Financial Report
2013/14

HORIZON POWER
energy for life

Regional Power Corporation trading as Horizon Power
Financial Statements
for the year ended 30 June 2014

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Statement of Comprehensive Income

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Revenue	4	**382,496**	366,768
Other revenue	5	**209,162**	154,025
Total revenue		**591,658**	520,793
Electricity and fuel purchases	6	**(181,986)**	(165,232)
Employee benefits expense	6	**(72,434)**	(61,335)
Materials and services	6	**(64,727)**	(66,113)
Depreciation and amortisation expense	6	**(65,868)**	(60,952)
Other expenses	6	**(23,205)**	(20,975)
Finance costs	6	**(75,921)**	(73,588)
Profit before income tax equivalent expense		**107,517**	72,598
Income tax equivalent expense	7(a)	**(25,888)**	(21,399)
Profit for the year		**81,629**	51,199
Other comprehensive income			
Items to be reclassified subsequently to Profit or Loss			
Cash flow hedges		**(9)**	28
Income tax effect	7(c)	**2**	(8)
		(7)	20
Items not to be reclassified subsequently to Profit or Loss			
Re-measurement gains on defined benefits plan	20	**60**	-
Income tax effect	7(c)	**(20)**	-
		40	-
Other comprehensive income for the year, net of tax		**33**	20
Total comprehensive income for the year		**81,662**	51,219

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**33,299**	30,576
Receivables	9	**32,141**	49,949
Inventories	10	**17,309**	13,018
Derivative financial instruments	11	**-**	658
Intangible assets	12	**626**	795
Other current assets	13	**2,618**	2,086
Total current assets		**85,993**	97,082
Non-current assets			
Property, plant and equipment	14	**1,442,992**	1,347,306
Deferred tax assets	15	**43,035**	38,541
Intangible assets	12	**14,874**	9,697
Total non-current assets		**1,500,901**	1,395,544
Total assets		**1,586,894**	1,492,626
LIABILITIES			
Current liabilities			
Payables	16	**72,641**	79,109
Current tax liabilities	15	**13,286**	10,562
Provisions	17	**16,903**	26,421
Derivative financial instruments	11	**310**	-
Other current liabilities	18	**27,601**	35,663
Interest bearing liabilities	19	**17,624**	15,987
Total current liabilities		**148,365**	167,742
Non-current liabilities			
Payables	16	**455**	522
Provisions	17	**21,122**	19,543
Retirement benefit obligations	20	**1,875**	1,975
Interest bearing liabilities	19	**1,039,687**	986,385
Total non-current liabilities		**1,063,139**	1,008,425
Total liabilities		**1,211,504**	1,176,167
Net assets		**375,390**	316,459
EQUITY			
Contributed equity	21	**253,683**	243,122
Reserves	22	**-**	7)
Retained earnings		**121,707**	73,330
Total equity		**375,390**	316,459

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2012		236,775	(13)	63,231	299,993
Profit for the year		-	-	51,199	51,199
Other comprehensive income		-	20	-	20
Total comprehensive income for the year		**-**	20	**51,199**	**51,219**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	21	6,347	-	-	6,347
Dividends paid		-	-	(41,100)	(41,100)
Total		6,347	-	(41,100)	(34,753)
Balance at 30 June 2013		**243,122**	**7**	**73,330**	**316,459**
Balance at 1 July 2013		243,122	7	73,330	316,459
Profit for the year		-	-	81,629	81,629
Other comprehensive income			(7)	40	33
Total comprehensive income for the year		**-**	**-**	**81,669**	**81,662**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	21	10,561	-	-	**10,561**
Dividends paid		-	-	(33,292)	**(33,292)**
Total		10,561	-	(33,292)	(22,731)
Balance at 30 June 2014		**253,683**	**-**	**121,707**	**375,390**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**390,394**	358,689
Other Receipts		**209,000**	154,000
Net GST and Fuel Tax Credits Received		**20,782**	21,705
Interest received		**949**	3,486
Payments to suppliers and employees (inclusive of goods and services tax)		**(419,861)**	(392,679)
Interest Paid		**(74,676)**	(71,275)
Payments for financial assets at fair value through profit or loss		**1,005**	(760)
Income taxes paid		**(27,679)**	(31,165)
Net cash inflow from operating activities	30	**99,914**	42,001
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,366**	213
Payments for property, plant and equipment		**(162,913)**	(240,300)
Payments for intangible assets		**(12,861)**	(1,825)
Net cash outflow used in investing activities		**(174,408)**	(241,912)
Cash flows from financing activities			
Proceeds from borrowings		**70,926**	184,167
Dividends paid		**(33,292)**	(41,100)
Developer and customer contributions to capital works		**29,159**	26,742
Proceeds from contributed equity		**10,561**	7,620
CES, customers' and contractors' refunds		**(137)**	(167)
Net cash inflow from financing activities		**77,217**	177,262
Net increase (decrease) in cash and cash equivalents		**2,723**	(22,649)
Cash and cash equivalents at the beginning of the financial year		**30,576**	53,225
Cash and cash equivalents at end of year	8	**33,299**	30,576

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Contents of the notes to the financial statements

1 Corporate information

The financial statements of Regional Power Corporation, trading as Horizon Power ("Horizon Power" or "the Corporation") for the year ended 30 June 2014, were authorised for issue in accordance with a resolution of the directors on 4 September 2014.

Horizon Power is a Not-for-Profit Public Sector Entity, incorporated under the Electricity Corporations Act 2005 and domiciled in Australia. Its registered office is at 1 Stovehill Road, Karratha.

The nature of the operations and principal activities of Horizon Power are described in the Our Profile section of the Annual Report.

2 Summary of significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Statement of Compliance

The financial statements comply with Australian Accounting Standards, as applicable to not-for-profit entities.

Historical cost convention

These financial statements have been prepared on an accrual basis and are based on the historical cost convention except where applicable, by the measurement at fair value of derivative financial instruments. The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods unless otherwise stated.

Comparative amounts

Comparative amounts are for the period from 1 July 2012 to 30 June 2013.

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

(b) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements were made which have the most significant effect on the amounts recognized in the financial statements.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

2 Summary of significant accounting policies (continued)

(b) Significant accounting estimates and judgements (continued)

Judgements

• *Lease Commitments*

Horizon Power has entered into power purchase agreements relating to specific generating facilities. Horizon Power has assessed whether:

i) the agreements represent leases; and where
ii) the agreements represent leases, the classification of the leases as operating or finance (note 2(h)).

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Estimates and assumptions

• *Long Service Leave*

Estimations and assumptions used in calculating the Corporation's long service leave provision include expected future salary rates, discount rates, employee retention rates and expected future payments. Changes in these estimations and assumptions impact on the carrying amount of the long service leave provision.

• *Annual Leave*

For annual leave not expected to be wholly settled before 12 months after the end of the reporting period, estimations and assumptions used in calculating the Corporation's annual leave provision include expected future salary increases and discounting of the expected payments.

• *Impairment of non-financial assets*

Horizon Power assesses impairment of all assets at each reporting date by evaluating conditions specific to Horizon Power and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

There were no indicators of impairment to property, plant and equipment and intangible assets at 30 June 2014.

• *Restoration and decommissioning*

A provision has been made for the present value of anticipated costs of future restoration and decommissioning of generating plants and workshops. The provision includes future cost estimates associated with dismantling closure, decontamination and permanent storage of historical residues. The calculation of this provision requires assumptions such as application of environmental legislation, plant closure dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 14 and note 17.

2 Summary of significant accounting policies (continued)

(b) Significant accounting estimates and judgements (continued)

Estimates and assumptions (continued)

• *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience. Leased equipment is depreciated over the useful life of the asset, however if there is no reasonable certainty that Horizon Power will obtain ownership by the end of the lease term, the leased equipment is depreciated over the shorter of the estimated useful life of the asset and the lease term. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in note 6.

• *Estimation of Unread Sales*

Unread sales represents the estimated value of metered electricity provided to customers but not yet invoiced. Electricity meters are read on a periodic basis throughout the year. The estimation of accrued revenue associated with unread meters at year end is based on historical and budget data.

