

Annual Report 2006

For trading period 1 April 2006 – 30 June 2006

power to you

HORIZON
POWER



Table of Contents

1	Chairman And Managing Director's Report	2
2	Our Company	4
2.1	Our Profile	4
2.2	Our Purpose	4
2.3	Our Goals	4
2.4	Our Values	5
2.5	Areas Of Operation	6
2.6	Statement Of Corporate Priorities	8
3	A New Corporation	9
3.1	The New Board	9
3.2	Our Executive	10
3.3	Company Secretary	10
4	Financial Snapshot	11
5	Operational Highlights	12
5.1	Operational Priorities	12
5.2	Business Highlights	12
5.3	Safety	14
5.4	Environment	15
5.5	Renewable Energy (In Partnership With Our Service Providers)	16
5.6	Caring For Our People	17
6	Corporate Goals And Strategic Objectives	18
6.1	Stakeholder Service	18
6.2	Corporate Citizenship	20
6.3	Business Results	22
6.4	Organisational Capability	23
7	Facts And Figures	25
8	Glossary	27

	Directors Report	28
1	The Board	29
	Role Of The Board	29
	Composition Of The Board	29
	Directors	29
	Company Secretary	30
	Attendance At Board Meetings	31
2	Audit And Risk Management Committee	32
	Armc Meetings Attended	32
3	Review Of Operations During The Year	33
	Principal Activities	33
	Financial Performance	33
	Significant Changes In Horizon Power's State Of Affairs	34
	Significant Events After Balance Date	34
	Likely Developments And Future Results	35
	Environmental Regulation And Performance	35
	Code Of Conduct	35
4	Remuneration Report	36
5	State Records Act 2000	38
6	Western Australian Electoral Act 1907	39
7	Disability Access Inclusion Plan	40
8	Ministerial Direction	41
9	Public Interest Disclosures	42
10	Indemnification Of Directors And Officers	43
	Financial Report	44
	Audit Opinion	46
	Financial Statements And Notes To The Financial Statements For The Period 1 April 2006 To 30 June 2006	47

1. Chairman and Managing Director's Report

We are pleased to present Horizon Power's inaugural annual report for the period since Horizon Power's inception on 1 April 2006 to 30 June 2006.

While it has been only three months since Horizon Power formally commenced operations as an independent business, the strength of our commitment to regional WA and our vision for its future is already clear.

The recent reform of the electricity industry in WA will deliver a range of benefits to consumers – and for regional Western Australians the biggest single benefit is the establishment of an electricity corporation with a strong local presence, focused solely on their needs.

Servicing the Pilbara, Kimberley, Gascoyne, Mid-West and Goldfields / Esperance regions, we supply electricity to over 30 towns and isolated communities spread across 80% of WA's land mass.

We are proud to support the communities in which we live, working with our customers face to face and making key business decisions on the ground. With that in mind, we've established our head office in Karratha, and we now have network managers based in Broome, Karratha and Esperance servicing key regional centres.

We will work closely with our communities, customers and all levels of government to develop service provision proposals that make commercial sense for Horizon Power and its customers and social and economic sense for government.

The Regional Power Procurement Program has seen significant progress in our partnering with Independent Power Producers (IPPs) to upgrade our power generation facilities in many isolated communities. New power stations in Gascoyne Junction, Laverton and Menzies achieved successful commercial operation during 2005/06. We've also begun work on a new power station in Broome, which is due to be commissioned in February 2007, and the Derby gas-fired and Looma diesel-fired stations due to come on line in April 2007 with two more in the Kimberley to be commissioned in mid 2007. Exmouth's new power station was commissioned in September 2006.

The Regional Power Procurement Program has seen the introduction of modern, efficient and lower emission power generating facilities to many communities. We will continually evaluate and review our plans to ensure they meet the needs of the business in a changing environment. To this end, we will consider over the course of this year, our strategies for managing our electricity generating and procurement needs to ensure they are consistent with the long-term strategies of the business.

We have developed the Network Asset and Works Management Master Plan 2006/07 with a focus on improving electricity network safety, reliability, quality and performance, and to improve service and maintenance practices to make our networks "Fit for Purpose".

Despite the challenges presented by this year's above average cyclone season, and often harsh environmental conditions, our network performance has already shown an improvement.



1. Chairman and Managing Director's Report

Looking ahead, we plan to spend \$177 million in conducting our business during the 2006/07 year. This will allow our systems to be expanded to meet expected growth, while improving reliability and public safety so that we are consistently meeting the expectations of our regulators and our customers.

The regions will reap the benefits of the new Horizon Power placing a greater emphasis on our involvement in local communities, improved communication with our customers and stakeholders and devolution of decision making to local staff. Strengthened management and systems will see improvements in service delivery and performance for years to come.

While we expect the 2006/07 financial year to be testing, it will mark a significant turning point in the delivery of essential services in regional WA. We are confident we can deliver on the expectations of our shareholder and stakeholders, and we look forward to the challenge of developing and strengthening our relationships with our customers.



BRENDAN HAMMOND
CHAIRMAN



ROD HAYES
MANAGING DIRECTOR



26 September 2006

2. Our Company

2.1 Our Profile

Horizon Power was launched as a new company on 1 April 2006. It was established as an outcome of the State Government's initiative to split Western Power into four separate entities. Three principally service the South West Interconnected System and Horizon Power services regional Western Australia.

Horizon Power operates across 80% of the Western Australian land mass (some 2.5 million km²) and services 27 non-interconnected systems and the Pilbara North West Interconnected System. Headquartered in Karratha, Horizon Power has over 200 employees located at 10 sites across the state.

Horizon Power:

- has net assets of \$100 million;
- has more than 36,000 industrial, business and residential customers;
- operates the North West Interconnected System in the Pilbara, and
- operates a growing number of non-interconnected systems across regional areas of the State.

2.2 Our Purpose

To improve the lives of our customers by meeting their energy needs and driving and facilitating regional development.

2.3 Our Goals

We have four key areas of emphasis:

Business Results

To enhance Horizon Power's profitability and build the value of the business.

Corporate Citizenship

To be a responsible corporate citizen that provides lasting improvements to the lives of regional Western Australians.

Organisational Capability

To ensure that Horizon Power has the capability to carry out its purpose.

Stakeholder Service

To enhance Horizon Power's value proposition in the understanding, management and satisfaction of present and future regional energy demands.



2. Our Company

2.4 Our Values

Safety is our overarching concern.

We are dedicated to ensuring the safety of the public, our customers and our people.

Integrity

Horizon Power will build a reputation for trust and integrity by doing what we say we will.

Quality Relationships

Horizon Power values good personal and working relationships with our people and our stakeholders.

Leadership

Where we identify a need for change, Horizon Power will take a leadership role in achieving it.

Achievement

Horizon Power will achieve long-term business success by focussing on outcomes.

Commitment

Horizon Power will deliver on promises.

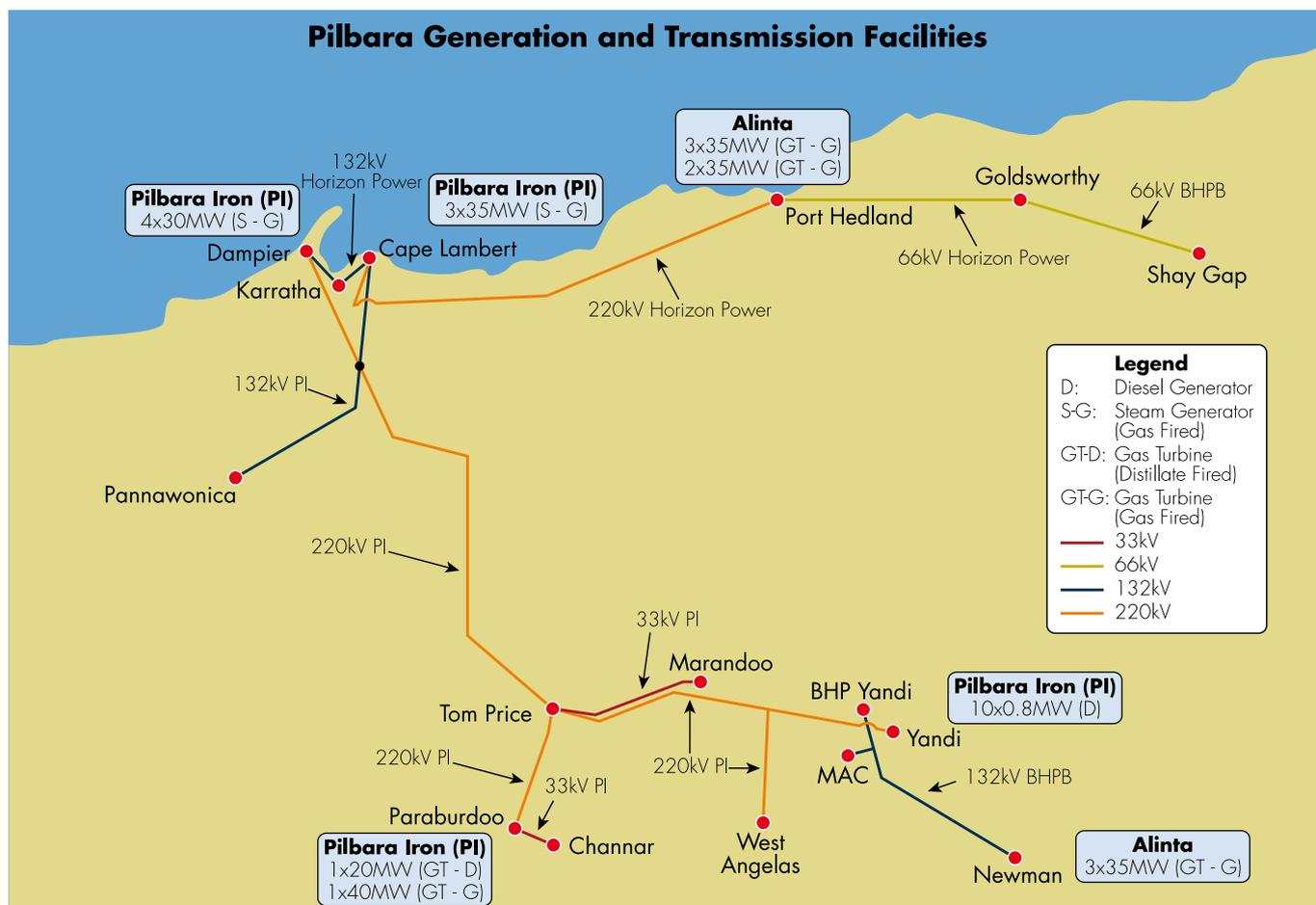


2.5 Areas of Operation

Horizon Power supplies regional and remote customers located outside of the South West of the State. It supplies about 12,000 customers in the North West Interconnected System (NWIS) and around 24,000 in 27 other remote towns referred to as the Non-Interconnected Systems (NIS).

Horizon Power Supply Areas





NWIS Network

North West Interconnected System

The NWIS comprises approximately 1,200 km of overhead transmission lines and 30 substations. Of these, Horizon Power owns 464 km of transmission lines and 9 substations.

The majority of the region's large electricity users are privately owned mines or related transport operations. Within the NWIS, Horizon Power retails energy in the townships of Karratha, Roebourne, Point Samson and Port Hedland. Horizon Power does not own any generating plant within the NWIS and contracts with other producers for electricity to meet its retail needs.

Horizon Power is reviewing generation options in the NWIS to provide cost effective continuity of supply as well as reviewing the operability of the NWIS.

Non-Interconnected Systems (NIS)

Horizon Power is a retailer of energy to a further 27 townships throughout regional WA, and will soon be the supplier of energy at 5 remote Aboriginal communities and Coral Bay under Government funded programs. Horizon Power is the owner and manager of distribution networks in each system and either owns or has contracted power generation.

Under the Regional Power Procurement Program (commenced in 1998), six new IPP power stations have been established in the Mid West, with others in Esperance, Exmouth, Gascoyne Junction, Laverton and Menzies. Construction is underway on five new IPP power stations in the Kimberley and negotiations are underway for new stations in Carnarvon, Coral Bay and two smaller remote communities.

2. Our Company

2.6 Statement of Corporate Priorities

Horizon Power's corporate purpose encapsulates two fundamental and linked aspirations.

To improve the lives of our customers by meeting their energy needs and driving and facilitating regional development.

First and foremost, Horizon Power will strive to provide quality energy services and deliver on stakeholder commitments in respect to upgrading, expanding or developing these services.

By maintaining a safe environment, managing its operations and delivering on its commitments, Horizon Power will solidly establish and progressively enhance the equity of its brand.

In turn this corporate experience and credibility will be used to realise Horizon Power's strategy of proactively driving and facilitating regional development through the provision of the essential services required to support regional growth.

In order to achieve these aspirations, Horizon Power will focus on:

- achieving this in an environment where the safety of our staff and customers is our primary concern;
- ensuring our people have the necessary skills and resources to succeed in our purpose;
- earning our customers' respect through excellent customer service and fair but firm commercial discipline;
- balancing social, environmental and economic objectives; and
- maintaining excellent relationships with key private and government stakeholders so as to effect plans and impact regional development initiatives.

As a new entity, Horizon Power has focussed on establishing a sound governance and management structure based on the needs of the new organisation. The State Government has appointed a strong Board to represent the interests of Horizon Power's customers. Four of the Board members are regionally based, complimented by two Perth based Directors.



3. A New Corporation

3.1 The New Board

A new and vibrant Board of Directors has been appointed to provide Horizon Power with strategic direction and strong governance. The Board expects to meet at least bi-monthly and endeavour to hold a significant number of meetings in regional WA.

This year will see meetings held in Karratha, Kununurra, Esperance and Broome.

