notice by the Managing Director or 52 weeks written notice by Horizon Power, or such shorter period as may be agreed, or remuneration in lieu of notice.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 50% of annual salary.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the Managing Director is eligible for incentive payments up to 23% of total target remuneration (less \$60 thousand) for achievement of specific performance targets covering Horizon Power's major measurable outcomes.

T Cocks – General Manager Finance & Corporate Services

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 20% of total target remuneration for achievement of specific performance targets as defined by the Board.

P Feldhusen – General Manager Governance & Legal

Appointed – February 2007

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 20% of total target remuneration for achievement of specific performance targets as defined by the Board.

M Loughton-Smith – General Manager Generation & Technical Services

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 20% of total target remuneration for achievement of specific performance targets as defined by the Board.

Notes to the Financial Report

For the year ended 30 June 2007

19. KEY MANAGEMENT PERSONNEL REMUNERATION CONTINUED

D McDonald – General Manager Retail

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 52 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 20% of total target remuneration for achievement of specific performance targets as defined by the Board.

D Martin – General Manager Public Affairs

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 10% of total target remuneration for achievement of specific performance targets as defined by the Board.

F Tudor – General Manager Commercial & Strategy

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 52 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 20% of total target remuneration for achievement of specific performance targets as defined by the Board.

Z Wilk – General Manager Network Customer Services

Term of Agreement – Not a fixed term contract.

Notice period – 4 weeks written notice by the General Manager.

Termination – Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.

Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.

For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

Performance Pay – At the Board's discretion, with the concurrence of the Minister, the General Manager is eligible for incentive payments up to 20% of total target remuneration for achievement of specific performance targets as defined by the Board.



Notes to the Financial Report

For the year ended 30 June 2007

20. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities:

Horizon Power did not have any contingent liabilities as at 30 June 2007.

Contingent assets:

Horizon Power did not have any contingent assets as at 30 June 2007.

21. NOTES TO THE CASH FLOW STATEMENT

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, deposits held at call with financial institutions, other short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

(b) Financing facilities

Horizon Power has in place arrangements with WATC, the State Government's central borrowing authority. The total amount of the facility is \$200 million. However, the amount outstanding under the facility at any time shall not exceed any borrowing limits set by the Treasurer under Section 128 of the Electricity Corporations Act 2005. To date, the Treasurer has not set any limits that would reduce the amount of funding available under this facility. Horizon Power did not have any overdraft or secured loan facilities as at 30 June 2007.

	<i>30 June 2007</i>	<i>30 June 2006</i>
	<i>\$'000</i>	<i>\$'000</i>
The amounts outstanding at the balance date are:		
Amount used	132,480	112,939
Amount unused	67,520	87,061
Total WATC debt facility	200,000	200,000

Notes to the Financial Report

For the year ended 30 June 2007

	<i>Year ended 30 June 2007</i>	<i>Quarter ended 30 June 2006</i>
	<i>\$'000</i>	<i>\$'000</i>
21. NOTES TO THE CASH FLOW STATEMENT CONTINUED		
(c) Reconciliation of profit/(loss) for the year/period to net cash flows from operating activities		
Profit/(loss) for the year/period	4,814	(12,079)
Add/(less) items classified as investing /financing activities:		
Developer and customer contributions	(21,147)	(2,815)
Add/(less) non-cash items:		
Depreciation	10,586	2,538
Depreciation – leased assets	6,957	1,566
Amortisation – intangible assets	155	–
Gain/loss on sale of property	(1,174)	–
Change in assets and liabilities:		
Increase/(decrease) in receivables	(2,480)	1,921
Increase/(decrease) in prepayments	121	250
Increase/(decrease) in trade payables	5,956	6,742
Increase/(decrease) in inventories	260	(193)
Increase/(decrease) in other liabilities	(93)	(64)
Increase/(decrease) in employee provisions	1,038	(56)
Increase/(decrease) in other provisions	3,506	(1,059)
Increase/(decrease) in income tax liabilities	1,880	(5,260)
Increase/(decrease) in derivatives	4,403	(700)
Net cash inflow/(outflow) from operating activities	14,782	(9,209)



Notes to the Financial Report

For the year ended 30 June 2007

22. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

Horizon Power does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Horizon Power's treasury management policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The internal auditors on a regular basis review compliance with policies and exposure limits.