(c) Foreign currency translation

The functional and presentation currency of Horizon Power is Australian dollars (AUD).

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 profit or loss.

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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

(d) 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.

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 other current assets incorporate amounts attributable to 'unread sales', which are an estimate of electricity delivered to customers that have not been billed at the reporting date.

2 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

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 profit or loss 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;

• Pensioner concessions;

• Tariff migration;

• Aboriginal & Regional Communities Power Supply Project;

• Coral Bay electricity supply;

• Energy rebates;

• Dependant child rebates;

• Feed-in Tariff rebates;

• Tariff Adjustment Payments; and

• Cost of Living Assistance Payments

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.

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.

2 Summary of significant accounting policies (continued)

(e) Tariff Equalisation Fund

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Electricity Networks Corporation trading as 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 and recognised on a receipts basis.

(f) Electricity, Fuel and Carbon Costs

Electricity and fuel purchases 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.

Fuel costs

Liquid fuel costs 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.

Carbon costs

Carbon costs are payable under the Federal Government's Clean Energy Future legislation.

Transmission and distribution operating costs

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

2 Summary of significant accounting policies (continued)

(g) National Taxation Equivalent Regime and other taxes

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 profit or loss except to the extent that it relates to items recognised directly in other comprehensive income.

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 income tax liabilities are recognised for all taxable temporary differences except:

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

• when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the deductible temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2 Summary of significant accounting policies (continued)

(g) National Taxation Equivalent Regime and other taxes (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Statement of Financial Position date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

• When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

• Receivables and payables, which are stated with the amount of GST included.

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2 Summary of significant accounting policies (continued)

(h) 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 profit or loss and reduction of the lease liability in the Statement of Financial Position so as to achieve a constant rate of interest on the remaining balance of the liability.

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 2014.

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 profit or loss in the reporting periods in which they are incurred.

(i) 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 exceeds recoverable amount. 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 profit or loss.

(j) 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.

2 Summary of significant accounting policies (continued)

(k) Receivables

Trade receivables, which generally have 12 day terms for tariff customers, 7 to 14 day terms for contract customers and 30 to 90 days for non-energy customers, are recognised and carried at original invoice amount less an allowance for any impaired receivables.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that Horizon Power will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in profit or loss against 'Other Income'.

(l) 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 - weighted average cost basis;

• Consumables - weighted average cost basis; and

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.

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

(m) 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.

2 Summary of significant accounting policies (continued)

(m) Interest in joint ventures (continued)

Interest in joint venture operations

A jointly controlled operation involves the use of assets and other resources of Horizon Power and other venturers. Where material, Horizon Power recognizes in its financial statements:

Assets controlled by Horizon Power in the joint ventures;

Liabilities incurred by Horizon Power in relation to the joint ventures;

Expenses incurred by Horizon Power in relation to the joint ventures; and

Share of income earned from the joint ventures.

(n) Derivatives

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, interest 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 economic hedging and not for speculative purposes.

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, interest rate swaps 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.

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

• 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 highly probable forecasted transaction; or

• Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or recognised liability.

Horizon Power documents at the inception of the transaction the relationship between hedging instruments and hedged 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.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, 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.

2 Summary of significant accounting policies (continued)

(n) Derviatives (continued)

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

Amounts accumulated in equity are recycled in to profit or loss 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 (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 other comprehensive income at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. 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 profit or loss.

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 profit or loss.

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 profit or loss.

2 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. A gifted asset is recognised at fair value at its initial recognition (at the point of handover to Horizon Power) and depreciated over its useful life.

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.

Costs are only capitalised when it is probable that future economic benefits will flow from the establishment of the asset and the cost of the asset can be reliably measured.

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
Horizon Power as a Not-for-Profit Public Sector Entity has elected to expense borrowing costs in the period incurred under AASB 123.

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.

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

- Buildings	25 - 40 years
- Plant and equipment	4 - 50 years
- Equipment under finance leases	based on term of contract, which typically ranges between 10 to 20 years
- Leasehold improvements	2 – 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 profit or loss when the asset is derecognised.

2 Summary of significant accounting policies (continued)

(p) 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 profit or loss over the useful lives of the assets.

Computer software assets have finite useful lives. Amortisation is calculated using the straight-line method. The useful life of Horizon Power's computer software is 4 years.

Trademarks have finite useful lives. Amortisation is calculated using the straight-line method. The useful lives of Horizon Power's trademarks are 10 to 15 years.

Renewable Energy Certificates are not amortised (refer to note 2 (v)).

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 profit or loss when the asset is derecognised.

(q) 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.

(r) 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 profit or loss over the period of the interest-bearing liabilities using the effective interest method.

2 Summary of significant accounting policies (continued)

(s) Borrowing cost

Horizon Power as a Not-for-Profit Public Sector Entity has elected to recognise borrowing costs in profit or loss when incurred under AASB 123.

Borrowing costs 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; and

• Guarantee fees on borrowings from the Western Australian Treasury Corporation (WATC).

(t) 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.

(i) 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 any employee benefits expected to be settled 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.

2 Summary of significant accounting policies (continued)

(t) Provisions (continued)

(ii) 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 2(o)).

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

(u) 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.

The entire Superannuation Trust of Australia has been treated as a defined contribution plan.

2 Summary of significant accounting policies (continued)

(u) Retirement benefit obligations (continued)

Defined contribution superannuation plans

Obligations for contributions to defined contribution plans are recognised in profit or loss as incurred.

Defined benefit superannuation plans

A provision in respect of the defined benefit superannuation plans is recognised in the Statement of Financial Position 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 and the Gold State Superannuation Scheme are wholly unfunded. Horizon Power contributes, as required, to meet the benefits paid.

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in Other Comprehensive Income.

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

(v) Renewable energy certificates

Under the Renewable Energy (Electricity) Act 2000, parties on grids of more than 100 MW making wholesale acquisitions of electricity (relevant acquisitions) are required to demonstrate that they are supporting the generation of renewable electricity by purchasing increasing amounts of renewable energy certificates (RECs). The Act imposes an annual liability, on a calendar year basis, by applying the specified Renewable Power Percentage and Small-Scale Technology Percentage to relevant volume sales of electricity. These parties demonstrate compliance by surrendering RECs to the Office of the Renewable Energy Regulator (ORER): Large-Scale Generation Certificates are surrendered annually between 1 January and 14 February for the previous calendar year (compliance year). Small-Scale Technology Certificates are surrendered on a quarterly basis.

The RECs liability is extinguished by surrendering an equivalent number of RECs with a penalty applying for any shortfall. Horizon Power has a contract with Verve Energy for the acquisition of RECs. Horizon Power’s liability is based on actual volume sales of electricity for the last calendar year multiplied by ORER specified Renewable Power Percentage for that year.

RECs purchased from external sources are recognised as intangible assets at their purchase price.

2 Summary of significant accounting policies (continued)

(w) Contributed equity

AASB Interpretation 1038 'Contributions by Owners Made to Wholly Owned Public Sector Entities' requires transfers, other than as a result of a restructure of administrative arrangements, in the nature of equity contributions to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital contributions have been credited directly to Contributed Equity.

Transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

(x) Termination Benefits

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Horizon Power recognises termination benefits at the earlier of the following dates: (a) when Horizon Power can no longer withdraw the offer of those benefits (b) when Horizon Power recognises a cost for restructuring that is within the scope of AASB 137 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(y) New and Revised Accounting Standards

In the current year, Horizon Power has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in a significant or material change to Horizon Power’s accounting policies.

AASB 119 – Employee Benefits

The amendments to this Standard requires the recognition of remeasurements in the net defined benefit immediately in other comprehensive income, introduces increased disclosures on defined benefit plans and defines short term employee benefits as employee benefits that are “expected to be settled wholly within twelve months” in place of currently used “due to be settled”.