The Board members of Horizon Power are:

Brendan Hammond (Chairman)

Appointed in December 2005 term expires on 31 March 2009

Alan Dundas (Deputy Chairman)

Appointed on 1 April 2006 term expires on 31 March 2009

Peter Yu

Appointed on 1 April 2006 term expires on 30 June 2008

Susan Bradley

Appointed on 1 April 2006 term expires on 30 June 2007

Tony Chilvers

Appointed on 1 April 2006 term expires on 30 June 2007

Rod Hayes (Managing Director)

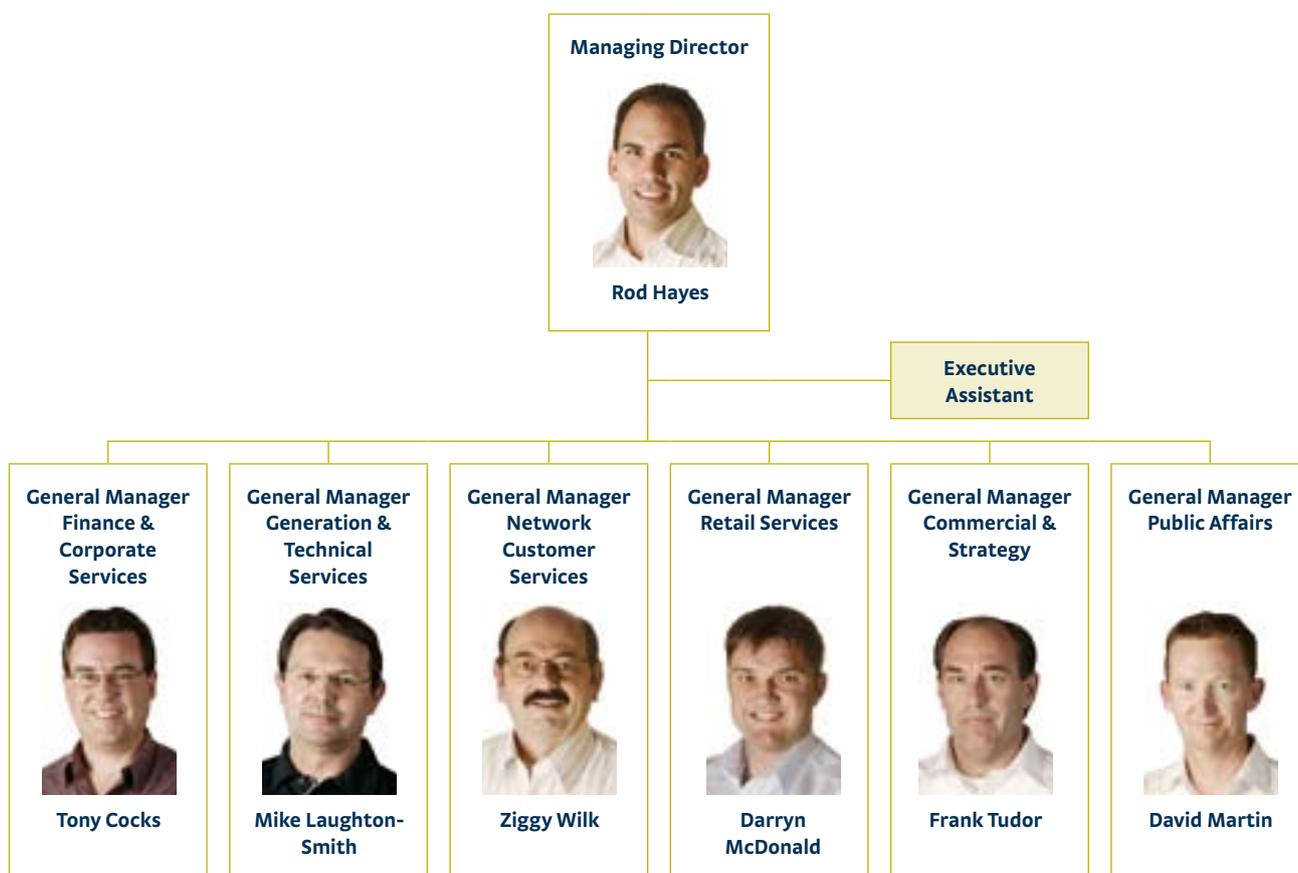
Appointed on 1 April 2006 term expires on 30 June 2008



L to R: Tony Chilvers, Alan Dundas, Susan Bradley, Rod Hayes, Brendan Hammond, Angela Riley and Peter Yu.

3. A New Corporation

3.2 Our Executive



3.3 Company Secretary



Horizon Power's Company Secretary is:

Pete Feldhusen
Manager Corporate Services

4. Financial Snapshot

	\$'000
Revenue from ordinary activities	29,089
Cost of sales	34,765
Gross loss	(5,676)
Other income	3,274
Other expenses	11,068
Borrowing costs	3,869
Loss before income tax benefit	(17,339)
Income tax benefit gain	(5,260)
Loss for the period	(12,079)



5. Operational Highlights

5.1 Operational Priorities

Horizon Power operates in an environment where the health and safety of our staff and customers is our primary concern. With this in mind, the business will continue to focus on improving the reliability and security of electricity supplies whilst ensuring staff and public safety.

Horizon Power will place an emphasis on:

- meeting all statutory and regulatory obligations;
- ensuring the achievement of financial targets agreed with Government;
- building quality relationships with the Government and other key stakeholders; and
- developing a flexible approach to resourcing which maximises commercial focus and positions the business to be able to lead and contribute to regional and State development initiatives.

5.2 Business Highlights

As part of Horizon Power's commitment to improving the power supply to remote and regional areas of Western Australia, the company has undertaken considerable work facilitating new power stations, improving existing stations and developing new depots.



The West Kimberley Power Project

Work began in May 2006 on the new gas-fired Broome power station, with Western Australia's Energy Minister, the Hon Francis Logan MLA kicking off construction work with a soil-turning ceremony. The power station is expected to be commissioned in February 2007.

Three more gas-fired power stations will be built in Derby, Fitzroy Crossing and Halls Creek, and a diesel-fired station will be built in Looma. The Looma and Derby stations will be the first to come on line in April 2007, while the others will begin commercial operations in mid 2007.

The Exmouth Power Project

The new gas-fired power station in Exmouth was constructed during 2005/06 and commenced operations in September 2006.

Remote Towns Power Project

Three new power stations in Gascoyne Junction, Laverton and Menzies commenced operating in 2006.

Hopetoun Power Project

A new 1.9 MW "low-load" diesel power station and second wind turbine are being built to accommodate an increase in demand in Hopetoun. The new power station will be built by our renewable energy partner, Verve Energy, which will wholesale the electricity to Horizon Power to distribute and sell to our customers. The target date for commissioning is February 2007.

Coral Bay Power Project

The State Government has asked Horizon Power to take responsibility for power supplies in Coral Bay, including establishing a new wind/diesel generation system. A preferred site for the new station has been selected. It is planned to begin site works in late 2006, with commissioning targeted for mid 2007.

Aboriginal and Remote Communities Power Project

Horizon Power is working with Energy Generation Pty Ltd to develop new diesel-fired power stations to provide a reliable electricity supply to the remote communities of Bidyadanga, Ardyaloon, Beagle Bay, Djarindjin/Lombadina and Warmun. The first of the new power stations is planned to be commissioned in Warmun in late 2006 with the others to follow in 2007. Horizon Power will also upgrade the distribution networks to a safe and reliable standard and become the retailer of electricity in the communities at the State uniform tariff.

5. Operational Highlights

Town Reserves Regularisation Project and Horizon Metering Services

Horizon Power, in conjunction with the Department of Housing and Works, is upgrading power supplies to town reserve communities located in its service areas. This program also saw a new electricity metering service introduced by Horizon Power that supplies and installs pre-payment electricity meters in Indigenous communities.

Other activities

At the direction of the Minister for Energy, Horizon Power did not apply for a license to operate in the Pilbara town of Wittenoom. Horizon Power officially ceased operations on 1 July 2006 and removed the power system, including the power station, shortly after.

Planning has also begun on new depots for Esperance and Broome as part of improvements in customer service and operational efficiency and effectiveness in the towns. In both cases, the depots will be designed for easy customer access.



5. Operational Highlights

5.3 Safety

Horizon Power's customers expect a safe and reliable network and the company is working to ensure all steps are identified to appropriately mitigate any safety risk.

As part of Horizon Power's upgrade of the distribution network in areas surrounding Esperance, some 23,000 power poles and other structures will be inspected to ensure they comply with regulatory and safety requirements. Horizon Power has commenced a program to bring in additional resources to address any non-compliant network issues. It is expected the project will take four to five years to complete.

The upgrade of distribution networks in communities as part of the Town Reserves Regularisation Project will also improve the reliability and safety of the distribution networks, with infrastructure being placed underground.

Ongoing training is also important for improved safety. To this end, a team of Horizon Power linesmen competed in this year's Energy Industry Safety Field Days, held in Dubbo, to pit their skills against teams from other states in a competition that required them to assess and contain problems in two field scenarios. The competition honed the team's performance in hazardous situations as well as providing staff the opportunity to learn from the ideas and processes of linesmen around Australia.

Performance Indicators (Rolling 12 months)	Actual	Target
Lost Time Injury Frequency Rate (LTIs / million hours worked)	5.7	Less than 6
All Medical Frequency Rate	17.1	Less than 26



5. Operational Highlights

5.4 Environment

Horizon Power is committed to delivering a quality, reliable, electricity supply in an environmentally sustainable and responsible manner. The company recognises that our innovative programs and on-going management procedures must protect the rights of future generations to a sustainable and diverse natural environment. Horizon Power will look for every opportunity to enhance environmental performance and to contribute to sustainable practices.

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

Greenhouse gas emissions

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

Greenhouse gas emissions by source

Performance Indicator	Tonnes of Carbon Dioxide equivalents (CO ₂ -e)
Electricity generated for export/fleet vehicles (<i>Internally produced</i>)	36,958
Electricity purchased for sale/office energy use (<i>Externally produced</i>)	94,207
Total emissions allocated to kWh sent out	131,165

Performance Indicator	Kilograms of Carbon Dioxide equivalent per Kilowatt Hour (kg CO ₂ -e/kWh)
Overall carbon intensity	0.839

Abatement from renewable generation

Facility	Tonnes of Carbon Dioxide equivalents (CO ₂ -e)
Esperance wind farm	3,828
Denham wind farm	289
Hopetoun wind farm	131
Ord River Hydro	9,691
Carnarvon Solar Farm	5
TOTAL	13,939

Greenhouse Response

Horizon Power sold a total of 91 GWh in electricity during the reporting period. Direct greenhouse gas emissions associated with the electricity generated by Horizon Power amounted to 36,958 tonnes of carbon dioxide equivalent (CO₂-e).

A further 94,207 tonnes of CO₂-e was generated by other entities from whom we purchased electricity to distribute to Horizon Power customers.

Renewable energy generation has led to the offset of 13,939 tonnes of CO₂-e. The net greenhouse gas emissions associated with the corporation's electricity sales in the reporting period is 131,165 tonnes.

Environmental licences held by Horizon Power	Total
Western Australia Department of Environmental Protection License	3
Department of Industry and Resources License to Store Dangerous Goods	14

Atmospheric emissions

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

Performance Indicators	Kgs emitted per MWh of electricity generated
Sulphur Dioxide Emissions by regional power stations.	0.33
Nitrogen Oxides Emissions by regional power stations.	15.82

5. Operational Highlights

Environmental investigations and monitoring

In May, Horizon Power approved \$185,000 worth of environmental investigations into contamination of decommissioned power station sites in the Mid West including Mt. Magnet, Cue, Wiluna, Meekatharra, Sandstone, Yalgoo and Esperance on the South coast. The investigations are part of a due diligence process to establish potential environmental and health risks for each site.

Horizon Power also undertook \$30,000 worth of groundwater monitoring and analysis for Exmouth and Carnarvon in April and in June approved \$8,000 for annual groundwater monitoring at Derby. The ongoing monitoring is mandated by the Department of Environment and Conservation.

A provision of \$7.2 million has been made for the decommissioning and remediation of old power station sites.

5.5 Renewable energy (in partnership with our service providers)

Horizon Power is joining with business partners to meet its renewable energy obligations and to encourage the development of renewable energy resources in Western Australia.

Horizon Power has contracts in place to secure all of its obligations for the 2006 calendar year. While Horizon Power does not own any renewable energy projects, 100 per cent of its Renewable Energy Certificates will be sourced from renewable energy projects within its supply area. New renewable energy projects planned this year include expansion of the Hopetoun wind farm and new wind farm for Coral Bay to add to the existing Esperance, Hopetoun and Denham wind farms, of which Horizon Power is the sole customer. Horizon Power is also a major customer for the large scale, Ord hydro power station in the East Kimberley.



5. Operational Highlights

5.6 Caring for our people

Our people are critical to the success of our business. We will continue to build their capabilities and look at recruiting the best available. We have a number of programs in place to help achieve this.

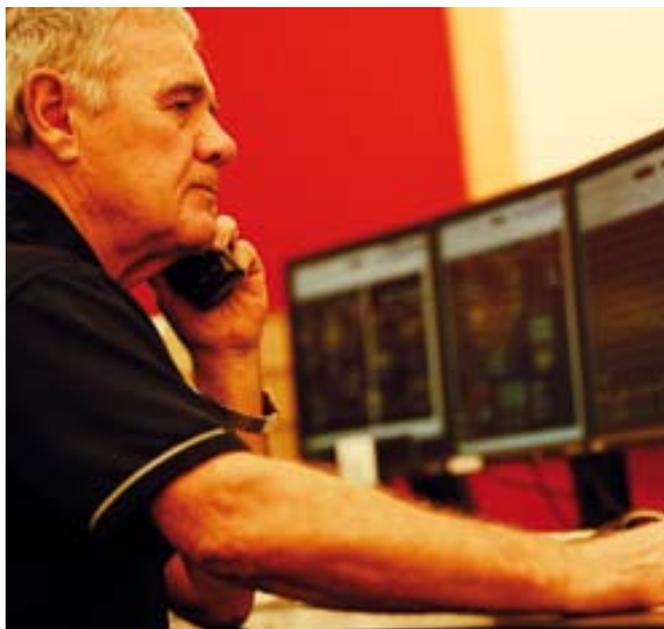
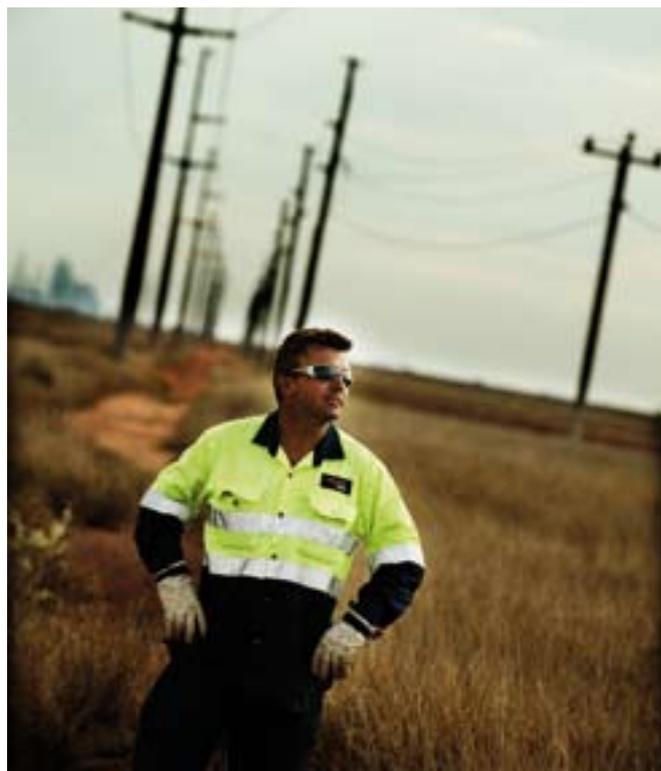
Flexible Lineperson Retention Program

Horizon Power is developing an agreement and implementing arrangements with Western Power to allow Horizon Power linepersons and technical employees to transfer between the businesses without affecting entitlements.