Horizon Power's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates, and commodity prices (gas/oil). Horizon Power enters into forward foreign exchange contracts to manage its exposure to foreign currency risk, and enters into Commodity Swap Contracts to manage its exposure to gas/oil prices. Horizon Power manages interest rate risk through its spread of debt maturities.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(c) Foreign currency risk management

Horizon Power undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Forward foreign exchange contracts

It is the policy of Horizon Power to enter into forward foreign exchange contracts to cover significant foreign currency payments and receipts. As at 30 June 2007, however, no forward foreign currency contracts were outstanding.

(d) Commodity price risk management

Price risk represents the extent to which movements in commodity prices will cause Horizon Power financial loss. Horizon Power is exposed to commodity price risk for distillate fuel (GasOil).

GasOil

Horizon Power is exposed to fluctuations in the GasOil price through the purchase of fuel for its diesel power stations. Although diesel fuel payments are made in Australian dollars, the relevant wholesale market for GasOil is denominated in US dollars and as such, there is an indirect exposure to the AUD/USD exchange rate.

This exposure is managed by the use of AUD denominated GasOil commodity swaps to hedge against increases in wholesale crude oil prices and falls in the AUD/USD exchange rate. At 30 June 2007 there were no GasOil commodity swap contracts in place.

The notional quantity of barrels and maturity dates for the commodity hedge contract as at 30 June 2007 are as follows:

	Less than 3 months	3 to 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000
GasOil Commodity Swap				
30 June 2007	–	–	–	–
30 June 2006				
232,500 barrels	7,389	14,874	–	22,263

The GasOil Commodity Swap outstanding at the reporting date was not designated as a hedging instrument and accordingly changes to the fair value of the GasOil Commodity Swap have been recognised in the income statement.

Notes to the Financial Report

For the year ended 30 June 2007

22. FINANCIAL INSTRUMENTS CONTINUED

(e) Interest rate risk management

Interest rate risk represents the extent to which Horizon Power will suffer financial loss due to adverse movements in interest rates.

Horizon Power is exposed to interest rate risk as a result of refinancing of medium to long-term debt instruments. Horizon Power's objective is to minimise its exposure to interest rate fluctuations through a spread of fixed interest loans over a range of maturities out to 10 years.

Horizon Power does not enter into any derivative financial instruments to manage its interest rate risk.

Maturity profile of financial instruments

The following table details Horizon Power's exposure to interest rate risk:

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates						Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 Years	3-4 Years	4-5 Years	5+ Years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
30 June 2007										
Financial Assets:										
Cash and cash equivalents	6.18	11,807	–	–	–	–	–	–	–	11,807
Trade receivables	–	–	–	–	–	–	–	–	16,605	16,605
Other	–	–	–	–	–	–	–	–	–	–
		11,807	–	–	–	–	–	–	16,605	28,412
Financial Liabilities:										
Trade payables	–	–	–	–	–	–	–	–	28,758	28,758
WATC Loans (i)	6.31	–	38,410	25,995	8,826	8,271	8,298	42,680	–	132,480
Finance lease liabilities	6.35	–	5,949	6,341	6,657	6,778	7,221	85,154	–	118,100
Employee benefit	–	–	–	–	–	–	–	–	104	104
CES payables	–	–	–	–	–	–	–	–	1,631	1,631
		–	44,359	32,336	15,483	15,049	15,519	127,834	30,493	281,073



Notes to the Financial Report

For the year ended 30 June 2007

22. FINANCIAL INSTRUMENTS CONTINUED

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates						Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 Years	3-4 Years	4-5 Years	5+ Years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
30 June 2006										
Financial Assets:										
Cash and cash equivalents	5.58	1,209	–	–	–	–	–	–	–	1,209
Trade receivables		–	–	–	–	–	–	–	14,315	14,315
Other		–	–	–	–	–	–	–	5,944	5,944
		1,209	–	–	–	–	–	–	20,259	21,468
Financial Liabilities:										
Trade payables		–	–	–	–	–	–	–	22,187	22,187
WATC Loans (i)	6.17	–	34,058	12,660	31,245	10,826	3,271	20,879	–	112,939
Finance lease liabilities	6.88	–	4,378	4,678	5,003	5,237	5,299	63,810	–	88,405
Employee benefit		–	–	–	–	–	–	–	71	71
CES payables		–	–	–	–	–	–	–	1,859	1,859
		–	38,436	17,338	36,248	16,063	8,570	84,689	24,117	225,461

- (i) The borrowings from WATC include two gas pipeline loans (\$17.05 million) that mature on 15 April 2009. The loans relate to the provision of infrastructure for projects approved by the previous State Government for which the former Western Power was required to borrow funds. Horizon Power receives the full amount of the interest and guarantee fee payment from the Department of Industry and Resources (DOIR) in arrears. DOIR in turn receives a CSO payment for this amount in the State Budget.