The amended AASB119 requires retrospective adoption of the new requirements and restatement of the prior year financial statements. The impact of AASB119 is the reclassification from employee benefit expense to Other Comprehensive Income of the total actuarial loss on the defined benefit plan is $157 thousand and the associated income tax expense is $46 thousand. There is no effect on the Total Comprehensive Income for the year ended 30 June 2014.

Horizon Power has not restated its 30 June 2013 Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity as the impact of the amended AASB 119 is considered immaterial.

(z) New accounting standards and interpretations

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by Horizon Power for the annual reporting period ended 30 June 2014.

2 Summary of significant accounting policies (continued)

(z) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Entity Financial report	Application date of Entity
AASB 2012-3	Amendments to Australian Accounting Standards – *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB *132 Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The impact if any is still to be assessed by Horizon Power	1 July 2014
AASB 9	*Financial Instruments*	*AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.* *These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.* *a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.* *b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.* *c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.* *d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:* ► *The change attributable to changes in credit risk are presented in other comprehensive income (OCI)*	*1 January 2018 The remaining change is presented in profit or loss* *If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.* *Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.*	*The impact if any is still to be assessed by Horizon Power*	*1 July 2018*

2 Summary of significant accounting policies (continued)

(z) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Entity Financial report	Application date of Entity
		► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time 3. In February 2014, the IASB tentatively decided that the mandatory effective date for AASB 9 will be 1 January 2018.	references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.		
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	The impact if any is still to be assessed by Horizon Power	1 July 2014
AASB 1031	Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.	1 January 2014	The impact if any is still to be assessed by Horizon Power	1 July 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete	1 January 2014	The impact if any is still to be assessed by Horizon Power	July 2014

2 Summary of significant accounting policies (continued)

(z) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Impact on Entity Financial report	Application date of Entity*
		references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.			
IFRS 15	Revenue from Contracts with Customers	IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 supersedes: (a) IAS 11 Construction Contracts (b) IAS 18 Revenue (c) IFRIC 13 Customer Loyalty Programmes (d) IFRIC 15 Agreements for the Construction of Real Estate (e) IFRIC 18 Transfers of Assets from Customers (f) SIC-31 Revenue—Barter Transactions Involving Advertising Services The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps: (a) Step 1: Identify the contract(s) with a customer (b) Step 2: Identify the performance obligations in the contract (c) Step 3: Determine the transaction price (d) Step 4: Allocate the transaction price to the performance obligations in the contract (e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation Early application of this standard is permitted.	1 January 2017	The impact if any is still to be assessed by Horizon Power	1 July 2017

3 Financial risk management

Horizon Power's principal financial instruments comprise receivables, payables, interest-bearing borrowings, derivatives and cash and cash equivalents.

Horizon Power has developed a Financial Risk Management policy to provide a framework through which Horizon Power maintains the appropriate level of control over financial and associated risks. The Treasury Management Committee oversees treasury functions on behalf of the Board to ensure that significant financial and associated risks are managed through a use of various financial instruments.

The main risks arising from Horizon Power's financial instruments are market risk, liquidity risk and credit risk. Horizon Power's policies for managing each of these risks are summarised below.

Horizon Power holds the following financial instruments:

	30 June 2014 $'000	30 June 2013 $'000
Financial assets		
Cash and cash equivalents	33,299	30,576
Trade and other Receivables	32,141	49,949
Derivative financial instruments	-	658
	65,440	81,183
Financial liabilities		
Payables	73,096	79,631
Derivative financial instruments	310	-
Interest bearing liabilities	1,057,311	1,002,372
	1,130,717	1,082,003

(a) Market risk

(i) Foreign exchange risk

Horizon Power's exposure to foreign currency risk at the current reporting date is low because all the transactions were denominated in Australian dollar (AUD). Exchange rate exposures are managed by the Horizon Power Treasury group within approved policy parameters utilising 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.

Horizon Power's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2014 USD $'000	30 June 2013 USD $'000
Forward exchange contracts		
- buy foreign currency (cash flow hedges)	**-**	76

As at 30 June 2014, Horizon Power did not hold any forward foreign exchange contracts nor were exposed to any foreign exchange risk.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

30 June 2014	Carrying amount $'000	**Foreign exchange risk** -10% Impact on post-tax Profit $'000	-10% Impact on other components equity $'000	+10% Impact on post-tax Profit $'000	+10% Impact on other components equity $'000
Financial liabilities					
Forward foreign exchange contract (cash flow hedges)	-	-	-	-	-
Total increase/ (decrease)		-	-	-	-

30 June 2013	Carrying amount $'000	**Foreign exchange risk** -10% Impact on post-tax Profit $'000	-10% Impact on other components equity $'000	+10% Impact on post-tax Profit $'000	+10% Impact on other components equity $'000
Financial liabilities					
Forward foreign exchange contract (cash flow hedges)	9	-	6	-	(5)
Total increase/ (decrease)		-	6	-	(5)

(ii) Commodity price risk

Commodity price risk represents the extent to which movements in commodity prices will impact Horizon Power results. Horizon Power is exposed to commodity price risk for distillate fuel (GasOil).

Horizon Power is exposed to fluctuations in the GasOil price through the purchase of fuel for its diesel power stations as well as fuel consumed by its power producers. Although diesel fuel payments are made in Australian dollars, the relevant wholesale market for GasOil is denominated in USD 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.

Horizon Power deals in GasOil commodity swaps for the purpose of providing an economic hedge against GasOil costs. The limits of this trading are set by the Board.

At 30 June 2014 Horizon Power has economically hedged 113,300 barrels at an average Australian dollar price of AUD 134.59 per barrel.

Sensitivity

At 30 June 2014, if commodity prices had decreased/increased by 10 percent from the year end rates with all other variables held constant, Horizon Power’s post tax profit for the year would have been AUD 1,046 thousand lower / AUD 1,046 thousand higher.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Commodity price risk (continued)

		Commodity price risk			
		-10%		+10%	
30 June 2014	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial liabilities					
Commodity swaps	(310)	-	(1,046)	-	1,046
Total increase/ (decrease)		-	(1,046)	-	1,046

		Commodity price risk			
		-10%		+10%	
30 June 2013	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial liabilities					
Commodity swaps	649	-	(876)	-	876
Total increase/ (decrease)		-	(876)	-	876

(iii) Interest rate risk

Horizon Power's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations and lease liabilities.

Horizon Power's borrowings obtained through the Western Australian Treasury Corporation (WATC) are at fixed rates with varying maturities. The risk is managed through portfolio diversification and variation in maturity dates.

At balance date Horizon Power had the following financial assets exposed to Australian variable interest rate risk.

	30 June 2014 Weighted average interest rate %	**Balance $'000**	30 June 2013 Weighted average interest rate %	Balance $'000
Financial Assets				
Cash and cash equivalents	**2.45%**	**33,299**	2.7%	30,576
Net exposure to cash flow interest rate risk		**33,299**		30,576

Horizon Power's policy is to manage its finance costs using fixed debt with the objective of achieving cost effective outcomes whilst managing interest rate risk to avoid uncertainty and volatility in the market place.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Horizon Power constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions and alternative financing.

Sensitivity
At 30 June 2014, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, Horizon Power's post tax profit for the year would have been AUD thousand higher / AUD thousand lower.

		Interest rate risk			
		-100 bps		**+100 bps**	
30 June 2014	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial assets					
Cash and cash equivalents	**33,299**	**(233)**	**-**	**233**	**-**
Total increase/ (decrease)		**(233)**	**-**	**233**	**-**

		Interest rate risk			
			-100 bps		**+100 bps**
30 June 2013	Carrying amount $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000	Impact on post-tax Profit $'000	Impact on other components equity $'000
Financial assets					
Cash and cash equivalents	30,576	(214)	-	214	-
Total increase/ (decrease)		(214)	-	214	-

(b) Credit risk

Horizon Power operates predominantly within the electricity generation transmission, distribution and sales industry and accordingly is exposed to risks affecting that industry. The maximum exposure to this industry risk is the carrying value of trade debtors.

Trade and other receivables that are neither past due not impaired are considered to be of high quality. Aggregates of such amounts are detailed in note 9.