This will assist in retaining and attracting staff by building flexible working arrangements.

Human Resources (HR) Development Program

Building the skills and capabilities of staff will enable Horizon Power to meet the increased expectations of our stakeholders and make the most of the myriad opportunities that are present in regional WA. Attracting and retaining highly skilled personnel will require a new approach and the HR Development Program will include strategic programs to deliver a dedicated and skilled, customer oriented workforce.



Regional Attraction and Retention

Horizon Power has reviewed its existing Location, Electricity and Housing Allowances for employees at remote locations. The allowances have been enhanced and re-packaged to provide increased benefits and flexibility to employees. The initiative aims to support the recruitment of employees needed to deliver the Horizon Power Vision and to reduce employee turnover to improve performance and costs.

In meeting the expectations of our stakeholders, and in a manner that provides both a safe working environment and ensures the safety of our communities, Horizon Power will endeavour to realise a balance between four integrated business goals:

- Stakeholder Service;
- Corporate Citizenship;
- Business Results; and
- Organisational Capability.

6. Corporate Goals and Strategic Objectives

6.1 Stakeholder Service

Horizon Power will commercially and efficiently deliver a reliable, targeted and tailored mix of value-adding products, services and competencies to all customers in regional and remote areas.

Undertakings Effecting Stakeholder Service

Reliability Performance

The provision of a safe, reliable and efficient energy service with first-rate customer service is at the very heart of everything we do.

Horizon Power is operating to meet the requirements of the Electricity Industry (Network Quality and Reliability of Supply) Code 2005. This code came into effect on 1 January 2006 and sets out the minimum quality and reliability standards the Corporation is expected to meet in its service areas.

The measures are an average over a rolling 12-month period. The largest contributor to the statistics during this period has been the unusually high number of cyclones that impacted on the northern part of the state in early 2006.

We are focussed on continuously improving the performance of our systems. To achieve this, we are finalising the Asset and Works Management Master Plan. This plan seeks to ensure the distribution and transmission networks are “fit for purpose” and:

- present low risk to the safety of our people and communities;
- supply quality and reliable power;
- are designed to grow at the same pace as our communities;
- represent value for money;
- are replaced before the end of their useful life;
- are proactively maintained to minimise points of failure; and
- comply with all regulations, codes and standards.

Three regions have been formed (Kimberley, Pilbara and South), to manage the network assets and each region is developing and implementing a region specific Asset Management Plan underpinned by the Master Plan. This decentralised management, with centralised support, will provide better-targeted and resourced reliability improvement initiatives. The plan will be regularly reviewed and updated.



PERFORMANCE INDICATORS	2005/2006	
	Actual	Target
SAIDI - Outage duration (minutes) Total duration of interruptions (minutes) Average number of customers interrupted	366	290
SAIFI – average number of incidents Total number of interruptions x number of customers interrupted Average number of customers	5.1	16
CAIDI – average duration of incident Total duration of interruptions (minutes) Total number of interruptions x number of customers interrupted	71.2	18.1

Note: Data is rolling 12 months to 30 June 2006.

6. Corporate Goals and Strategic Objectives

Customer Charter Results

Performance Indicators	Actual	Target
Fault restoration within 4 hours	91%	85%
New connections	90%	within 5 working days
Streetlights restored (NWIS) *	66%	within 5 days
Streetlights restored (NIS) *	70%	within 9 days

* These results were heavily impacted by Tropical Cyclone Glenda that crossed the Pilbara coast on March 30.

North West Interconnected System (Pilbara) Opportunity

The Pilbara region continues to be a prime driver of economic growth in Western Australia. To underpin this growth, a reliable and stable electricity network is required to service existing mining, commercial and domestic operations and to encourage economic development.

However, the existing NWIS in the Pilbara is made up of a series of “unconnected” power systems, primarily developed independently to meet the large demand requirements of the separate owners (mostly mining companies). As a consequence, system issues persist. For example, there is no policy on spinning reserve, central control or coordinated planning for expansion. Horizon Power, working with like-minded NWIS stakeholders has achieved some success by connecting some of the isolated systems and entering into bilateral agreements to purchase electricity for distribution to primarily franchise customers.

Given its importance to the State and Pilbara stakeholders, the work on the NWIS will receive special attention and priority within Horizon Power to ensure that all reasonable means are used to address differential ownership barriers and develop optimal solutions for the greater good of the customers, the network and the ongoing prosperity of the region.



6. Corporate Goals and Strategic Objectives

Independent Power Production (IPP)

Horizon Power has undertaken a regional power procurement strategy aimed at replacing aging generation facilities with new capacity installed, owned and operated by independent power producers as a part of an overall system designed, executed and controlled by Horizon Power.

Since 1998, Horizon Power has replaced 12 power stations with independent power producer facilities and is in the process of negotiating and implementing power purchase agreements that will result in the establishment of a further 8 power stations across the state to replace aging infrastructure in these towns.

East Kimberley Power System Study

A working group comprising the Department of Industry and Resources (DoIR), Kimberley Development Commission, Office of Energy, Water and Rivers Commission and Horizon Power has been formed to identify power system options to meet the needs of proposed developments in the East Kimberley region.

Developments such as Stage 2 of the Ord Irrigation Project and the needs of other key stakeholders will also be addressed in the review. Horizon Power is evaluating sustainable generating options for the East Kimberley, Wyndham and Kununurra factoring in the requirements of community and commercial issues in the region.

Port Hedland Undergrounding Project

Horizon Power initiated an intensive stakeholder engagement strategy to elicit stakeholder and community support for Port Hedland in the State Underground Power Program. The accomplishment of this project early next year will bring substantial benefits to the town.

Key Indicators of Stakeholder Service

Performance Indicators	Definition	Actual	Target
Operational Performance Complying towns/ systems	Achievement of acceptable system reliability performance standards (as agreed or per the Reliability Code) for each township or integrated system	22	18/29
Corporate Reputation Corporate Reputation Index (%)	Perception of Horizon Power by regional customers and stakeholders (undertaken by an independent research agency).	58	58



6.2 Corporate Citizenship

Horizon Power will work with Government, customers and local stakeholders to proactively drive and deliver value from regional development in ways that are environmentally, socially and commercially sustainable.

Undertakings Effecting Corporate Citizenship

Aboriginal and Remote Communities Power Supply Project

Aligned with the first element of Horizon Power's corporate purpose, and in consultation with the Office of Energy and the Commonwealth Department for Family, Community Services and Indigenous Affairs, Horizon Power is undertaking a joint project to upgrade the provision of electricity supply to five Kimberley Aboriginal communities: Ardyaloon; Beagle Bay; Bidadanga; Djarindjin/Lombadina; and Warmun. It is expected that further phases of the project will extend to 10 other large permanent remote Aboriginal communities after 2007. Network upgrades in the five communities are expected to commence in 2006 and be completed in 2007.

6. Corporate Goals and Strategic Objectives

Town Reserves Regularisation Project

The State Government requested Horizon Power to participate in the Town Reserves Regularisation Program, which is being managed by the Department of Housing and Works (DHW).

Under this program, Horizon Power will assume responsibility for the distribution and retail of electricity in 15 Aboriginal Town Reserve communities, initially in the Kimberley region. These communities already receive supply from Horizon Power's existing power station in the towns.

The project involves installing individual pre-payment meters (PPMs), upgrading (or rebuilding) and taking responsibility for the community electricity distribution system, and providing retail services to occupants of each dwelling. This project will run over the next two years. The State Government funds the program via the DHW.

Coral Bay

The Government is funding a new power system at Coral Bay. Horizon Power will install a new electricity network for the settlement and our renewable energy partner, Verve Energy, will construct a wind-diesel generating system. Horizon Power will assume responsibility as the retailer and provide electricity to customers at Uniform Tariff rates. The project should be completed in mid-2007.

Renewable Energy

There are five wind farms operating in Horizon Power systems across the State and another planned for Coral Bay. Horizon Power is a major customer of the Ord Hydro power station, which supplies the company's needs for Wyndham and Kununurra. A private solar energy farm, commissioned in October 2005, has been contracted to supply electricity in Carnarvon.

Horizon Power has structured its Power Purchase Agreements with independent power producers to allow for renewable energy to form a part of the generating capacity. Private investment in small domestic renewable energy systems is also being supported by the introduction of a buyback scheme.

Horizon Power will support the identification and development of other renewable projects in its systems.

Key Indicators of Corporate Citizenship

Performance Indicators	Definition	Actual	Target
Regulatory Compliance	The number of notifiable regulatory breaches arising from Horizon Power's activities or response that could attract a penalty.	0	0
Number of notifiable breaches			



6. Corporate Goals and Strategic Objectives

6.3 Business Results

Horizon Power is committed to constantly improving the efficiency with which it delivers its products and services. Horizon Power will maintain effective financial management and governance systems that will assist in building the value of Horizon Power for its owner.

Undertakings Effecting Business Results

Funding and Revenue

Horizon Power is funded through four discrete funding and revenue streams.

Firstly, Horizon Power derives a key stream of revenue from electricity sales, power services and ancillary charges to customers under gazetted and commercial terms.

Secondly, and perhaps, fundamentally, the Tariff Equalisation Fund provides a transparent mechanism by which Government funds the Uniform Tariff Policy, which provides subsidised electricity to the residents of regional WA.

This open subsidy allows Horizon Power to operate under strict commercial disciplines while overtly displaying the mechanism by which a non-commercial aspect of the business is accounted for.

The third stream of funding recognises the initially uncommercial nature of many regional development projects. Community Service Obligation (CSO) payments are provided by Government to enable Horizon Power to apply commercial rigour to state and regional development projects that are either initiated by Government or by Horizon Power in consultation with Government and regional stakeholders.

Fourthly, in consultation with Government, where required and appropriate, Horizon Power will seek to access external funding to develop projects involving regional stakeholders and business counterparties.



Horizon Power's Capital Program

In addition to normal capital expenditure relating to asset replacement and system enhancement which caters for increases in electrical demand and improved supply reliability, the budget forecasts include capital expenditure relating to the following matters:

- Significant Government-funded expenditure on capital projects associated with the Aboriginal and Remote Communities Power Supply Project and Town Reserves Regularisation Project;
- Connection of the power stations being constructed in the West Kimberley (Broome, Looma, Derby, Fitzroy Crossing and Halls Creek) and other systems, with their respective networks;
- Undergrounding of the Port Hedland network through the State Underground Power Project;
- Extending Supervisory Control and Data Acquisition (SCADA) visibility to the Kimberley network;
- Establishing a new northern regional office in Broome; and
- Establishing a new southern regional office in Esperance.

6. Corporate Goals and Strategic Objectives

Diesel Prices and Excise

The cost of diesel fuel, a significant input to Horizon Power operations, has continued to exceed projections. Higher fuel prices and unfavourable exchange rate movements have increased fuel purchase costs for Horizon Power-owned generators and for purchases from independent power producers.

Horizon Power purchased approximately 51 million litres of diesel in 2005/06, but this will fall to 35 million litres in 2006/07 and to insignificant levels in later years as the transition to contractor-owned and operated power stations is completed. After this transition has been completed however, Horizon Power will still have exposure to diesel prices through various power purchase agreements equivalent to approximately 20 million litres per annum.

Key Indicators of Business Results

1 April 2006 – 30 June 2006

Performance Indicators	Definition	Actual	Target
EBIT	Earnings before Interest and Tax. (Total Income - Total Expenditure)	(\$13.5 M)	(\$21.3)
Average unit cost	Total Operating Expenditure (excl interest) / Total Sales (kWh).	30.9 cents/kWh	30.7 cents/kWh
Average Selling Price	Sales \$ / Total Sales kWh	15.1 cents/kWh	14.5 cents/kWh



6.4 Organisational Capability

Horizon Power will base its success on being a business that is agile, urgent, professional and commercially focussed.

Undertakings Effecting Organisational Capability

Developing Retail Functionality

The underlying objective of the Retail business is to better serve Horizon Power's customers. The Retail group will drive the business strategies for developing new and improved services and products ensuring the satisfaction of our customers.

Horizon Metering Services

Horizon Power has launched a new business activity that will provide pre-payment electricity and metering services to third parties. The Bunuba and Junjuwa communities in Fitzroy Crossing were the first two communities to implement this service in June 2006. The new business will develop contract-based metering services for Indigenous communities on request.

Doing Business Smarter

The formation of Horizon Power presents many opportunities to streamline and improve many inherited business processes. The "Doing Business Smarter" project was initiated to harvest ideas from staff that will improve service delivery, contribute to better business outcomes and reduce costs. Many improvements have already been implemented, with others currently being developed and assessed.

Network Asset Management Focus and Devolved Structure

A greater emphasis has been placed on improving asset management practices and devolving asset management decisions to a local level. A new structure has been implemented that provides for key network asset management decision makers to be located in major regional centres meaning local decisions will be made by local managers with specific knowledge of local conditions and issues. A greater emphasis has been placed on ensuring network infrastructure is fit for purpose and plans have been drawn up for a more proactive approach to improving and maintaining network infrastructure.

6. Corporate Goals and Strategic Objectives

Workforce

Horizon Power's management structure recognises the distinct responsibilities of retail, network and generation inherent in a vertically integrated business.

The new structure places a greater emphasis on customer and stakeholder engagement, having a local presence with decision-making authority, and facilitation of regional development.