(f) Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to Horizon Power. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Audit and Risk Management Committee annually. Horizon Power measures credit risk on a fair value basis.

Trade accounts receivable consist of a large number of customers, spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

Horizon Power does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents Horizon Power's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Notes to the Financial Report

For the year ended 30 June 2007

22. FINANCIAL INSTRUMENTS CONTINUED

(g) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair value and net fair value of financial liability is determined as follows:

- The contributory extension scheme consists of a large number of non-interest bearing 30 year refundable deposits, the last of which is due to expire in 2022. The fair value of the scheme has been calculated by discounting the expected future payment at the same interest rates used to value domestic currency loans.

Transaction costs are included in the determination of net fair value.

(h) Liquidity risk management

Horizon Power manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

23. JOINTLY CONTROLLED OPERATIONS AND ASSETS

<i>Name of entity</i>	<i>Principal activity</i>	<i>Output Interest</i>
Mid-West Pipelines Joint Venture	Gas transportation in the Mid West and Hill 60 Pipelines	29.2%

Horizon Power's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements under their respective asset categories:

	<i>30 June 2007</i>	<i>30 June 2006</i>
	<i>\$'000</i>	<i>\$'000</i>
Non-current assets – plant and equipment		
Midwest pipeline	2,682	3,898
Hill 60 Extension	794	925
Total jointly controlled assets	3,476	4,823

24. RELATED PARTY DISCLOSURES

Other than as disclosed in Note 19, Key Management Personnel Remuneration and in the following paragraph, Horizon Power did not transact with key management personnel or their related parties during the reporting period. As at 30 June 2007 Horizon Power did not recognise any assets or liabilities arising from transactions with key management personnel or related parties.

In November 2006 a Board meeting was held at the Home Valley Station, a facility in which a relative of one of the directors holds an interest. The amount paid for accommodation and associated services was \$6,830 including GST. Management believes this amount reflects an arms-length fee for services provided.



Notes to the Financial Report

For the year ended 30 June 2007

25. SEGMENT INFORMATION

Horizon Power operates in one business segment, being sale of electricity and associated services to its customers. There is no meaningful or material segmentation due to the nature of products, the nature of production processes, the type or class of customer, distribution methods or regulatory environment.

Horizon Power operates in one geographical segment, being the state of Western Australia. There are no distinguishable geographical segments within this one geographical area.

26. ECONOMIC DEPENDENCY

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Western Power pays money into the TEF in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer. Horizon Power is dependant on the sufficient and timely flow of these funds to remain solvent.

Horizon Power began receiving revenue from the TEF from October 2006.

27. SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the reporting period and the date of this report any matter or circumstance likely, in the opinion of the Horizon Power Board, to affect significantly the operations of Horizon Power, the results of those operations, or the state of affairs of Horizon Power in subsequent reporting periods.

INDEPENDENT AUDIT REPORT

Independent Audit Report



AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON REGIONAL POWER CORPORATION (TRADING AS HORIZON POWER)

To the Parliament of Western Australia

I have audited the financial report of the Regional Power Corporation (trading as Horizon Power), which comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Regional Power Corporation (trading as Horizon Power) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Electricity Corporations Act 2005. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Summary of my Role

As required by the Electricity Corporations Act 2005, my responsibility is to express an opinion on the financial report based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

Audit Opinion

In my opinion, the financial report of the Regional Power Corporation (trading as Horizon Power) is in accordance with schedule 3 of the Electricity Corporations Act 2005, including:

- (a) giving a true and fair view of the Corporation's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

Handwritten signature of Colin Murphy in black ink.

COLIN MURPHY
AUDITOR GENERAL
20 September 2007