Horizon Power follows stringent credit control and management procedures in reviewing and monitoring debtor accounts.

With respect to credit risk arising from cash and cash equivalents, Horizon Power's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of the cash and cash equivalents.

Horizon Power maintains cash and cash equivalents through highly rated financial institutions.

3 Financial risk management (continued)

(c) Liquidity risk

Horizon Power's objective is to ensure adequate funding is available at all times, to meet the commitment of Horizon Power, as they arise.

The table below reflects the contractual maturity of financial liabilities, including estimated interest payments. These include payables and interest-bearing borrowings.

Financing arrangements

	30 June 2014 $'000	30 June 2013 $'000
6 months or less	**171,867**	166,052
6 - 12 months	**82,431**	81,570
1 - 5 years	**639,098**	591,239
Over 5 years	**722,563**	758,455
	1,615,959	1,597,316

4 Revenue

	30 June 2014 $'000	30 June 2013 $'000
Revenue consisted of the following items:		
Sale of Electricity	**279,557**	267,053
Other		
Community service obligations revenue	**43,660**	48,682
Developer and customer contributions	**39,721**	38,825
Interest	**923**	3,475
Others	**18,930**	8,195
Change in fair value of derivatives	**(295)**	538
	102,939	99,715
	382,496	366,768

5 Other revenue

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Tariff Equalisation Fund		**209,000**	154,000
Gain on disposal of property, plant and equipment	14	**162**	25
		209,162	154,025

6 Expenses

	30 June 2014 $'000	30 June 2013 $'000
Electricity and fuel purchases		
Electricity purchases	**137,288**	128,411
Fuel purchases	**44,187**	36,590
Water purchases	**511**	231
Total electricity & fuel purchases	**181,986**	165,232
Employee benefit expense		
Salaries, wages & allowance	**40,780**	41,801
Superannuation	**5,933**	5,854
Long service leave	**831**	1,354
Annual leave	**3,972**	4,537
Other related expenses	**20,918**	7,789
Total employee benefits expenses	**72,434**	61,335
Materials and services		
Contracted services	**26,727**	30,133
Other services	**28,336**	25,641
Materials	**9,664**	10,339
Total materials & services	**64,727**	66,113
Depreciation		
Leasehold buildings	**2,061**	1,320
Plant and equipment	**30,412**	27,361
Equipment under finance leases	**25,950**	25,979
Total depreciation	**58,423**	54,660
Amortisation		
Computer software	**7,362**	6,209
Patents, trademarks and other rights	**83**	83
Total amortisation	**7,445**	6,292
Total depreciation and amortisation	**65,868**	60,952

6 Expenses (continued)

	30 June 2014 $'000	30 June 2013 $'000
Other expenses		
Loss on disposal of property, plant and equipment	**405**	186
Provision for impairment of receivables	**1,984**	1,696
Provision for decommissioning & site rehabilitation	**62**	69
Property expenses	**9,969**	8,929
Other	**10,785**	10,095
Total other expenses	**23,205**	20,975

	30 June 2014 $'000	30 June 2013 $'000
Finance costs		
Interest on debts	**32,856**	28,923
Unwinding of discount on contributory extension scheme	**69**	104
Unwinding of discount on decommissioning provision	**412**	524
Finance lease interest	**42,584**	44,037
Total finance costs	**75,921**	73,588

7 Income tax equivalent expense

(a) Income tax expense equivalent expense

	30 June 2014 $'000	30 June 2013 $'000
Current tax	**36,762**	28,453
Deferred tax	**(4,476)**	(6,649)
Adjustments for net deferred tax assets and liabilities of prior period	**(36)**	(2,028)
Adjustments for current tax of prior periods	**(6,362)**	1,623
	25,888	21,399
Deferred income tax (benefit) included in income tax expense comprises:		
Decrease in deferred tax assets (note 15(a))	**3,625**	557
Decrease in deferred tax liabilities (note 15(b))	**(8,101)**	(7,206)
	(4,476)	(6,649)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	30 June 2014 $'000	30 June 2013 $'000
Profit before income tax expense	**107,517**	72,598
Tax at the Australian tax rate of 30.0% (2013 - 30.0%)	**32,255**	21,780
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**14**	20
Sundry items	**17**	4
Adjustments for current tax of prior periods	**(6,398)**	(405)
Total income tax equivalent expense	**25,888**	21,399

(c) Amounts recognised directly in other comprehensive income

Deferred tax arising in the reporting period and not recognised in profit/(loss) but directly credited to other comprehensive income:

Net deferred tax - (debited)/credited directly to other comprehensive income, in relation to:			
– Cashflow hedges	15	**(2)**	8
– Remeasurement gains / (losses) on defined benefit plans		**20**	-
		18	8

8 Cash and cash equivalents

	30 June 2014 $'000	30 June 2013 $'000
Cash at bank and in hand	**33,299**	30,576

Management assessed that the fair value of cash and short-term deposits approximate their carrying amounts largely due to the short-term maturities of these instruments.

9 Receivables

	30 June 2014 $'000	30 June 2013 $'000
Net receivables		
Receivables - energy - billed (i)	17,627	24,390
Receivables - energy - unbilled (ii)	8,195	14,061
	25,822	38,451
Allowance for impairment of receivables - Energy	(2,422)	(1,689)
	23,400	36,762
Receivables - non-energy (i)	3,767	9,294
Allowance for impairment of receivables - non energy	(209)	(415)
	3,558	8,879
Other receivables		
Other receivables	5,183	4,308
	32,141	49,949

(i) Includes amounts due by Aboriginal communities of $1,444,067 (Energy: $1,261,334; Non Energy: $182,733) (2013: $1,030,214).

The credit period on sales of electricity is 12 days for tariff customers and 7 to 14 days for contract customers. Non energy customers generally have credit period of 30 to 90 days. No interest is charged on current receivables.

(ii) Receivables energy incorporate amounts attributable to 'unbilled / unread sales' which are an estimate of electricity delivered to customers that have not been billed at the reporting date. The estimation of accrued revenue associated with unread meters at year end is based on historical and budget data.

(iii) Management assessed that the fair value of trade receivables approximate their carrying amounts largely due to the short-term maturities of these instruments.

9 Receivables (continued)

(a) Impaired trade receivables

Movements in the allowance for impairment of receivables are as follows:

	30 June 2014 $'000	30 June 2013 $'000
At 1 July	**2,104**	1,286
Allowance for impairment recognised during the year	**1,984**	1,767
Receivables written off during the year as uncollectable	**(1,457)**	(878)
Receivables recovered during the year	**-**	(71)
At 30 June	**2,631**	2,104

The creation and release of the allowance for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Ageing of receivables

	30 June 2014 $'000	30 June 2013 $'000
Energy receivables		
Not overdue (i)	**15,199**	21,387
Overdue but not impaired		
0 - 28 days	**4,823**	6,396
29 - 56 days	**1,383**	3,411
57 - 90 days	**1,475**	1,593
+ 90 days	**520**	3,975
Past due and impaired	**2,422**	1,689
	25,822	38,451

(i) Not overdue amount includes unbilled and unreads amount of $6,863,000 (2013: $12,423,000).

	30 June 2014 $'000	30 June 2013 $'000
Non-energy receivables		
Not overdue	**1,493**	4,088
Overdue but not impaired		
Overdue: 30 days	**792**	685
60 days	**216**	3,240
90 days	**136**	9
120 days	**151**	218
+ 120 days	**770**	639
Past due and impaired	**209**	415
	3,767	9,294

The other classes of receivables do not contain impaired assets. Based on the credit history of these other classes, it is expected that these amounts will be received in full.

9 Receivables (continued)

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Corporation. No significant risk is believed to be attached to other receivables.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is approximate to their fair value.

Horizon Power operates predominantly within the electricity industry and accordingly is exposed to risks affecting that industry. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the trade receivables.