Workforce Snapshot

Horizon Power Workforce Distribution as at 30 June 2006	
Managing Director's Office	2
Commercial and Strategic Services	7
Network Customer Services	82
Finance and Corporate Services	37
Generation and Technical Services	49
Public Affairs	8
Retail	5
TOTAL	190



7. Facts and Figures

Asset Snapshot as at 30 June 2006

	Overhead (km)	Underground (km)
Transmission Lines		
6.6 kV	148	0
33 kV	26	0
132 kV	71	0
220 kV	200	0
Total Transmission Lines	446	0
Distribution Lines		
High Voltage	2,603	175
Low Voltage	711	307
Total Distribution Lines	3,314	482
Other		
Transformer Capacity (kVA)		276,352
Street Lights		11,589



7. Facts and Figures

Power Generated and Purchased April 2006 – 30 June 2006

Town	Generated Power (kWhs)	Wind Power Generated (kWhs)	Purchased Power (kWhs)	Total Generated or Purchased (kWhs)	Used in Works (kWhs)	Sent Out (kWhs)
Broome	11,879,587		12,604,400	24,483,987	349,609	24,134,378
Camballin	477,706			477,706	8,874	468,832
Carnarvon	10,278,242			10,278,242	472,942	9,805,300
Cue			418,594	418,594		418,594
Denham	815,188	398,141		1,213,329	11,503	1,201,826
Derby	6,403,066			6,403,066	243,248	6,159,818
Esperance			17,663,541	17,663,541		17,663,541
Exmouth	4,348,129			4,348,129	83,867	4,264,262
Fitzroy Crossing	2,341,391			2,341,391	36,995	2,304,396
Gascoyne Junction			120,939	120,939		120,939
Halls Creek	2,066,420			2,066,420	10,480	2,055,940
Hopetoun	891,137	213,448		1,104,585	6,960	1,097,625
Kununurra	23,351		11,964,751	11,988,102	1,072,316	10,915,786
Lake Argyle			61,074	61,074		61,074
Laverton			706,254	706,254		706,254
Leonora			2,235,687	2,235,687		2,235,687
Marble Bar	337,853			337,853	1,473	336,380
Meekatharra			1,426,108	1,426,108		1,426,108
Menzies			128,522	128,522		128,522
Mount Magnet			986,525	986,525		986,525
Norseman			1,327,083	1,327,083		1,327,083
Nullagine	209,670			209,670	7,583	202,087
Onslow			1,070,432	1,070,432		1,070,432
Sandstone			170,882	170,882		170,882
Wiluna			492,822	492,822		492,822
Wittenoom	15,004			15,004	1,362	13,642
Wyndham	59,075		1,506,108	1,565,183	40,900	1,524,283
Yalgoo			178,400	178,400		178,400
NWIS			69,950,144	69,950,144		69,950,144
Total	40,145,819	611,589	123,012,266	163,769,674	2,348,112	161,421,562

Power Distributed

Sent out - GWh	163.8
Line Loss - GWh	15.5
Sold to customers - GWh	148.2

8. Glossary

CAIDI

Total outage duration minutes/average number of customers.

CO₂

Carbon Dioxide.

CO₂e

Carbon Dioxide equivalent

The amount of carbon dioxide that has the same global warming effect as a mixture of greenhouse gases.

GW

Gigawatt.

A measure of electrical power. Equivalent to one million kilowatts.

GWh

Gigawatt-hour.

One Gwh = 1000 MWh or one million kilowatt-hours.

IPP

Independent Power Producer. A company that generates electricity and provides to Horizon Power.

kV

Kilovolt

One kV = 1000 volts. A volt is the unit of potential of electric pressure.

kW

Kilowatt.

One kW = 1000 watts. A watt is the rate at which electrical energy is produced or used.

kWh

Kilowatt-hour.

The standard unit of energy, equivalent to the consumption rate of one kilowatt for one hour. Commonly used as the 'unit' of electrical energy.

MW

Megawatt

One MW = 1000 kW or one million watts.

MWh

Megawatt-hour.

One MWh = 1000 kWh.

Non Interconnected System or NIS

A stand alone supply system servicing an isolated community comprising power station and distribution network.

NO_x

Nitrogen Oxides. A term used for a mixture of nitrogen oxides.

NWIS

North West Interconnected System

SAIFI

Total customers interrupted/average number of customers

SAIDI

Total duration of interruptions /average number of customers interrupted

SO₂

Sulfur Dioxide

Spinning Reserve

The amount of instantly available spare generation capacity on the system at any one moment.

SWIS

South West Interconnected System

TJ

Terajoule.

One TJ = one million, million joules, or 10¹² joules.

Used to indicate the energy content of gas.

Directors Report

The Board of Directors present their report on the Regional Power Corporation, trading as Horizon Power, ABN 57 955 011 697, for the reporting period 1 April 2006 to 30 June 2006.



1. The Board

Role of the Board

The Board of Directors is the governing body of the Corporation and is responsible to the Minister for Energy (“the Minister”) for the performance of the Corporation.

Composition of the Board

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

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

Directors

The following persons have been appointed as the inaugural Horizon Power Board.



Brendan Hammond (Chairman)

Mr Hammond brings with him a wealth of experience as Horizon Power’s inaugural Chairman. He has worked in large mining corporations for most of his career, progressing through all levels of line management, and until recently served as Managing Director of Argyle Diamond Mines in Western Australia. He is a visionary leader with a track record of effecting large-scale organisational change.



Alan Dundas (Deputy Chairman)

Mr Dundas has accumulated more than 28 years of experience in the mining industry both in Australia and overseas, most recently with Western Mining Corporation where he has served in senior management and Board roles. He brings to Horizon Power a proven track record in management and strategic planning.

Mr Dundas is a member of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Mining and Metallurgy. He has also held company representative roles with the Chamber of Minerals and Energy in Western Australia and the Northern Territory.



Peter Yu

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

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

His current positions include Chairman of the Aboriginal Housing and Infrastructure Council (WA) and Board member of the State Housing Commission, Lingiari Foundation and Lingiari Policy Centre. He also serves on the Board of Trustees for the West Australian Museum.

1. The Board



Susan Bradley

Ms Bradley's extensive business and community experience in the Kimberley has included owning and operating cattle stations, farms on the Ord Irrigation Area and a caravan park in Kununurra. She has lived in the Kimberley for more than 35 years and held positions including the Wyndham-East Kimberley Shire President, Chair of the Ord Development Study, Inaugural Chairman of the Kimberley Development Commission and Chair of the Kimberley Regional Water Resources Development Study. She is a Justice of the Peace, a Civil Marriage Celebrant and a member of the Children's Court. Ms Bradley is presently General Manager of two North Kimberley Dunkeld Pastoral Company Pty.Ltd. properties, and Ellenbrae Station Pty.Ltd. She is a Director of the Kimberley Foundation Australia Ltd.



Tony Chilvers

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

Mr Chilvers has a strong commitment to the development of the Pilbara region, and to improving services and benefits to the communities in the North West.



Rod Hayes (Managing Director)

Mr Hayes comes to Horizon Power with almost ten years of experience in Australia's utilities sector and a record of strong and dynamic leadership. Before joining Horizon Power, he served for more than three years as the Chief Executive Officer of the Gladstone Area Water Board, a government-owned commercialised business servicing one of Queensland's biggest coastal cities. As Chief Executive, Mr Hayes led the utility through its biggest challenge – transforming the organisation from an engineering-focused utility to a progressive business focused on commercial returns. Mr Hayes also brings previous experience in senior management roles in the electricity sector, after spending several years with Tasmanian electricity distribution and retail company Aurora Energy. Mr Hayes is a Fellow of the Australian Institute of Management.



Company Secretary

Peter Feldhusen

Mr Feldhusen is Horizon Power's Manager Corporate Services. He has held Board, Secretarial, Financial and Operating Management positions in a number of mining, legal and utility organisations. Mr Feldhusen joined Horizon Power from Western Power where he held the position of Manager Finance and Corporate Services for the Regional Business Unit, before which he was Manager Risk Assurance and Audit for Western Power Corporation.

1. The Board

Attendance at Board Meetings

The Board meets bi-monthly.

	Board Meetings	
	A	B
Mr Brendan Hammond (Chairman)	6	6
Mr Alan Dundas (Deputy Chairman)	6	6
Mr Peter Yu	6	6
Ms Susan Bradley	6	6
Mr Anthony Chilvers	6	6
Mr Rod Hayes	6	6

A – Number of meetings attended.

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



2. Audit and Risk Management Committee

The Audit and Risk Management Committee (ARMC) is a Committee of the Board of Directors of Horizon Power. The Committee's role is to assist the Board to discharge its responsibility of oversight and corporate governance of the organisation. In doing so, the Committee is responsible to the Board. A specialist adviser, Angela Riley, who has a strong financial and auditing background, chairs the Committee.

Directors Alan Dundas and Peter Yu make up the membership of the ARMC.

A key role of the Committee is to provide reasonable assurance to Directors that Horizon Power's core business goals and objectives are being achieved in an efficient and economical manner, within an appropriate framework of internal control and risk management.

Financial Reporting

The Audit and Risk Management Committee performs an overview function in financial reporting as follows:

- Consider the appropriateness of Horizon Power's accounting policies and principles.
- Assess significant estimates and judgements in the financial reports.
- Review management's process for ensuring compliance with laws, regulations and other requirements relating to the external reporting of Horizon Power.

- Assess information from the internal and external auditors regarding the quality of financial reports.
- Review the management of Treasury operations.

Internal Control and Risk Management

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

ARMC Meetings Attended

	Audit and Risk Management Committee Meetings	
	A	B
Mr Alan Dundas	2	2
Mr Peter Yu	2	2
Angela Riley *	2	2

A – Number of meetings attended.

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

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



3. Review of Operations *During the Year*

Principal Activities

The principal functions of Horizon Power are:

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

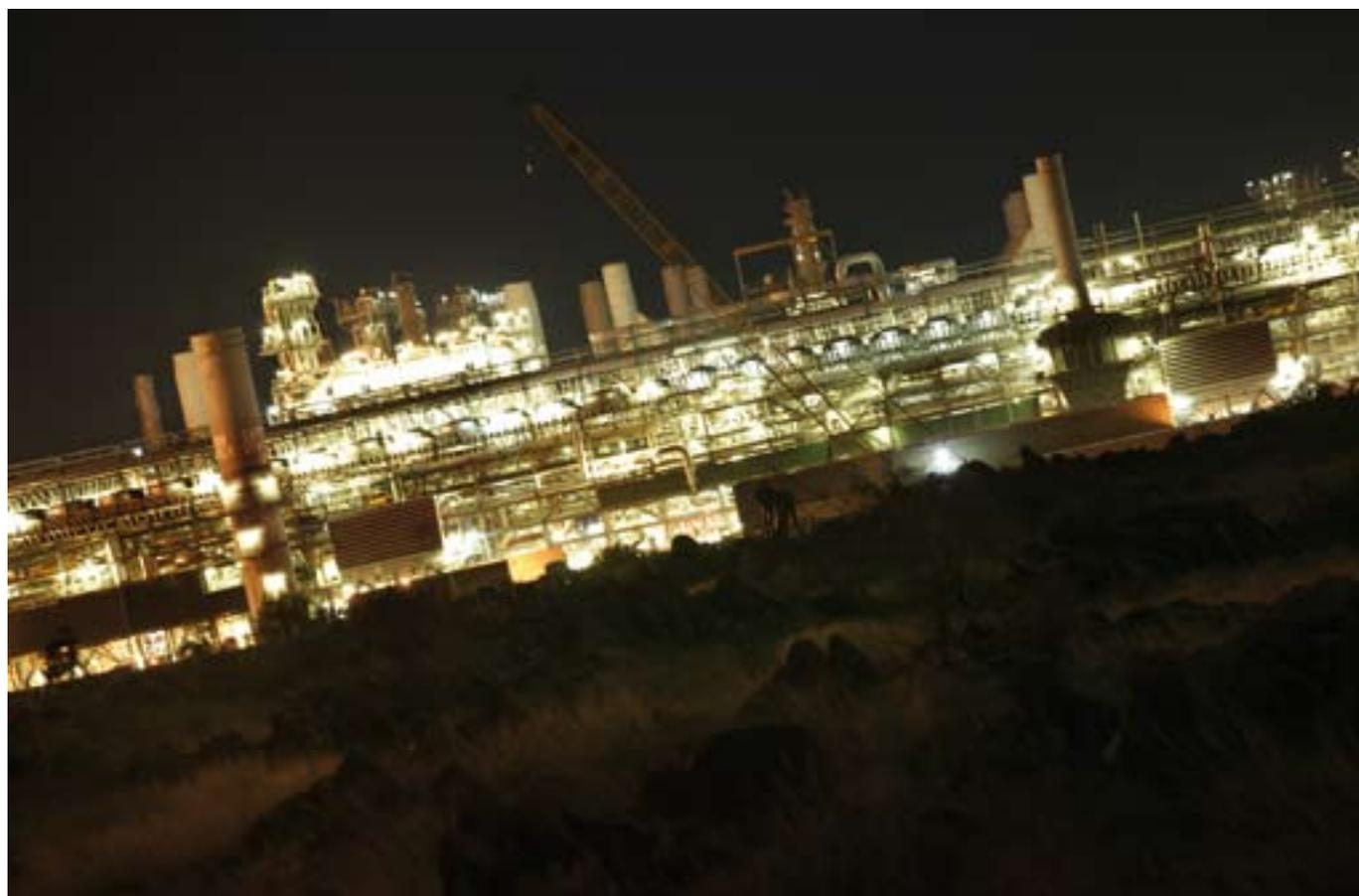
Horizon Power also performs other duties as described in the Act in accordance with prudent commercial principles and must endeavor to make a profit to maximise its long-term value.

Restriction on area in which Horizon Power may operate

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

Financial Performance

The net loss for the three-month period ended 30 June 2006 was \$12.1 million. This outcome was within expectations established with the Government during preparations for the creation of Horizon Power.



3. Review of Operations During the Year

Importantly, the net loss reflects no income from the State Government during the initial three months of operations to subsidise the maintenance of uniform electricity tariffs to regional customers. It is expected that income from the Tariff Equalisation Fund (that has been established for this purpose) will commence in 2006/07.

Horizon Power ended the period with capital employed of \$301.8 million, a small increase of \$0.7 million over the three months. Included in capital employed are interest-bearing liabilities of \$201.3 million, an increase of \$11.4 million since 1 April 2006. Again, this increase was within expectations. The ratio of interest-bearing liabilities to capital employed as at 30 June 2006 was 66.7%.

Expenditure on capital work activity was \$7.0 million during the three months. This was below expectations due to delays in the timing of some projects.

The majority of activity was focused on the expansion and upgrading of the electricity networks, including interconnection of new independent power producers and undergrounding of power supplies in Port Hedland.

Further information on the operations of the business is available from the body of the attached Annual Report.

Dividends

No dividends have been paid or recommended in respect of the three month period ended 30 June 2006.