10 Inventories

	30 June 2014 $'000	30 June 2013 $'000
Fuel	**45**	72
Materials	**17,264**	12,946
	17,309	13,018

11 Derivative financial instruments

	30 June 2014 $'000	30 June 2013 $'000
Current assets		
Forward exchange contracts - cash flow hedges	-	9
Commodity swaps	-	649
Total current derivative financial instrument assets	-	658

	30 June 2014 $'000	30 June 2013 $'000
Current liabilities		
Commodity swaps	(310)	-
Total current derivative financial instrument liabilities	(310)	-

(a) Instruments used by Horizon Power

(i) Commodity Swaps - cash flow hedges

Horizon Power is exposed to movements in the GasOil price through the purchase of fuel for its diesel power stations as well as fuel consumption by its power producers. Horizon Power has entered into AUD denominated commodity swaps to hedge against increases in wholesale crude oil prices and falls in the AUD/USD exchange rate. Horizon Power's policy is to hedge forecasted fuel cost for 1 year forward at 95% of forecast. In the year ended 30 June 2014 an unrealised loss of $309,897 was recognised in profit or loss.

(ii) Forward exchange contracts - cash flow hedges

In order to protect against exchange rate movements, Horizon Power entered into forward exchange contracts. These contracts are hedging known purchases for the 2014 financial year. The contracts are timed to mature when the materials have been delivered and passed testing.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. When the cash flow occurs, the initial measurement of the component recognised in the Statement of Financial Position is adjusted by the related amount deferred in equity. There was no hedge ineffectiveness in the current year.

(b) Fair Value Hierarchy

The following table presents Horizon Power's financial assets and financial liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2014 on a recurring basis.

Horizon Power classifies its financial instruments into three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

11 Derivative Financial Instruments (continued)

(b) Fair Value Hierarchy (continued)

At 30 June 2014	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Assets at fair value through profit or loss				
Commodity swaps used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Commodity swaps used for hedging	**310**	**-**	**-**	**310**
Total liabilities	**310**	**-**	**-**	**310**

At 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Assets at fair value through profit or loss				
Commodity swaps used for hedging	658	-	-	658
Total assets	658	-	-	658
Liabilities				
Commodity swaps used for hedging	-	-	-	-
Total liabilities	-	-	-	-

(c) Valuation techniques used to determine fair value

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by Horizon Power is the current bid price. These instruments are included in level one.

Level 2: The fair value of financial instruments that are not traded on an active market (for example, over-the-counter derivatives) is determined using the valuation techniques. Those valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level two.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Horizon Power does not carry such instruments.

12 Intangible assets

Current assets

Renewable energy certificates	30 June 2014 $'000	30 June 2013 $'000
30 June 2014		
Opening balance	**795**	276
Additions	**4,957**	6,366
Surrendered	**(5,126)**	(5,847)
Closing balance	**626**	795

Non-current assets

	Patents, trademarks and other rights $'000	Software $'000	Total $'000
Year ended 30 June 2014			
Opening net book amount	**940**	**8,757**	**9,697**
Additions - acquisition	**-**	**12,622**	**12,622**
Amortisation charge	**(83)**	**(7,362)**	**(7,445)**
Closing net book amount	**857**	**14,017**	**14,874**
At 30 June 2014			
Cost	**1,242**	**40,563**	**41,805**
Accumulated amortisation	**(385)**	**(26,546)**	**(26,931)**
Net book amount	**857**	**14,017**	**14,874**
Year ended 30 June 2013			
Opening net book amount	1,023	13,375	14,398
Additions - acquisition	-	1,591	1,591
Amortisation charge	(83)	(6,209)	(6,292)
Closing net book amount	940	8,757	9,697
At 30 June 2013			
Cost	1,242	27,941	29,183
Accumulated amortisation	(302)	(19,184)	(19,486)
Net book amount	940	8,757	9,697

13 Other current assets

	30 June 2014 $'000	30 June 2013 $'000
Other assets	**258**	172
Prepayments	**2,360**	1,914
	2,618	2,086

14 Property, plant and equipment

	Freehold land $'000	**Leasehold buildings $'000**	**Plant and equipment $'000**	**Equipment under finance lease at cost $'000**	**Total $'000**
Year ended 30 June 2014					
Opening net book amount	**10,997**	**35,726**	**940,219**	**360,364**	**1,347,306**
Additions	**1,523**	**13,177**	**141,018**	**-**	**155,718**
Disposals	**-**	**-**	**(1,609)**	**-**	**(1,609)**
Depreciation charge	**-**	**(2,061)**	**(30,412)**	**(25,950)**	**(58,423)**
Closing net book amount	**12,520**	**46,842**	**1,049,216**	**334,414**	**1,442,992**
At 30 June 2014					
Cost	**12,520**	**56,905**	**1,208,171**	**487,586**	**1,765,182**
Accumulated depreciation	**-**	**(10,063)**	**(158,955)**	**(153,172)**	**(322,190)**
Net book amount	**12,520**	**46,842**	**1,049,216**	**334,414**	**1,442,992**

Expenditure recognised in plant and equipment in the course of construction is $382,377,314.

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2014 was $8,007,703.

	Freehold land $'000	**Leasehold buildings $'000**	**Plant and equipment $'000**	**Equipment under finance lease at cost $'000**	**Total $'000**
Year ended 30 June 2013					
Opening net book amount	10,997	36,755	728,223	386,343	1,162,318
Additions	-	354	239,639	-	239,993
Disposals	-	(63)	(282)	-	(345)
Depreciation charge	-	(1,320)	(27,361)	(25,979)	(54,660)
Closing net book amount	10,997	35,726	940,219	360,364	1,347,306
At 30 June 2013					
Cost	10,997	43,728	1,070,315	487,586	1,612,626
Accumulated depreciation	-	(8,002)	(130,096)	(127,222)	(265,320)
Net book amount	10,997	35,726	940,219	360,364	1,347,306

Expenditure recognised in plant and equipment in the course of construction is $442,178,262.

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2013 was $8,534,037.

15 Tax assets and liabilities

(a) Deferred tax assets

	30 June 2014 $'000	30 June 2013 $'000
The balance comprises temporary differences attributable to:		
Provisions	**12,760**	14,970
Property, plant and equipment	**2,306**	2,628
Community service obligation	**5,314**	850
Power purchase agreements classified as finance leases	**123,011**	127,807
	143,391	**146,255**
Other		
Contributory extension scheme	**98**	98
Accruals	**85**	367
Derivatives	**-**	507
Other	**44**	5
Sub-total other	**227**	977
Total deferred tax assets	**143,618**	147,232
Set-off of deferred tax liabilities pursuant to set-off provisions (note 15 (b))	**(100,583)**	(108,691)
Net deferred tax assets	**43,035**	38,541

	30 June 2014 $'000	30 June 2013 $'000
Movements:		
Opening balance	**147,232**	147,797
Charged/credited:		
- to profit or loss (note 7)	**(3,625)**	(557)
- directly to other comprehensive income (note 7)	**(18)**	(8)
Adjustments for deferred tax assets of prior periods	**29**	-
	143,618	147,232

15 Tax assets and liabilities (continued)

(b) Deferred tax liabilities

	30 June 2014 $'000	30 June 2013 $'000
The balance comprises temporary differences attributable to:		
Consumable stocks	**259**	582
Power purchase agreements classified as finance lease	**100,324**	108,109
Total deferred tax liabilities	**100,583**	108,691
Set-off of deferred tax assets pursuant to set-off provisions (note (15(a))	**(100,583)**	(108,691)
Net deferred tax liabilities	**-**	-

	30 June 2014 $'000	30 June 2013 $'000
Movements		
Opening balance at 1 July	**108,691**	117,925
Credited to profit or loss (note 7)	**(8,101)**	(7,206)
Adjustments for deferred tax liabilities of prior periods	**(7)**	(2,028)
	100,583	108,691

Current tax liabilities

	30 June 2014 $'000	30 June 2013 $'000
Income tax	**13,286**	10,562

16 Payables

Current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Payables (i)	**71,595**	77,599
Other payables (i)	**541**	819
Contributory extension scheme payables (ii)	**505**	691
	72,641	79,109

16 Payables (continued)

Non-current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Contributory extension scheme payables (ii)	**455**	522
	455	522

(i) Payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-interest bearing and generally have settlement terms between 14 and 30 days. Due to the short term nature of these Payables (including the current portion of the Contributory extension Scheme), their carrying value approximates their fair value.