Significant Changes in Horizon Power's State of Affairs

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

Significant Events after Balance Date

- Around midnight on Saturday 26 August, power supply was cut from Ord Hydro power station that supplies electricity to Horizon Power for distribution to the East Kimberley communities of Wyndham, Kununurra and Lake Argyle Village. The Ord hydro power station was flooded and supplies to these communities has been provided by Horizon Power back-up supplies since. At time of reporting, it was not clear how soon the situation would return to normal. The additional cost of providing back-up supplies is estimated at over \$1 million per month.



Except for the items discussed above, no other matter or circumstance has arisen after 30 June that has significantly affected or may significantly affect:

- (i) Horizon Power's operations in future financial years;
- (ii) the results of those operations in future financial years; or
- (iii) Horizon Power's state of affairs in future financial years.

3. Review of Operations During the Year

Likely Developments and Future Results

The most significant future developments for the Corporation are noted below.

Horizon Power is on track to decommission its power stations in Exmouth, Broome, Derby, Fitzroy Crossing, Halls Creek and Looma during the course of the next financial year. It will then purchase its electricity requirements in these towns from new power stations being established by Independent Power Producers, as part of the Regional Power Procurement Program.

Horizon Power is preparing to assume responsibility for the supply, distribution and retailing of electricity in Coral Bay, Warmun and a number of other Aboriginal communities as part of Government commitments to improve power supplies to those communities.

Environmental Regulation and Performance

Horizon Power acts responsibly to ensure compliance to all state and federal environmental Acts and regulations that apply.

The main environmental legislation that impacts on its operation is the Environmental Protection Act 1986. This is an Act of the Western Australian parliament and gives rise to many regulations with the main ones referred to below.



(Controlled Waste) Regulations 2004 specifies that certain wastes (used lube oil, transformer oil, interceptor wastes, oil filters, lead-acid batteries, etc) are carried only by licensed carriers and that any facility that regularly produces them has a generator identification number. Horizon Power employees two experienced companies to perform this service, Nationwide and Intercon Logistics.

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

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

- (Unauthorized Discharge) Regulations 2004;
- Contaminated Sites Act 2003 (soon to be proclaimed);
- Dangerous Goods Safety Act 2004;
- Explosive and Dangerous Goods Act 1961; and
- Environmental Protection and Biodiversity Conservation Act 1999.

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

Code of Conduct

Horizon Power has introduced a Code of Conduct, (available at www.horizonpower.com.au) which sets down standards for ethical and professional behavior for employees (including Directors). It sets out the fundamental values, which form the basis of, and underpins, Horizon Power's business relationships.

The Code abides by standards established by the Commissioner for Public Standards.

No breaches of the Code were recorded during the reporting period.

4. Remuneration Report

Principles used to determine remuneration

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

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

Key Management Personnel Remuneration

Managing Director

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

Non-Executive Directors

Payment to non-executive directors consists of base remuneration and superannuation.

Managing Director and Executives

The managing director and executives compensation framework is based upon total target remuneration that includes:

Total fixed remuneration structured with:

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

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



Annual At Risk Remuneration (ARR) Element

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

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

The first determination of ARR will be for the 15-month period ending on 30 June 2007.

4. Remuneration Report

Details of Compensation

Non-executive directors' remuneration 30 June 2006	Primary			Post-employment			Total \$
	Salary & fees \$	Bonus \$	Non-monetary	Super-annuation \$	Pre-scribed benefits \$	Other \$	
B Hammond (*)	39,308	–	166	3,552	–	–	43,026
A Dundas	14,847	–	166	1,350	–	–	16,363
P Yu	11,249	–	–	1,013	–	–	12,262
S Bradley	11,096	–	166	1,013	–	–	12,275
T Chivers	11,249	–	–	1,013	–	–	12,262
TOTAL	87,749	–	498	7,941	–	–	96,188

Executives' remuneration 30 June 2006	Primary			Post-employment			Total \$
	Salary & fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Pre-scribed benefits \$	Other \$	
R Hayes	76,248	–	16,741	12,600	–	–	105,589
T Cocks	31,203	–	7,658	7,184	–	–	46,045
M Laughton-Smith	42,514	–	166	6,582	–	–	49,262
D McDonald	50,674	–	16,583	6,517	–	–	73,774
D Martin	30,436	–	500	3,177	–	–	34,113
F Tudor	44,996	–	–	4,049	–	–	49,045
Z Wilk	38,726	–	13,493	6,562	–	–	58,781
TOTAL	314,797	–	55,141	46,671	–	–	416,609

(*) B Hammond (Chairman) was appointed in December 2005. In April 2006 he received payment of directors fees for services rendered in February and March 2006.

The non-executive directors of Horizon Power during the period were:

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

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

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

5. State Records *Act 2000*

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

The function of managing records resides within the Finance and Corporate Services Division of Horizon Power. During the disaggregation of Western Power, those record-keeping systems and records relevant to the new Horizon Power business were transferred from Western Power together with a copy of Western Power's approved Record-Keeping Plan.

This plan remains in force until updated and submitted to the State Records Office by Horizon Power within the required timeframe.

The record-keeping plan ensures all records are managed according to the requirements of the State Records Act 2000 and demonstrates an ongoing commitment to the training of staff in record-keeping principles and practices. Record-keeping systems and practices are regularly reviewed to ensure their efficiency and effectiveness.



6. Western Australian Electoral Act 1907

In accordance with the requirements of Section 175ZE of the Western Australian Electoral Act 1907, the following information in respect to expenditures (excluding GST) incurred by, or on behalf of, Regional Power Corporation during the financial period ended 30 June 2006 is as follows:

Advertising Agencies \$11,240.59	Mindfield Group Pty Ltd
Market Research Organisations \$839.96	Rehame Australia Monitoring Service
Direct Mail Organisations \$169.55	Hermes Precisa Pty Ltd
Media Advertising Organisations \$54,874.13	Media Decisions WA Market Creations Pty Ltd TMP Worldwide Pty Ltd



7. Disability Access *Disclosures*

Horizon Power will prepare a Disability Access and Inclusion Plan in accordance with the Disability Services Act 1993. The plan will facilitate the provision of accessible services, facilities and information for people with disabilities. As an interim measure, Horizon Power has adopted the Western Power Plan.



8. Ministerial Direction

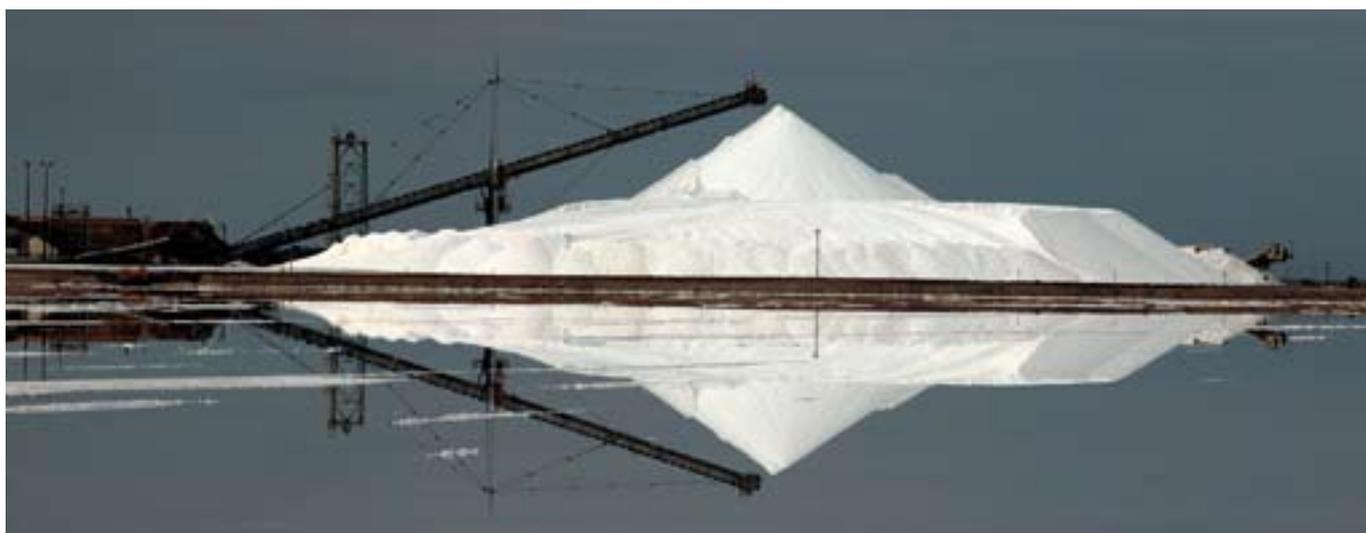
The following Ministerial Direction was received by Western Power on 8 November 2005 and has been included in this report as the matter it applies to is relevant to the reporting period of this report.

ELECTRICITY CORPORATION ACT 1994

MINISTERIAL DIRECTION

I, Alan Carpenter MLA hereby direct, pursuant to section 66 of the Electricity Corporation Act 1994, Western Power not to apply under the Electricity Industry Act 2004 for a generation licence, a distribution licence, a retail licence or an integrated regional licence (as those classifications are defined in section 4 of the Electricity Industry Act 2004) which if granted would apply on or after 1 July 2006 to the town of Wittenoom.

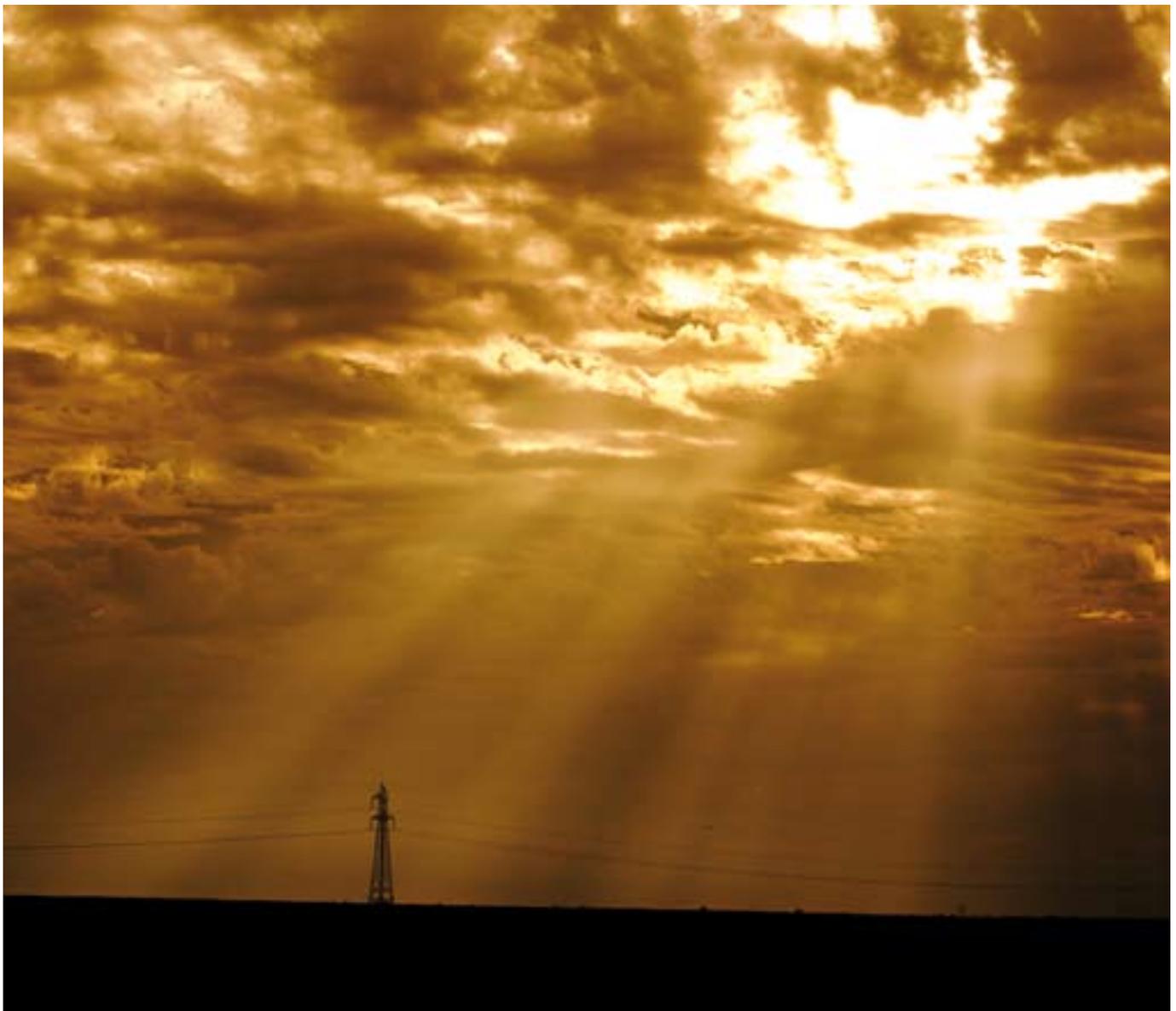
Alan Carpenter MLA
MINISTER FOR ENERGY



9. *Public Interest Disclosures*

As a new organisation, Horizon Power is working with a number of agencies to develop best practice processes and procedures to comply with various corporate obligations. One of these obligations is contained within the Public Interest Disclosure (PID) Act 2003.

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



10. Indemnification of **Directors and Officers**

During the financial year the Directors' and Officers' Liability Insurance Policy was obtained to ensure that the Directors and Officers of the Corporation had adequate coverage. The cover will pay on behalf of the Corporation, or Directors and Officers of the Corporation, losses arising from a claim or claims made against them jointly or severally during the period of insurance by reason of any wrongful act (as defined by the policy) in the capacity of Director or Officer.

The Directors' and Officers' Liability Insurance Policy forms part of the Corporation's Third Party Liability Policy. At the date of this report no claims have been made against the Directors and Officers component of the Policy.

On behalf of the Board



BRENDAN HAMMOND
CHAIRMAN



ROD HAYES
MANAGING DIRECTOR

26 September 2006





Financial Report

For The Period 1 April 2006 To 30 June 2006

Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the Corporation are in accordance with Schedule 4 of the Electricity Corporations Act 2005, including:
 - (i) giving a true and fair view of the Corporation's financial position as at 30 June 2006 and of its performance for the three month period ended on that date; and
 - (ii) complying with Accounting Standards, Urgent Issues Group Interpretations and Corporations Regulations; and
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board



BRENDAN HAMMOND
CHAIRMAN



ROD HAYES
MANAGING DIRECTOR

26 September 2006



AUDITOR GENERAL

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

To the Parliament of Western Australia

Audit Opinion

In my opinion, the financial report of the Regional Power Corporation (trading as Horizon Power) is in accordance with:

- (a) Schedule 3 of the Electricity Corporations Act 2005, including:
 - (i) giving a true and fair view of the Corporation's position at 30 June 2006 and of performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia; and
- (b) other mandatory professional reporting requirements in Australia.

Scope

The Board of Directors is responsible for the financial report.

The financial report consists of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, accompanying Notes and Directors' Declaration.

Summary of my Role

As required by the Electricity Corporations Act 2005, I have independently audited the financial report to express an opinion on it. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

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

A handwritten signature in blue ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
27 September 2006



Financial Statements And Notes

To The Financial Statements For The Period 1 April 2006 To 30 June 2006

Income Statement

For the period from 1 April 2006 to 30 June 2006

	Note	30 June 2006 \$'000
Revenue from ordinary activities	2(a)	29,089
Cost of sales	2(b)	34,765
Gross loss		(5,676)
Other income	2(c)	3,274
Other expenses	2(d)	11,068
Borrowing costs	2(e)	3,869
Loss before income tax benefit	2(f)	(17,339)
Income tax benefit	5(a)	5,260
Loss for the period		(12,079)

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

Balance Sheet

As at 30 June 2006

	Note	30 June 2006 \$'000	1 April 2006 \$'000
Current assets			
Cash and cash equivalents		1,209	1,788
Trade and other receivables	6	14,525	16,446
Inventories	7	5,431	5,238
Derivative assets	8	4,403	3,703
Other assets	9	466	716
Total current assets		26,034	27,891
Non-current assets			
Intangible assets	10	389	47
Property, plant and equipment	11	297,659	295,111
Net deferred tax assets	5(c)	17,871	12,611
Total non-current assets		315,919	307,769
Total assets		341,953	335,660
Current liabilities			
Trade and other payables	12(a)	22,509	15,767
Interest-bearing liabilities	13(a)	38,436	23,484
Provisions	14(a)	7,614	8,475
Other liabilities	16	3,169	3,536
Total current liabilities		71,728	51,262
Non-current liabilities			
Other payables	12(b)	1,608	1,212
Interest-bearing liabilities	13(b)	162,908	166,434
Provisions	14(b)	5,289	5,543
Total non-current liabilities		169,805	173,189
Total liabilities		241,533	224,451
Net assets		100,420	111,209
Equity			
Contributed equity	17(a)	112,499	111,209
Accumulated losses	17(b)	(12,079)	–
Total equity		100,420	111,209

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

Cash flow Statement

For the period from 1 April 2006 to 30 June 2006

	Note	30 June 2006 \$'000
Cash flows from operating activities		
Receipts from ordinary activities		28,767
Other revenue from ordinary activities		2,525
Interest received		248
Net GST received		853
Payments to suppliers and employees		(39,128)
Borrowing costs		(2,474)
Income tax paid		–
Net cash outflows from operating activities	22(e)	(9,209)
Cash flows from investing activities		
Payments for property, plant and equipment		(6,652)
Payments for intangible assets		(342)
Net cash outflows from investing activities		(6,994)
Cash flows from financing activities		
Proceeds from borrowings		18,099
Repayment of borrowings		(6,673)
CES, customers' and contractors' deposits		396
Developer and customer contributions to capital works		2,512
Proceeds from contributed equity		1,290
Net cash inflows from financing activities		15,624
Net decrease in cash and cash equivalents held		(579)
Cash and cash equivalents contributed at the beginning of the period		1,788
Cash and cash equivalents held at the end of the period	22(a)	1,209

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

Statement of Changes in Equity

For the period from 1 April 2006 to 30 June 2006		
	Note	30 June 2006 \$'000
Loss for the period	17(b)	(12,079)
Total recognised expense for the period		(12,079)
Equity contributed for the period	17(a)	1,290
Total movement in equity for the period		(10,789)
Equity at the beginning of the period	29(c)	111,209
Equity at the end of the period		100,420

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

Notes to the Financial Report

For the period from 1 April 2006 to 30 June 2006

Note	Contents
1	Summary of accounting policies
2	Loss from operations
3	Remuneration of auditors
4	Capitalised borrowing costs
5	Income tax
6	Trade and other receivables
7	Inventories
8	Derivative financial instruments
9	Other assets
10	Intangible assets
11	Property, plant and equipment
12	Trade and other payables
13	Interest-bearing liabilities
14	Provisions
15	Retirement benefit obligations
16	Other liabilities
17	Equity
18	Commitments for expenditure
19	Leases
20	Contingent liabilities and contingent assets
21	Key management personnel remuneration
22	Notes to the cash flow statement
23	Financial instruments
24	Jointly controlled operations and assets
25	Related party disclosures
26	Segment information
27	Economic dependency
28	Subsequent events
29	Distribution from the Owner (Disaggregation)

1. Summary of accounting policies

Statement of compliance

This financial report is a general purpose financial report for the period from 1 April 2006 to 30 June 2006 which has been prepared in accordance with Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law, including Schedule 4 of the Electricity Corporations Act 2005. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of Horizon Power comply with International Financial Reporting Standards ('IFRS').

The financial report was authorised for issue by the directors on 26 September 2006.

Basis of preparation

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

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

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

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

Going Concern

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

At 30 June 2006, Horizon Power had current assets of \$26,034 thousand and current liabilities of \$71,728 thousand, resulting in net current liabilities of \$45,694 thousand. For the period from 1 April 2006 to 30 June 2006 Horizon Power incurred a negative operating cash flow of \$9,209 thousand and a loss for the period of \$12,079 thousand.

The Directors have determined that Horizon Power will receive sufficient funding from the Tariff Equalisation Fund described in Note 27 to support the going concern assumption.

The Directors are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstances. However, in the event that funding from the Tariff Equalisation Fund does not eventuate as expected, there is no certainty as to whether Horizon Power could realise its assets at the amounts as shown in the financial statements and extinguish liabilities in the normal course of business.

Comparative financial information

At inception on 1 April 2006 Horizon Power possessed the balance sheet distributed upon the disaggregation of the former Western Power. Horizon Power's opening balance sheet reflects these distributed amounts as adjusted upon implementation of A-IFRS (refer Note 29).

Horizon Power has elected to disclose the comparative information presented in the balance sheet and associated notes as at 1 April 2006.

1. Summary of accounting policies (continued)

Significant accounting policies

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

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements for the period from 1 April 2006 to 30 June 2006:

(a) Date of incorporation

Horizon Power was established on 1 April 2006 and accordingly only current period figures covering the period from establishment are shown, with the exception of comparative balance sheet information and related notes.

(b) 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. 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 trade receivables incorporate amounts attributable to 'unread sales', which are an estimate of electricity delivered to customers that has not been billed at the reporting date.

Other revenue from ordinary activities

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

- Account establishment fees;
- Reimbursement of rebates;
- Developer and customer contributions;
- Community service obligations; and
- External chargeable works.

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

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 to Horizon Power;
- 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.

1. Summary of accounting policies (continued)

(b) 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 income statement on a basis consistent with the associated CSO expenses.

Horizon Power recognises revenue in respect of the reimbursement of CSOs including:

- Air conditioning subsidy for seniors;
- Caravan park rebates;
- Supply charge rebates; and
- Tariff migration reimbursement.

Other income

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

- Joint ventures;
- Change in the fair value of derivatives;
- Foreign exchange gains;
- Interest income;
- Property rent; and
- Grant income.

Grant income

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

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

(c) Cost of sales

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

Fuel costs

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

Electricity costs

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

Transmission and distribution operating costs

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

1. Summary of accounting policies (continued)

(d) Borrowing costs

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

Borrowing costs may include:

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

(e) Cash and cash equivalents

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

(f) Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Bad debts are written off when identified.

(g) 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 bases:

- Liquid fuels – weighted average cost basis;
- Consumables – weighted average cost basis; and
- Rotational spares – refurbished cost basis.

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

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

1. Summary of accounting policies (continued)

(h) Intangible assets

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

Amortisation

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

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

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

Disposal of assets

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

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

(i) Renewable energy certificates

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

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

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

(j) Interest in joint ventures

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

Interest in joint venture operations

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

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

1. Summary of accounting policies (continued)

(k) Prepayments

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

(l) Property, plant and equipment

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

Acquisition of assets

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

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

Decommissioning costs

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

Capitalisation of borrowing costs

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

Depreciation

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

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

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

- Buildings – 40 years
- Plant and equipment – 10 to 50 years
- Equipment under finance leases – 10 to 18 years

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

1. Summary of accounting policies (continued)

(m) Impairment of assets

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

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

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

(n) Trade and other payables

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

(o) Interest-bearing liabilities

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

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

(p) Leases

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

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

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 2006.

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

1. Summary of accounting policies (continued)

(q) National Taxation Equivalent Regime

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

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

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

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

(r) Goods and services tax

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

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

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

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

(s) Provisions

Provisions are recognised when:

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

Dividends

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

Employee benefits

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

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

1. Summary of accounting policies (continued)

(s) Provisions (continued)

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

Decommissioning costs

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

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

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

Other provisions

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

(t) Retirement benefit obligations

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

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

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

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

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

Defined contribution superannuation plans

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

Defined benefit superannuation plans

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

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cashflows 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.

1. Summary of accounting policies (continued)

(t) Retirement benefit obligations (continued)

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

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

Future taxes are not met by Horizon Power (as the benefit is paid as an untaxed amount to the employee) and so no allowance has been made for future taxes in measuring the net asset or liability.

The balance of the retirement benefit obligations provision is actuarially reviewed annually. Mercer Human Resource Consulting performed an actuary review as at 30 June 2006 that confirmed Horizon Power's provision for retirement benefit obligations was adequate.

(u) Contingent liabilities and contingent assets

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

(v) Foreign currency translation

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

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

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

(w) Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value. The fair value of forward foreign exchange contracts and commodity price (oil) hedging contracts is obtained from an external financial risk adviser.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

Derivative financial instruments that are not designated as hedging instruments are recognised at fair value, and any adjustments to fair value is recognised in the income statement.

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

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

1. Summary of accounting policies (continued)

(w) Derivative financial instruments (cont'd)

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.

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Horizon Power has accounted for derivative financial instruments that qualify for hedge accounting as cash flow hedges.

Derivatives that do not qualify for hedge accounting

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

Embedded derivatives

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

At 30 June 2006, Horizon Power did not have any derivatives embedded in contracts.

(x) Derecognition of financial instruments

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

1. Summary of accounting policies (continued)

(y) Accounting standards issued but not in effect

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ended 30 June 2006 are described in the following table.

Affected Accounting Standards	Nature of change to accounting policy	Application date of standard (reporting period commences on or after)
AASB 1: First time Adoption of Australian Equivalents to International Financial Reporting Standards	A project team has been formed to assess the impact of these new standards. A final assessment has not been made on the expected impact of these standards, however, it is expected that that there will be no significant changes in Horizon Power's accounting policies.	1 January 2007
AASB 7: Financial Instruments: Disclosure		1 January 2007
AASB 114: Segment Reporting		1 January 2007
AASB 117: Leases		1 January 2007
AASB 121: The Effects of Changes in Foreign Exchange Rates		31 December 2007
AASB 132: Financial Instruments: Presentation		1 January 2007
AASB 139: Financial Instruments: Recognition and Measurement		1 January 2007
AASB 1048: Interpretation and Application of Standards		30 April 2006
UIG 8: Scope of AASB 2		1 May 2006
UIG 9: Reassessment of Embedded Derivatives		1 June 2006

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

Affected Standards

AASB 4: Insurance Contracts

AASB 133: Earnings per Share

AASB 1023: General Insurance Contracts

AASB 1038: Life Insurance Contracts

UIG 7: Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies

2. Loss from Operations

	30 June 2006 \$'000
(a) Revenue from ordinary activities	
Revenue from ordinary activities consisted of the following items:	
Sale of electricity	22,449
Other revenue from ordinary activities:	
Developer and customer contributions (i)	2,815
Account establishment fees	215
Community Service Obligation revenue	3,205
External chargeable works	230
Other revenue	175
Total revenue from ordinary activities	29,089
(i) Developer and customer contributions recognised are in respect of electricity network assets vested to Horizon Power or constructed using cash contributions. As at 30 June 2006, cash contributions of \$3,169 thousand have also been recognised as deferred income in the balance sheet (Note 16) and will be recognised as revenue in future reporting periods when the customers / developers are connected to the network in accordance with the terms of the contributions. Horizon Power's developer and customer contributions accounting policy is disclosed in note 1(b).	
(b) Cost of sales	
Cost of sales consisted of the following items:	
Fuel purchases	17,460
Electricity purchases	9,232
Labour, materials and services	8,073
Total cost of sales	34,765
(c) Other income	
Other income consisted of the following items:	
Derivative financial gains realised	1,462
Interest	248
Joint ventures	662
Property rent	71
Change in fair value of derivatives	501
Other income	330
Total other income	3,274

2. Loss from Operations (continued)

	30 June 2006 \$'000
(d) Other expenses	
Other expenses consisted of the following items:	
Labour, materials and services	3,634
Depreciation and amortisation	4,104
Operating lease costs	609
Bad debts:	
Recovered	(17)
Decrease in provision for doubtful debts	(15)
Foreign exchange losses	18
Insurance	241
Joint venture operations	800
Renewable energy certificates	59
Other expenses	1,635
Total other expenses	11,068
(e) Borrowing costs	
Borrowing costs consisted of the following items:	
Finance lease interest	1,464
Interest on long term debt	2,344
Other borrowing costs	61
Total borrowing costs	3,869
(f) Loss before income tax benefit	
Loss before income tax benefit has been arrived at after crediting the following gain:	
Net foreign exchange gains	17
Loss before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to ordinary activities:	
Employee benefit expense:	
Post Employee benefits	
Defined benefit plans	(1)
Salaries, wages and other employee benefits	5,299

3. Remuneration of auditors

	30 June 2006 \$'000
Auditing the financial report	50
Review of the financial report	–
Taxation services	–
Other non-audit services	–
Total remuneration of auditors	50

Horizon Power is audited by the Office of the Auditor General.

4. Capitalised borrowing costs

No borrowing costs were capitalised during the reporting period.

The weighted average capitalisation rate on funds borrowed generally throughout the reporting period was 6.17% per annum.

5. Income tax

	30 June 2006 \$'000
(a) Income tax benefit recognised in income statement	
Income tax benefit comprises:	
Current income tax benefit	5,816
Deferred tax expense relating to the origination and reversal of temporary differences	(556)
Total income tax benefit	5,260
The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:	
Total loss from operations	(17,339)
Income tax benefit calculated at 30%	5,202
Tax effect of non-assessable/deductible differences:	
Non-deductible change in fair value of derivatives	65
Other differences	(7)
Total income tax benefit	5,260
(b) Income tax recognised directly in equity	
No deferred amounts were recognised directly in equity during the period except as disclosed at Note 29.	