(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. The non-current portion of the CES payables is stated at fair value, which is estimated as the present value of future cash flows, discounted at the applicable Commonwealth Zero Coupon rates at the end of the reporting date.

17 Provisions

Current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Long service leave	**3,807**	4,236
Annual leave	**4,285**	5,541
Decommissioning and rehabilitation (i)	**7,384**	15,126
Other provisions	**1,427**	1,518
	16,903	26,421

Movements in provisions - decommissioning and rehabilitation

	30 June 2014 $'000	30 June 2013 $'000
Carrying amount at start of year	**15,126**	10,417
Reclassification (to) / from non-current liabilities	**(2,148)**	6,755
Payments/other sacrifices of economic benefits	**(5,594)**	(2,046)
Carrying amount at end of year	**7,384**	15,126

17 Provisions (continued)

Movements in provisions - other provisions

	30 June 2014 $'000	30 June 2013 $'000
Carrying amount at start of year	**1,518**	1,477
Reclassification from non-current liabilities	**512**	35
Additional provisions recognised	**36**	698
Payments / other sacrifices of economic benefits	**(639)**	(692)
Carrying amount at end of year	**1,427**	1,518

Non-current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Long service leave	**1,851**	2,715
Decommissioning and rehabilitation	**18,969**	16,347
Other provisions	**302**	481
	21,122	19,543

Movements in provisions - decommissioning and rehabilitation

	30 June 2014 $'000	30 June 2013 $'000
Carrying amount at start of year	**16,347**	22,508
Reclassification from / (to) current liabilities	**2,148**	(6,755)
Additional provisions recognised	**62**	1,131
Unwinding of discount	**412**	(537)
	18,969	16,347

(i) The decommissioning and rehabilitation provision provides for the costs of dismantling and removing certain generating plants and workshops and restoring the site on which they are located.

Movements in provisions - other provisions

	30 June 2014 $'000	30 June 2013 $'000
Carrying amount at start of year	**481**	333
Reclassification to current liabilities	**(512)**	(35)
Additional provisions recognised	**333**	183
	302	481

18 Other current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Deferred developer and customer contributions (i)	**27,601**	35,663
	27,601	35,663

(i) 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 contributions or gifted assets. Cash contributions are initially deferred and subsequently recognised as revenue when the customers /developers are connected to the network in accordance with the terms of the contributions. Gifted assets are recognised as revenue at the point of handover. More information can be found in note 2(d).

19 Interest bearing liabilities

Current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Unsecured		
Finance lease liabilities	**17,624**	15,987
	17,624	15,987

Non-current liabilities

	30 June 2014 $'000	30 June 2013 $'000
Secured		
WATC loans (i)	**647,274**	576,348
Unsecured		
Finance lease liabilities	**392,413**	410,037
	1,039,687	986,385

(i) Non-current loans of $647,274 thousand (2013: $576,348 thousand) includes an amount of $91,633 thousand (2013: $80,574 thousand) that will become due and payable during the 2015 reporting year.

A master lending agreement with the WATC, an entity owned by the Western Australian State Government, allows Horizon Power the unequivocal right to refinance all or any part of maturing debt at regular intervals.

It is Horizon Power's expectation that this amount will be refinanced under the master lending agreement rather than repaid, and therefore has been classified as non-current.

The approval of Horizon Power's forecast borrowing requirements for the next four years, including no repayment of amounts classified as non-current above, contained within the Western Australian State Budget handed down in June 2013.

Horizon Power's borrowing limits are referred to in Note 30.

20 Retirement benefit obligations

(a) Statement of Financial Position amounts

The amounts recognised in the Statement of Financial Position are determined as follows:

	30 June 2014 $'000	30 June 2013 $'000
Present value of unfunded obligations (i)	**1,875**	1,975
Net liability in the statement of financial position	**1,875**	1,975

(i) The present value of the retirement benefit obligations liability was addressed by Mercer Consulting (Australia) Pty Ltd at 30 June 2014 as required under AASB119. For the period 1 July 2013 to 30 June 2014, a provision has been reduced to account for the decrease in value of this liability over this period.

(b) Reconciliations

	30 June 2014 $'000	30 June 2013 $'000
Reconciliation of the present value of the defined benefit obligation		
Balance at the beginning of the year	**1,975**	2,132
Interest cost	**63**	59
Actuarial (gains) / losses	**(60)**	(157)
Benefits paid	**(103)**	(59)
Balance at the end of the year	**1,875**	1,975

(c) Amounts recognised in the Statement of Comprehensive Income

The amounts recognised in profit or loss are as follows:

	30 June 2014 $'000	30 June 2013 $'000
Interest costs	**63**	59
Actuarial gain	**-**	(157)
Total amounts recognised in Profit or Loss	**63**	(98)

The amounts recognised in Other Comprehensive Income are as follows:

	30 June 2014 $'000	30 June 2013 $'000
Actuarial gain	**(60)**	-
Total amounts recognised in Profit or Loss	**(60)**	-

(d) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

	30 June 2014	30 June 2013	30 June 2012
Discount rate	**3.7%**	3.4%	2.8%
Future salary increases	**5.0%**	5.0%	5.5%
Expected future pension increases	**2.5%**	2.5%	2.5%

The discount rate is based on the Government bond maturing in April 2024. The decrement rates used are based on those used at the last actuarial valuation for the Schemes.

20 Retirement benefit obligations (continued)

(e) Employer 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 2(u).

(f) Historic summary

	2014	2013	2012	2011	2010
	$'000	$'000	$'000	$'000	$'000
Defined benefit plan obligation	1,875	1,975	2,132	2,305	2,382
Deficit	**1,875**	1,975	2,132	2,305	2,382
Experience adjustments arising on Plan liabilities (gain)/loss	**-**	-	5	52	279

(g) Nature of benefits provided

Horizon Power participates in two defined benefit plans consisting of the Pension Scheme and the prior service component of the Gold State Super. The Schemes which are now closed are wholly unfunded.

Pension Scheme

The employer-financed benefit is a pension benefit payable on retirement, death or invalidity, or a lump sum benefit on resignation.

Gold State Super

Some former Pension Scheme members have transferred to Gold State Super. In respect of their transferred benefit the members receive a lump sum benefit at retirement, death or invalidity which is related to their salary during their employment and indexed during any deferral period after leaving public sector employment.

(h) Regulatory framework

Pension Scheme

The Scheme operates under the State Superannuation Act 2000 (Western Australia) and the State Superannuation Regulations 2001 (Western Australia). Although the scheme is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the scheme in accordance with the spirit of the SIS legislation.

As an exempt public sector superannuation scheme (as defined in the SIS legislation), the scheme is not subject to any minimum funding requirements.

As a constitutionally protected scheme, the scheme is not required to pay tax.

Gold State Super

The Scheme operates under the State Superannuation Act 2000 (Western Australia) and the State Superannuation Regulations 2001 (Western Australia). Although the scheme is not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the scheme in accordance with the spirit of the SIS legislation.

(i) Other entities' responsibilities for governance of the Scheme

Pension Scheme

The Government Employees Superannuation Board (GESB) is the Scheme's Trustee and is responsible for the governance of the Scheme. As Trustee, GESB has a legal obligation to act solely in the best interests of Scheme beneficiaries. GESB has the following roles:

- Administration of the Scheme and payment to the beneficiaries when required in accordance with the Scheme rules;

- Management and investment of the Scheme assets (although the liabilities in this report are not supported by assets); and
- Compliance with the Heads of Government Agreement referred to above.

Gold State Super

The Government Employees Superannuation Board (GESB) is the Scheme's Trustee and is responsible for the governance of the Scheme. As Trustee, GESB has a legal obligation to act solely in the best interests of Scheme beneficiaries. GESB has the following roles:

- Administration of the Scheme and payment to the beneficiaries when required in accordance with the Scheme rules;
- Management and investment of the Scheme assets (although the liabilities in this report are not supported by assets); and
- Compliance with the Heads of Government Agreement referred to above.