5. Income tax (continued)

	30 June 2006 \$'000	1 April 2006 \$'000
(c) Deferred tax assets and liabilities		
Deferred tax assets comprise:		
Tax losses – revenue (i)	5,816	–
Temporary differences (ii)	26,521	26,861
Property, plant and equipment	8,300	8,428
Provisions	3,992	4,298
Total deferred tax assets	44,629	39,587
Deferred tax liabilities comprise:		
Temporary differences (ii)	26,448	26,531
Contributory extension scheme	310	445
Total deferred tax liabilities	26,758	26,976
Net deferred tax assets	17,871	12,611

(i) Tax losses are carried forward based on the Director's assessment that funding received from the Tariff Equalisation Fund (Note 27) make it probable that future taxable profit will be available against which the tax losses can be utilised.

(ii) Taxable and deductible temporary differences arise from the following:

	Opening balance \$'000	Charged to income \$'000	Closing balance \$'000
Gross deferred tax assets:			
Power Purchase Agreements – Loans	26,838	(317)	26,521
Community Service Obligation (CSO)	23	(23)	–
	26,861	(340)	26,521
Gross deferred tax liabilities:			
Prepaid Expenses	(4)	1	(3)
Derivatives	(1,105)	(216)	(1,321)
Community Service Obligation (CSO)	–	(174)	(174)
Fringe Benefit Tax	–	2	2
Finance Leased Assets	(25,422)	470	(24,952)
	(26,531)	83	(26,448)

Unrecognised deferred tax balances:

As at 30 June 2006 there were no deferred tax amounts that had not been brought to account.

6. Trade and other receivables

	30 June 2006 \$'000	1 April 2006 \$'000
Trade receivables (i)	11,268	16,003
Provision for doubtful debts	(292)	(307)
Net trade receivables	10,976	15,696
Community service obligations rebates	578	–
Amount due from customers and developers	2,469	750
Goods and services tax (GST) recoverable	502	–
Total trade and other receivables	14,525	16,446

- (i) The credit period on sales of goods is 14 to 21 days. No interest is charged on current trade receivables. An allowance has been made for estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience. The movement in the allowance of \$15 thousand was recognised in the income statement for the current reporting period.

7. Inventories

	30 June 2006 \$'000	1 April 2006 \$'000
Fuel	2,112	1,983
Materials	2,351	2,287
Rotational spares	968	968
Total inventories	5,431	5,238

8. Derivative financial instruments

	30 June 2006 \$'000	1 April 2006 \$'000
Derivative assets		
Current:		
Commodity swaps	4,403	3,703
Total current derivative assets	4,403	3,703

Horizon Power did not have any non-current derivative assets as at 30 June 2006.

9. Other assets

	30 June 2006 \$'000	1 April 2006 \$'000
Prepayments	466	716
Total other assets	466	716

10. Intangible assets

	Computer software \$'000
Gross carrying amount:	
Balance at 1 April 2006	47
Additions	342
Additions from internal developments	–
Total at 30 June 2006	389
Accumulated amortisation and impairment:	
Balance at 1 April 2006	–
Amortisation expense (i)	–
Total at 30 June 2006	–
Net book value:	
As at 1 April 2006	47
As at 30 June 2006 (ii)	389

(i) The computer software was not commissioned in the reporting period so no amortisation has been charged to the income statement to 30 June 2006.

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

11. Property, plant and equipment

	Freehold land at cost \$'000	Buildings at cost \$'000	Plant and equipment at cost (ii) \$'000	Equipment under finance lease at cost \$'000	Total \$'000
Gross carrying amount:					
Balance at 1 April 2006 (i)	4,224	10,151	195,996	84,740	295,111
Additions	18	–	6,634	–	6,652
Disposals	–	–	–	–	–
Total at 30 June 2006	4,242	10,151	202,630	84,740	301,763
Accumulated depreciation/ Amortisation and impairment:					
Balance at 1 April 2006 (i)	–	–	–	–	–
Disposals	–	–	–	–	–
Depreciation expense	–	(145)	(2,393)	(1,566)	(4,104)
Total at 30 June 2006	–	(145)	(2,393)	(1,566)	(4,104)
Net book value:					
As at 1 April 2006	4,224	10,151	195,996	84,740	295,111
As at 30 June 2006	4,242	10,006	200,237	83,174	297,659

11. Property, plant and equipment (continued)

- (i) Property, plant and equipment was transferred to Horizon Power upon inception at the net book value previously held by Western Power. Therefore there was no opening balance of accumulated depreciation taken up at inception.
- (ii) Expenditure recognised in Plant and Equipment in the course of construction.

	30 June 2006 \$'000	1 April 2006 \$'000
	25,120	18,494
		30 June 2006 \$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets, during the period:		
Buildings		145
Plant and equipment		2,393
Equipment under finance lease		1,566
Total depreciation allocated		4,104

12. Trade and other payables

	30 June 2006 \$'000	1 April 2006 \$'000
(a) Current trade and other payables		
Trade payables (i)	22,187	15,489
Payroll liabilities	71	-
Contributory extension scheme payables (ii)	251	278
Total current trade and other payables	22,509	15,767
(i) Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables (excluding contributory extension scheme payables) are non-interest bearing and generally have settlement terms between 14 and 30 days.		
(ii) Contributory extension scheme (CES) payables represent contributions received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes. By 2022, when the scheme finishes, all scheme members will have their contributions refunded. CES payables are non-interest bearing and have an average term of 80 months.		
(b) Non-current trade and other payables		
Contributory extension scheme payables	1,608	1,212
Total non-current trade and other payables	1,608	1,212

13. Interest-bearing liabilities

	30 June 2006 \$'000	1 April 2006 \$'000
(a) Current interest-bearing liabilities		
At amortised cost:		
Loans (i)	34,058	19,161
Finance lease liabilities (note 19(a))	4,378	4,323
Total current interest-bearing liabilities	38,436	23,484
(i) The domestic currency loans are ultimately secured by government guarantee. They are governed by a facility agreement that provides Horizon Power with the full discretion to refinance all or any part of maturing debt. For domestic currency loans maturing over the next twelve months it is the intention to refinance all maturing debt under the facility agreement. At 30 June 2006 the carrying value of the domestic currency loans is considered a reasonable approximation of their fair value.		
(b) Non-current interest-bearing liabilities		
At amortised cost:		
Loans (i)	78,881	81,298
Finance lease liabilities (note 19(a))	84,027	85,136
Total non-current interest-bearing liabilities	162,908	166,434
(i) At 30 June 2006 the amortised cost of the domestic currency loans is considered a reasonable approximation of their fair value.		

14. Provisions

	30 June 2006 \$'000	1 April 2006 \$'000
(a) Current provisions		
Annual leave	2,020	2,097
Long service leave	1,551	1,642
Other employee entitlements	229	267
Decommissioning	3,814	4,469
Total current provisions	7,614	8,475
(b) Non-current provisions		
Long service leave	1,030	880
Superannuation (note 15)	898	899
Decommissioning	3,361	3,764
Total non-current provisions	5,289	5,543

14. Provisions (continued)

	Annual leave \$'000	Long service leave \$'000	Other employee entitlements \$'000	Super- annuation \$'000	Decommis- sioning \$'000
Balance at 1 April 2006	2,097	2,522	267	899	8,233
Additional provisions recognised	163	149	–	–	–
Reductions arising from payments/other sacrifices of future economic benefits	(240)	(90)	(38)	(1)	(105)
Reductions resulting from re- measurement or settlement without cost	–	–	–	–	(1,002)
Unwinding of discount and effect of changes in the discount rate	–	–	–	–	49
Balance at 30 June 2006	2,020	2,581	229	898	7,175
Current (note 14(a))	2,020	1,551	229	–	3,814
Non-current (note 14(b))	–	1,030	–	898	3,361
	2,020	2,581	229	898	7,175

15. Retirement benefit obligations

	30 June 2006 \$'000
Retirement benefit obligations recognised in the balance sheet:	
Present value of unfunded obligations	898
Fair value of plan assets	–
Total amounts recognised in the balance sheet	898
Reconciliation of movement in the present value of the unfunded obligations recognised in the balance sheet:	
Opening balance	899
Interest cost	9
Actuarial losses on liabilities	(17)
Other adjustments	7
Closing balance of retirement benefit obligations	898
Retirement benefit obligations recognised in the income statement:	
Interest cost	9
Actuarial losses recognised	(17)
Other adjustments	7
Total amounts recognised in the income statement	(1)

15. Retirement benefit obligations (continued)

	30 June 2006 \$'000
Historic summary of retirement benefit obligations:	
Defined benefit plan obligation	898
Plan assets	–
	898
Experience adjustments arising on plan liabilities	7
Principal actuarial assumptions used:	
Discount rate	5.81%
Expected future salary increases	4.50%
Expected future pension increases	2.50%
Expected contributions	
Employer contributions are made to meet the cost of the retirement benefit obligations as they fall due. For more details regarding the policy in respect of provision for retirement benefit obligations refer to note 1(t).	

16. Other liabilities

	30 June 2006 \$'000	1 April 2006 \$'000
(a) Current other liabilities		
Deferred developer and customer contributions	3,169	3,472
Other	–	64
Total current other liabilities	3,169	3,536

17. Equity

	Note	30 June 2006 \$'000
(a) Contributed equity		
Balance at beginning of reporting period	29(c)	111,209
Contributions received (i)		1,290
Balance of contributed equity at 30 June 2006		112,499
(i) Contributed equity is in respect of contributions by the State Government in support of <i>Aboriginal Remote Community Power Supply Program Phase 1</i> .		
(b) Accumulated losses		
Balance at beginning of period		–
Net loss for the period		(12,079)
Balance of accumulated losses at 30 June 2006		(12,079)

18. Commitments for expenditure

	30 June 2006 \$'000
(a) Capital expenditure commitments	
Plant and equipment (i)	
Not longer than 1 year	10,980
Longer than 1 year and not longer than 5 years	870
Longer than 5 years	–
Total expenditure for plant and equipment	11,850
(i) At 30 June 2006 capital expenditure commitments principally related to the Port Hedland Undergrounding project (\$6,685 thousand), network costs associated with the West Kimberley Power Purchase Agreement (\$1,492 thousand) and sundry network modifications.	
Intangible assets	
Horizon Power did not have any commitments to purchase intangible assets at 30 June 2006.	
(b) Lease commitments	
Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 19 to the financial statements.	
(c) Other expenditure commitments	
Horizon Power did not have any other expenditure commitments extending over one year as at 30 June 2006.	

19. Leases

(a) Finance leases

Leasing arrangements

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

	Minimum future lease payments		Present value of minimum future lease payments	
	30 June 2006 \$'000	1 April 2006 \$'000	30 June 2006 \$'000	1 April 2006 \$'000
Finance lease liabilities				
No later than 1 year	10,076	10,076	4,378	4,323
Later than 1 year and not later than 5 years	39,800	39,901	20,218	19,976
Later than five years	87,778	90,197	63,809	65,160
Minimum lease payments (i)	137,654	140,174		
Less future finance charges	(49,249)	(50,715)		
Present value of minimum finance lease payments	88,405	89,459	88,405	89,459
Included in the financial statements as:				
Current interest-bearing liabilities (note 13(a))			4,378	4,323
Non-current interest-bearing liabilities (note 13(b))			84,027	85,136
			88,405	89,459

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

(b) Operating leases

Leasing arrangements

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

The lease rental comprises a base value per unit of capacity plus an escalation factor equal to the average Australian consumer price index (per annum). The lease term is 7 years and is not terminable except in circumstances of unremedied default. Horizon Power has also recognised operating leases over wind farms at Esperance, Hopetoun and Denham in accordance with UIG Interpretation 4. Lease rentals are paid per unit of electricity supplied plus an escalation factor equal to the average Australian consumer price index (per annum). The lease term is 10 to 18 years and is not terminable except in circumstances of unremedied default. However, there is no minimum lease payment specified for these leases. Lease payments for energy received from these windfarms is typically \$1,714 thousand per annum.

	30 June 2006 \$'000
Non-cancellable operating lease payments	
Not longer than 1 year	1,064
Longer than 1 year and not longer than 5 years	5,318
Longer than 5 years	2,570
Total non-cancellable operating lease payments	8,952

20. Contingent liabilities and contingent assets

Contingent liabilities:

Horizon Power did not have any contingent liabilities to disclose as at 30 June 2006.

Contingent assets:

Horizon Power did not have any contingent assets to disclose as at 30 June 2006.

21. Key management personnel remuneration

The non-executive directors of Horizon Power during the period were:

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

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

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

(a) Key management personnel remuneration

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

- Non-executive directors: the Minister for Energy (the Minister) approves the remuneration of all non-executive directors.
 - Managing director: the Board, subject to the concurrence of the Minister approves the remuneration of the managing director (also referred to as the chief executive officer).
 - Executive officers: the Board, on recommendation of the managing director approves the remuneration of all executive officers.
-

The compensation policy is to:

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

21. Key management personnel remuneration (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:

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

This is explained in more detail below:

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

Total fixed remuneration

The compensation framework is market competitive, performance based with flexibility for the package to be structured at the executive's discretion upon a combination of cash, a selection of prescribed non-financial benefits, superannuation and cost of fringe benefits tax.

External remuneration consultants provide analysis and advice to ensure remuneration is set to reflect the market for a comparable role. Remuneration for executives is reviewed annually to ensure the level is market competitive. There are no guaranteed remuneration increases included in any executive contracts.

Non-financial benefits

Selection available: cost of novated or associated leasing of selected motor vehicle, electricity (to a maximum tax allowable figure), laptop computer, salary continuance insurance, health check-up and the cost of fringe benefits tax.

Superannuation

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

Annual at risk remuneration (ARR) element

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

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

The first determination of ARR will be for the 15 month period ending on 30 June 2007.