(j) Risks

Pension Scheme

There are a number of risks to which the Scheme exposes Horizon Power. The more significant risks relating to the defined benefits are:

Legislative risk – the risk that legislative changes could be made which increase the cost of providing the defined benefits.

Pensioner Mortality risk – the risk that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period.

Inflation risk – the risk that inflation is higher than anticipated, increasing pension payments, and the associated employer contributions.

Gold State Super

There are a number of risks to which the Scheme exposes Horizon Power. The more significant risks relating to the defined benefits are:

Salary growth risk – the risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions.

Legislative risk – the risk that legislative changes could be made which increase the cost of providing the defined benefits.

(k) Significant events

There were no plan amendments, curtailments or settlements during the year under the Pension Scheme or Gold State Super.

(l) Effect of Asset Ceiling

The asset ceiling has no impact on the net defined benefit liability under the Pension Scheme or Gold State Super.

(m) Fair value of Scheme assets

There are no assets in Gold State Super for current employees to support the transferred benefits. Hence there is/are:

- No fair value of Scheme assets;
- No asset allocation of Scheme assets;
- No financial instruments issued by the employer;
- No assets used by the employer;

- No asset-liability matching strategies.

(n) Sensitivity Analysis

Pension Scheme

The defined benefit obligation as at 30 June 2014 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to expected pension increase rate sensitivity.

Scenario A: 0.5% pa lower discount rate assumption

Scenario B: 0.5% pa higher discount rate assumption

Scenario C: 0.5% pa lower expected pension increase rate assumption

Scenario D: 0.5% pa higher expected pension increase rate assumption

Pension Scheme	**Base Case**	**Scenario A**	**Scenario B**	**Scenario C**	**Scenario D**
		-0.5%pa discount rate	+0.5%pa discount rate	-0.5%pa pension increase rate	+0.5%pa pension increase rate
Discount rate	3.69% pa	3.19% pa	4.19% pa	3.69% pa	3.69% pa
Pension increase rate	2.50% pa	2.50% pa	2.50% pa	2.00% pa	2.00% pa
Defined benefit obligation (A $'000s)	1,281	1,362	1,207	1,206	1,363

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other obligations.

Gold State Super

The defined benefit obligation as at 30 June 2014 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to expected salary increase rate sensitivity.

Scenario A: 0.5% pa lower discount rate assumption

Scenario B: 0.5% pa higher discount rate assumption

Scenario C: 0.5% pa lower expected salary increase rate assumption

Scenario D: 0.5% pa higher expected salary increase rate assumption

Gold State Super	**Base Case**	**Scenario A**	**Scenario B**	**Scenario C**	**Scenario D**
		-0.5%pa discount rate	+0.5%pa discount rate	-0.5%pa salary increase rate	+0.5%pa salary increase rate
Discount rate	3.69% pa	3.19% pa	4.19% pa	3.69% pa	3.69% pa
Salary increase rate	5.00% pa	5.00% pa	5.00% pa	4.50% pa	5.50% pa
Defined benefit obligation (A $'000s)	594	604	584	584	605

The defined benefit obligation has been recalculated by changing the assumptions as outlined above whilst retaining all other obligations.

(o) Funding arrangements

The employer contributes, as required, to meet the benefits paid from both the Pension scheme and Gold State Super scheme.

(p) Expected contributions

	30 June 2015 $'000
Pension Scheme	**62**
Gold State Super	**137**
	199

(q) Maturity profile of defined benefit obligation

Pension scheme

The weighted average duration of Horizon Power's defined benefit obligation is 12.50 years.

Gold State Super

The weighted average duration of Horizon Power's defined benefit obligation is 3.50 years.

21 Contributed equity

	30 June 2014 $'000	30 June 2013 $'000
Opening Balance	**243,122**	236,775
Equity contribution during the financial year	**10,561**	6,347
Total contributed equity at the end of the financial year (i)	**253,683**	243,122

(i) In the year ended 30 June 2014, the increase in contributed equity was in respect of $9.4 million (2013: $5.2 million) was in support of the Aboriginal and Remote Communities Supply Project 2.1A and loan interest recoupment of $1.1 million was in respect of the Midwest gas pipeline loans.

22 Reserves

	30 June 2014 $'000	30 June 2013 $'000
Hedging reserve	**-**	(7)
	-	(7)

Nature and purpose of reserve

The hedging reserve is used to recognise the value of hedges arising from foreign currency forward contracts. As at 30 June 2014, Horizon Power did not hold any foreign currency forward contracts.

23 Key management personnel disclosures

(a) Directors

B Hammond	Chairman - Resigned 1 June 2014
I Mickel	Deputy Chairman – Acting Chairman effective 1 June 2014
R Johnston	Director
L Craigie	Director
R Wheatley	Director
D Powell	Special Advisor to the Board - Resigned 9 May 2014
I Fletcher	Special Advisor to the Board - Resigned 30 June 2014

(b) Other key management personnel

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

F Tudor	Managing Director Elect
B Hamilton	General Manager Commercial Services and Finance
S Devon	General Manager Commercial and Business Development (resigned 28 September 2013)
Z Wilk	General Manager North West Interconnected Systems
T Brereton	General Manager Power Systems Services
J Deacon	General Manager Knowledge and Technology (resigned 28 September 2013)
D Tovey	General Manager Corporate Services / Company Secretary
C Julian	General Manager Non Interconnected Systems (appointed 10 December 2013)

(c) Key management personnel compensation

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

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.

23 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

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 total fixed remuneration structures with:

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

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 novation of selected motor vehicle, electricity (to a maximum Fringe Benefits Tax allowable figure), 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.

23 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

Managing Director and Executives (continued)

Details of remuneration

(i) Non-executive directors' remuneration

2014

Name	Cash salary and fees $	Super-annuation $	Total $
B Hammond	**91,346**	**8,450**	**99,796**
I Mickel	**60,000**	**5,550**	**65,550**
R Johnston	**45,000**	**4,163**	**49,163**
L Craigie	**43,269**	**4,163**	**47,432**
R Wheatley	**45,000**	**4,163**	**49,163**
Total	**284,615**	**26,489**	**311,104**

2013

Name	Cash salary and fees $	Super-annuation $	Total $
B Hammond	95,000	8,550	103,550
I Mickel	58,500	5,265	63,765
R Johnston	45,000	4,050	49,050
L Craigie	45,000	4,050	49,050
R Wheatley	26,654	2,399	29,053
Total	**270,154**	**24,314**	**294,468**

(ii) Executives' remuneration

2014

Name	**Cash salary and fees $**	**Super-annuation $**	**Termination benefits $**	**Total $**
F Tudor (i)	440,542	40,750	-	481,292
B Hamilton	352,804	32,601	-	385,405
S Devon	91,262	15,195	297,102	403,559
Z Wilk (ii)	412,128	35,656	-	447,784
T Brereton	343,870	31,808	-	375,678
J Deacon	84,951	14,144	298,114	397,209
D Tovey	301,344	27,874	-	329,218
C Julian	193,170	17,868	-	211,038
Total	2,220,071	215,896	595,216	3,031,183

23 Key management personnel disclosures (continued)

(c) Key management personnel compensation (continued)

Managing Director and Executives (continued)

Details of remuneration (continued)

(ii) Executives' remuneration (continued)

2013

Name	**Cash salary and fees $**	**Super-annuation $**	**Total $**
F Tudor (i)	431,192	38,807	469,999
B Hamilton	342,279	30,805	373,084
S Devon	313,756	28,238	341,994
Z Wilk (ii)	425,308	25,000	450,308
T Brereton	316,994	25,000	341,994
J Deacon	290,790	26,171	316,961
D Tovey	274,347	24,691	299,038
Total	2,394,666	198,712	2,593,378

(i) In addition to cash remuneration paid, a regional travel allowance was provided to the Managing Director of $40,887 (2013: $40,000).

(ii) In addition to cash remuneration paid, non-monetary benefits such as housing and air-conditioning subsidies were provided to one executive key management personnel for the higher cost of living in regional areas. Current year benefit for Z Wilk was $85,734 (2013: $74,010). These benefits are common to a wide range of industries operating in regional locations.

All contracts provide for no entitlement to termination payments in the event of termination for serious misconduct.

24 Contingencies

(a) Contingent liabilities

Horizon Power did not have any contingent liabilities as at 30 June 2014.

(b) Contingent assets

Horizon Power did not have any contingent assets as at 30 June 2014.

(c) Contaminated sites

Under the Contaminated Sites Act 2003, the Corporation is required to report known and suspected contaminated sites to the Department of Environment and Conservation (DEC). In accordance with the Act, DEC classifies these sites on the basis of the risk to human health, the environment and environmental values. Where sites are classified as contaminated and remediation required or possibly contaminated and investigation required, Horizon Power may have a liability in respect of investigation or remediation expenses. All contaminated sites are provided for as per note 17.

25 Remuneration of auditors

	30 June 2014 $'000	30 June 2013 $'000
Audit of financial reports	**190**	176
	190	176

26 Commitments

(a) Capital commitments

	30 June 2014 $'000	30 June 2013 $'000
Within one year	**19,200**	91,670
	19,200	91,670

(i) At 30 June 2014 capital expenditure commitments principally related to Hedland Power Precinct Project ($12.8 million).

(ii) At 30 June 2013 capital expenditure commitments principally related to South Hedland Temporary Generation Project ($61.9 million), Pilbara Underground Power Project ($11.8 million), Aboriginal and Remote Communities Power Supply Project Phase 2 ($9.1 million) and Mungallah Power Station Project ($5.1 million).

26 Commitments (continued)

(b) Operating leases

	30 June 2014 $'000	30 June 2013 $'000
Within one year	**57,943**	59,789
Later than one year but not later than five years	**131,951**	160,719
Later than five years	**165,447**	226,665
	355,341	447,173

(i) These commitments consist of contractual obligations in respect of fixed charges relating to the purchase of electricity, gas and renewable energy certificates.

Forecast energy procurement requirements are not included in the above commitments.

(c) Lease commitments

(i) Operating leases
Horizon Power has recognised an operating lease over the Midwest Power Station. The lease term is 10 years and is not terminable except in circumstances of unremedied default. Lease rentals are paid per unit of electricity supplied. However, there is no minimum lease payment specified for this lease.

In addition, Horizon Power has commitments to property leases as at 30 June 2014. Lease rentals are subject to half yearly and yearly reviews.

	30 June 2014 $'000	30 June 2013 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**2,498**	4,548
Later than one year but not later than five years	**3,246**	6,159
Later than five years	**156**	819
	5,900	11,526

(ii) Finance leases

Finance leases relate to leases implicit in electricity purchase agreements identified in accordance with Australian Accounting Standards Board Interpretation 4 Determining whether an Arrangement contains a Lease.

26 Commitments (continued)

(c) Lease commitments (continued)

	30 June 2014 $'000	30 June 2013 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**53,646**	58,571
Later than one year but not later than five years	**223,923**	230,803
Later than five years	**477,147**	531,960
Minimum lease payments	**754,716**	821,334
Future finance charges	**(344,679)**	(395,310)
Recognised as a liability	**410,037**	426,024
Representing lease liabilities:		
Current (note 19)	**17,624**	15,987
Non-current (note 19)	**392,413**	410,037
	410,037	426,024

27 Pilbara Underground Power Project (PUPP)

The Pilbara Underground Power Project is a project being funded by the State Government through the Royalties for Region program, along with contributions from the Local Government Authorities (Shire of Roebourne, Town of Port Hedland and Shire of Ashburton). The project is being managed by Horizon Power.

The scope of the project is to provide cyclone affected North West towns of Karratha, South Hedland, Onslow and Roebourne with a safe and reliable power supply, by replacing ageing overhead electricity infrastructure with a new network of underground power lines and associated equipment, incorporating the latest electricity technology.

	30 June 2014 $'000	30 June 2013 $'000
The following items relating to PUPP are included in the financial statements:		
Plant and equipment	**129,537**	121,228
Trade payables	**(3,541)**	(6,107)
	125,996	115,121

28 Related party transactions

Horizon Power engaged Centric Digital International Inc, a United States of America based digital consulting firm in April 2014 for work to the value of $29,611. The Australian operations of Centric Digital was incorporated in Australia in 2014 and is controlled by Mr B Hammond, who was Chairman of the Board of Directors until his resignation on 1 June 2014.

Other than as disclosed in Note 23 Horizon Power did not transact with key management personnel or their related parties during the reporting period. As at 30 June 2014, Horizon Power did not need to recognise any assets or liabilities arising from transactions with key management personnel or related parties.

29 Interests in joint ventures

(a) Jointly controlled operations

Name of entity	Name of entity	Output Interest
Mid-West Pipeline 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 is detailed below. The amounts are included in the financial statements under their respective asset categories. The balance of this joint Venture is owned by Australian Pipeline Ltd:

	30 June 2014 $'000	30 June 2013 $'000
Hill 60 Extension	**-**	11
Total Property, plant and equipment	**-**	11

30 Reconciliation of profit after income tax to net cash inflow from operating activities

	30 June 2014 $'000	30 June 2013 $'000
Profit for the year	**81,629**	51,199
Depreciation and amortisation	**65,868**	60,952
Developer and customer contributions	**(39,721)**	(39,375)
Net loss on sale of non-current assets	**243**	161
Changes in operating assets and liabilities:		
Decrease / (Increase) in other receivables	**12,301**	(14,008)
Increase in inventories	**(4,291)**	(1,373)
Increase in other assets	**(533)**	(566)
Decrease in other payables	**(6,777)**	(2,201)
Increase / (Decrease) in derivatives	**961**	(2,332)
Decrease in income tax liabilities	**(1,770)**	(9,759)
(Decrease) / increase in employee provisions	**(2,877)**	756
(Decrease) in other provisions	**(5,119)**	(1,453)
Net cash inflow (outflow) from operating activities	**99,914**	42,001

As at 30 June 2014, Horizon Power's loans from the Western Australian Treasury Corporation amounted to $647,273,790. The borrowing limit for the year ended 30 June 2014 was $724,124,000.

31 Non-cash investing and financing activities

	30 June 2014 $'000	30 June 2013 $'000
Gifted assets	**8,008**	8,534
	8,008	8,534

32 Economic dependency

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Western Power pays money into the Tariff Equalisation Fund 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 dependent on the sufficient and timely flow of these funds to remain solvent. Horizon Power began receiving revenue from the Tariff Equalisation Fund from October 2006.

33 Subsequent Events

The Australian Government has repealed the carbon tax, with effect from 1 July 2014. This does not impact the operations of Horizon Power, or the results of those operations in the interval between the end of the reporting period and the date of this report. Although the full effect of this repeal is still being determined, it is in the opinion of the Board that it will not significantly affect the operations and state of affairs of Horizon Power in subsequent reporting periods.

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

REGIONAL POWER CORPORATION (TRADING AS HORIZON POWER)

I have audited the financial report of the Regional Power Corporation. The financial report comprises the Statement of Financial Position as at 30 June 2014, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' Responsibility for the Financial Report

The directors of the Regional Power Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Electricity Corporations Act 2005, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the Electricity Corporations Act 2005, my responsibility is to express an opinion on the financial report based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing Standards, and other relevant ethical requirements.

7th Floor Albert Facey House 469 Wellington Street Perth MAIL TO: Perth BC PO Box 8489 Perth WA 6849 TEL: 08 6557 7500 FAX: 08 6557 7600

Opinion

In my opinion, the financial report of the Regional Power Corporation is in accordance with schedule 4 of the Electricity Corporations Act 2005, including:

(a) giving a true and fair view of the Corporation's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Regional Power Corporation for the year ended 30 June 2014 included on the Corporation's website. The Corporation's management is responsible for the integrity of the Corporation's website. This audit does not provide assurance on the integrity of the Corporation's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
8 September 2014