21. Key management personnel remuneration (continued)

(b) Details of Compensation

30 June 2006	Primary			Post-employment			Total \$
	Salary & fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Pre-scribed benefits \$	Other \$	
Non-executive directors' remuneration							
B Hammond (i)	39,308	–	166	3,552	–	–	43,026
A Dundas	14,847	–	166	1,350	–	–	16,363
P Yu	11,249	–	–	1,013	–	–	12,262
S Bradley	11,096	–	166	1,013	–	–	12,275
T Chivers	11,249	–	–	1,013	–	–	12,262
TOTAL	87,749	–	498	7,941	–	–	96,188

30 June 2006	Primary			Post-employment			Total \$
	Salary & fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Pre-scribed benefits \$	Other \$	
Executives' remuneration							
R Hayes	76,248	–	16,741	12,600	–	–	105,589
T Cocks	31,203	–	7,658	7,184	–	–	46,045
M Laughton-Smith	42,514	–	166	6,582	–	–	49,262
D McDonald	50,674	–	16,583	6,517	–	–	73,774
D Martin	30,436	–	500	3,177	–	–	34,113
F Tudor	44,996	–	–	4,049	–	–	49,045
Z Wilk	38,726	–	13,493	6,562	–	–	58,781
TOTAL	314,797	–	55,141	46,671	–	–	416,609

(i) B Hammond (Chairman) was appointed in December 2005. In April 2006 he received payment of directors fees for services rendered in February and March 2006.

21. Key management personnel remuneration (continued)

(c) Service Agreements

R Hayes – Managing Director

Term of Agreement – 2 years commencing from 30 January 2006

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

Termination

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

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

T Cocks – General Manager Finance & Corporate Services

Term of Agreement – Not a fixed term contract

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

Termination

- Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.
- Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.
- For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

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

M Laughton-Smith – General Manager Generation & Technical Services

Term of Agreement – Not a fixed term contract

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

Termination

- Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.
- Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.
- For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

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

D McDonald – General Manager Retail

Term of Agreement – Not a fixed term contract

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

Termination

- Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 52 weeks.
- Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.
- For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

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

21. Key management personnel remuneration (continued)

(c) Service Agreements (continued)

D Martin – General Manager Public Affairs

Term of Agreement – Not a fixed term contract

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

Termination

- Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.
- Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.
- For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

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

F Tudor – General Manager Commercial & Strategy

Term of Agreement – Not a fixed term contract

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

Termination

- Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 52 weeks.
- Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.
- For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

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

Z Wilk – General Manager Network Customer Services

Term of Agreement – Not a fixed term contract

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

Termination

- Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks.
- Incapacity or Poor Performance: 4 weeks notice, or without notice for serious misconduct.
- For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.

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

22. Notes to the cash flow statement

(a) Cash and cash equivalents

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

(b) Non-cash financing and investing activities

During the reporting period, Horizon Power did not have any non-cash financing activities.

(c) Financing facilities

Horizon Power has in place arrangements with WATC, the State Government's central borrowing authority. The total amount of the facility is \$200 million. However, the amount outstanding under the facility at any time shall not exceed any borrowing limits set by the Treasurer under section 128 of the *Electricity Corporations Act 2005*. To date, the Treasurer has not set any limits that would reduce the amount of funding available under this facility. Horizon Power did not have any overdraft facility or secured loan facilities as at 30 June 2006.

The amounts outstanding at the balance date are:

	30 June 2006 \$'000	1 April 2006 \$'000
Amount used	112,939	100,459
Amount unused	87,061	99,541
Total WATC debt facility	200,000	200,000

(d) Cash balances not available for use

Horizon Power did not have any cash balances not available for use as at 30 June 2006.

22. Notes to the cash flow statement (continued)

	30 June 2006 \$'000
(e) Reconciliation of loss for the period to net cash flows from operating activities	
Loss for the period	(12,079)
Add/(Less) items classified as investing/financing activities:	
Developer and customer contributions	(2,815)
Capitalised borrowing costs	–
Add/(Less) non-cash items:	
Depreciation	2,538
Amortisation – intangible assets	–
Depreciation – leased assets	1,566
Contributed assets	–
Change in assets and liabilities:	
(Increase)/Decrease in receivables	1,921
(Increase)/Decrease in prepayments	250
Increase/(Decrease) in trade payables	6,742
(Increase)/Decrease in inventories	(193)
Increase/(Decrease) in other liabilities	(64)
Increase/(Decrease) in employee provisions	(56)
Increase/(Decrease) in other provisions	(1,059)
Increase/(Decrease) in income tax liabilities	(5,260)
(Increase)/Decrease in derivatives	(700)
Net cash outflow from operating activities	(9,209)

23. Financial instruments

(a) Financial risk management objectives

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

Horizon Power's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. Horizon Power enters into forward foreign exchange contracts to manage its exposure to foreign currency risk, and manages interest rate risk through its spread of debt maturities.

(b) Significant accounting policies

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

23. Financial instruments (continued)

(c) Foreign currency risk management

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

Forward foreign exchange contracts

It is the policy of Horizon Power to enter into forward foreign exchange contracts to cover significant foreign currency payments and receipts.

The following table details the forward foreign currency contracts outstanding as at 30 June 2006:

Outstanding contracts	Average exchange rate	Foreign currency \$'000	Contract value \$'000	Fair value \$'000
AUD/GBP forward exchange contract	0.4055	GBP 117	289	289

Horizon Power has entered into power purchase agreements, subject to conditions precedent, for a third party to build and operate new power stations in Nullagine and Marble Bar. Horizon Power has entered into forward foreign exchange contracts to hedge the exchange rate risk arising from the anticipated future transactions.

The forward exchange contracts outstanding at the reporting date were not designated as hedging instruments, and accordingly changes to the fair value of the forward exchange contracts have been recognised in the income statement.

(d) Commodity price risk management

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

GasOil

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

This exposure is managed by the use of AUD denominated GasOil commodity swaps to hedge against rises in wholesale crude oil prices and falls in the AUD/USD exchange rate.

At 30 June 2006 a GasOil commodity swap contract was in place to pay a fixed price of AUD 95.960 per barrel. The contract was assigned to Horizon Power by the former Western Power upon disaggregation, and covers the period until 28 February 2007.

The notional quantity of barrels and maturity dates for the commodity hedge contract as at 30 June 2006 are as follows:

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

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

23. Financial instruments (continued)

(e) Interest rate risk management

Interest rate risk represents the extent to which Horizon Power will suffer financial loss due to adverse movements in interest rates. Horizon Power is exposed to interest rate risk as a result of refinancing of medium to long term debt instruments. Horizon Power's objective is to minimise its exposure to interest rate fluctuations through a spread of fixed interest loans over a range of maturities out to 10 years. Horizon Power does not enter into any derivative financial instruments to manage its interest rate risk.

Maturity profile of financial instruments

The following table details Horizon Power's exposure to interest rate risk at 30 June 2006:

	Weighted average effective interest rate %	Variable interest rate \$'000	Fixed maturity dates						Non interest bearing \$'000	Total \$'000
			Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3-4 years \$'000	4-5 years \$'000	5+ years \$'000		
Financial assets:										
Cash and cash equivalents	5.58	1,209	-	-	-	-	-	-	-	1,209
Trade receivables	-	-	-	-	-	-	-	-	11,268	11,268
Other receivables	-	-	-	-	-	-	-	-	3,047	3,047
Other	-	-	-	-	-	-	-	-	4,869	4,869
		1,209	-	-	-	-	-	-	19,184	20,393
Financial liabilities:										
Trade payables	-	-	-	-	-	-	-	-	22,187	22,187
WATC Loans (i)	6.17	-	34,058	12,660	31,245	10,826	3,271	20,879	-	112,939
Finance lease liabilities	6.88	-	4,378	4,678	5,003	5,237	5,299	63,810	-	88,405
Employee benefits	-	-	-	-	-	-	-	-	71	71
CES payables	-	-	-	-	-	-	-	-	1,859	1,859
			38,436	17,338	36,248	16,063	8,570	84,689	24,117	225,461

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

23. Financial instruments (continued)

(f) Credit risk management

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

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

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

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

(g) Fair value of financial instruments

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

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- The fair value of commodity swaps has been calculated by discounting future cash flows at prevailing market rates applicable at the balance sheet date.
- Forward exchange contracts are valued at prevailing market prices.
- The contributory extension scheme consists of a large number of non-interest bearing 30 year refundable deposits, the last of which is due to expire in 2022. The fair value of the scheme has been calculated by discounting the expected future payment at the same interest rates used to value domestic currency loans.

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

(h) Liquidity risk management

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

24. Jointly controlled operations and assets

Name of entity	Principal activity	Output interest %
Greenstone Power Generation Joint Venture (i)	Operations discontinued and assets sold. Joint Venture being wound up.	50%
Greenstone Gas Joint Venture (i)	Operations discontinued. Joint Venture being wound up.	50%
Mid-West Pipelines Joint Venture	Gas Transportation in the MidWest and Hill 60 Pipelines.	29.2%

- (i) The Greenstone Power Generation Joint Venture and Greenstone Gas Joint Venture did not possess any assets or operate during the period from 1 April 2006 to 30 June 2006. Both joint ventures ceased operations and disposed of all assets prior to 1 April 2006. Discontinued operations related to these joint ventures was reported by the former Western Power.

24. Jointly controlled operations and assets (continued)

	30 June 2006 \$'000
Horizon Power's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements under their respective asset categories:	
Non-current assets – plant & equipment	
Midwest pipeline	3,898
Hill 60 Extension	925
Total jointly controlled assets	4,823

25. Related party disclosures

Other than as disclosed in Note 21 Key Management Personnel Remuneration, Horizon Power did not transact with key management personnel or their related parties during the reporting period. As at 30 June 2006 Horizon Power did not recognise any assets or liabilities arising from transactions with key management personnel or related parties.

26. Segment information

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

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

27. Economic dependency

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

It is anticipated that Horizon Power will begin to receive revenue from the Tariff Equalisation Fund in September 2006. Throughout the reporting period and up to the commencement of Tariff Equalisation Fund revenues Horizon Power has used available debt facilities to fund its operations.

28. Subsequent events

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

Interruption of Electricity Supplies from Ord Hydro

On Saturday 26 August, power was cut from Ord Hydro power station that supplies electricity to Horizon Power for distribution to the East Kimberley communities of Wyndham, Kununurra and Lake Argyle Village due to equipment failure. Horizon Power has recommenced supply of electricity to these communities using diesel generators.

At the date of this report the duration of the interruption of supplies from Ord Hydro is not known. Depending on the cost of diesel fuel and the level of electricity demand in these communities, the additional cost to Horizon Power is approximately \$1 million per month.

29. Distribution from the Owner (Disaggregation)

(a) Transfer Order

In September 2005, legislation was passed in Parliament to allow for the disaggregation of the former Western Power into four separate state owned entities. These entities were created under the Electricity Corporations Act 2005 and established on 1 April 2006. The entities are:

- The Electricity Generation Corporation (Verve Energy);
- The Electricity Networks Corporation (Western Power Networks);
- The Regional Power Corporation (Horizon Power); and
- The Electricity Retail Corporation (Synergy Energy).

On disaggregation, the assets, rights and liabilities of the former Western Power were distributed to the Minister. The Minister, under a Transfer Order prepared under section 147(1) of the Electricity Corporations Act 2005 (Gazetted on 31 March 2006), specified the subsequent allocation of these assets, rights and liabilities among the four separate state owned entities.

The Transfer Order designated the allocation described above as a contribution by the owner of the former Western Power to the four separate state owned entities and that the contribution formed part of the entities' contributed equity. The transfer of the opening balances of assets and liabilities from the former Western Power to the four successor entities has been reported in the Western Power Corporation financial statements as at 30 June 2006. The Western Power Corporation financial statements include a reconciliation of the Western Power Corporation 31 March 2006 closing balances to the opening balances allocated to the four successor entities on 1 April 2006.

Further, the Transfer Order specified that the values of the assets, rights and liabilities of the former Western Power vested in Verve Energy and Synergy Energy be at those values determined as their fair values. The Transfer Order specified that the values of the assets, rights and liabilities of the Corporation vested in Western Power Networks and Horizon Power be at the former Western Power's transferor's valuation ('book value').

(b) Taxation Treatment

The former Western Power and Horizon Power are subject to the National Tax Equivalence Regime (NTER) administered by the Australian Taxation Office (ATO). Under agreement with the ATO the disaggregation of the former Western Power was completed on a tax neutral basis. Hence there was no NTER tax consequence for the former Western Power. Horizon Power inherited the tax attributes of the former Western Power in relation to the assets, rights and liabilities allocated to Horizon Power on disaggregation.

29. Distribution from the Owner (Disaggregation) (continued)

(c) Reconciliation of distributed balances

Reconciliation of Balances at 1 April 2006	Distributed Balances 1 April 2006 \$'000	Take up of Finance Leases \$'000	Taxation adjustments \$'000	Other Adjustments and Reclassification \$'000	Opening Balances 1 April 2006 \$'000
Current assets					
Cash and cash equivalents	1,788	–	–	–	1,788
Trade and other receivables (i)	17,032	–	–	(586)	16,446
Inventories	5,236	–	–	2	5,238
Derivative assets	3,703	–	–	–	3,703
Other assets	717	–	–	(1)	716
Total current assets	28,476	–	–	(585)	27,891
Non-current assets					
Intangible assets (ii)	–	–	–	47	47
Property, plant and equipment (ii)	210,503	84,740	–	(132)	295,111
Net deferred tax assets	–	–	12,611	–	12,611
Total non-current assets	210,503	84,740	12,611	(85)	307,769
Total assets	238,979	84,740	12,611	(670)	335,660
Current liabilities					
Trade and other payables (i)	15,834	–	–	(67)	15,767
Interest-bearing liabilities (iii)	–	4,323	–	19,161	23,484
Tax liabilities (i)	555	–	–	(555)	–
Provisions	8,475	–	–	–	8,475
Derivative liabilities (i)	18	–	–	(18)	–
Other liabilities (i)	3,482	–	–	54	3,536
Total current liabilities	28,364	4,323	–	18,575	51,262
Non-current liabilities					
Other payables	1,212	–	–	–	1,212
Interest-bearing liabilities (iii)	100,458	85,136	–	(19,160)	166,434
Deferred tax liabilities	(11,195)	–	11,195	–	–
Provisions	5,543	–	–	–	5,543
Total non-current liabilities	96,018	85,136	11,195	(19,160)	173,189
Total liabilities	124,382	89,459	11,195	(585)	224,451
Net assets	114,597	(4,719)	1,416	(85)	111,209
Equity					
Contributed equity (iii)	114,597	(4,719)	1,416	(85)	111,209
Accumulated losses	–	–	–	–	–
Total equity	114,597	(4,719)	1,416	(85)	111,209

(i) GST accrued in the former Western Power financial statements at 31 March 2006 was restated for Horizon Power's take-up of opening balances. This has no impact on net assets.

(ii) Intangible assets of \$47 thousand were reclassified from property plant and equipment at 1 April 2006. An adjustment of \$85 thousand was made against equity to correct the recorded value of the asset related to the provision for decommissioning at inception.

(iii) Horizon Power has elected to disclose Interest Bearing Liabilities with maturities within 12 months of 1 April 2006 as current liabilities.

