



Horizon Power Annual Report 2011/12

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1. About us

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

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

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

Our interconnected and isolated systems are exposed to intense heat and cyclonic conditions in the north, and ravaging storms in the south.

These are just some of the challenges that drive the innovation and commitment of our professional and highly engaged team of employees.

Horizon Power's commitment to regional Western Australia is to create intergenerational assets – tangible and intangible assets that add value beyond the current planning period and operational lifecycle – from maximising the social, environmental and economic benefit for the company and the communities in which we operate. We are focused on creating value beyond the current generation.

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

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

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

2. Fast facts

44,971 customer connections supplying more than 100,000 residents and 8,000 businesses

1,780 new customer connections in 2011/12

82,587 customer calls in 2011/12

2.3 million square kilometre service area which includes the Kimberley, Pilbara, Gascoyne, Mid-West and Southern Goldfields (Esperance, Hopetoun and Norseman)

7,299 kilometres of overhead and underground transmission and distribution lines

38 isolated networks and two interconnected systems including the North-West Interconnected System (NWIS) in the Pilbara and the East Kimberley Interconnected System, a transmission network including Kununurra, Wyndham and Lake Argyle.

\$1.2 billion in assets

3. Horizon Power supply area



4. Executive Summary of Horizon Power's performance

Horizon Power provided reliable power supplies in 2011/12, with 29 out of our 38 systems meeting reliability targets despite the challenges of a number of severe weather events.

Customers experienced an average 3.15 interruptions during the year, up slightly from the System Average Interruption Frequency Index (SAIFI) of 3.13 interruptions in 2010/11, but well below the regulated limit of 6.6 interruptions per annum.

The average length of an interruption to power supplies in Horizon Power's service area (the System Average Interruption Duration Index - SAIDI) was 203 minutes in 2011/12 compared with the regulated limit of 290 minutes.

We know that any interruption is an inconvenience to customers, whether a residence or business. We will continue to deliver our asset maintenance and works program and work closely with suppliers to improve reliability.

Horizon Power reported on 36 isolated systems in the 2010/11 annual report. In October and November 2011, we connected the two Kimberley communities of Yungngora and Kalumburu and are now responsible for 38 isolated systems.

Horizon Power recorded two notifiable public safety incidents which both occurred in late June 2012 and were considered a low risk to the public. One was a fire caused by vandals and the other was a fire caused by a transformer fault. There were no injuries to either the public or Horizon Power personnel. Horizon Power has an electrical safety education program to inform customers about the dangers associated with vandalism of our assets.

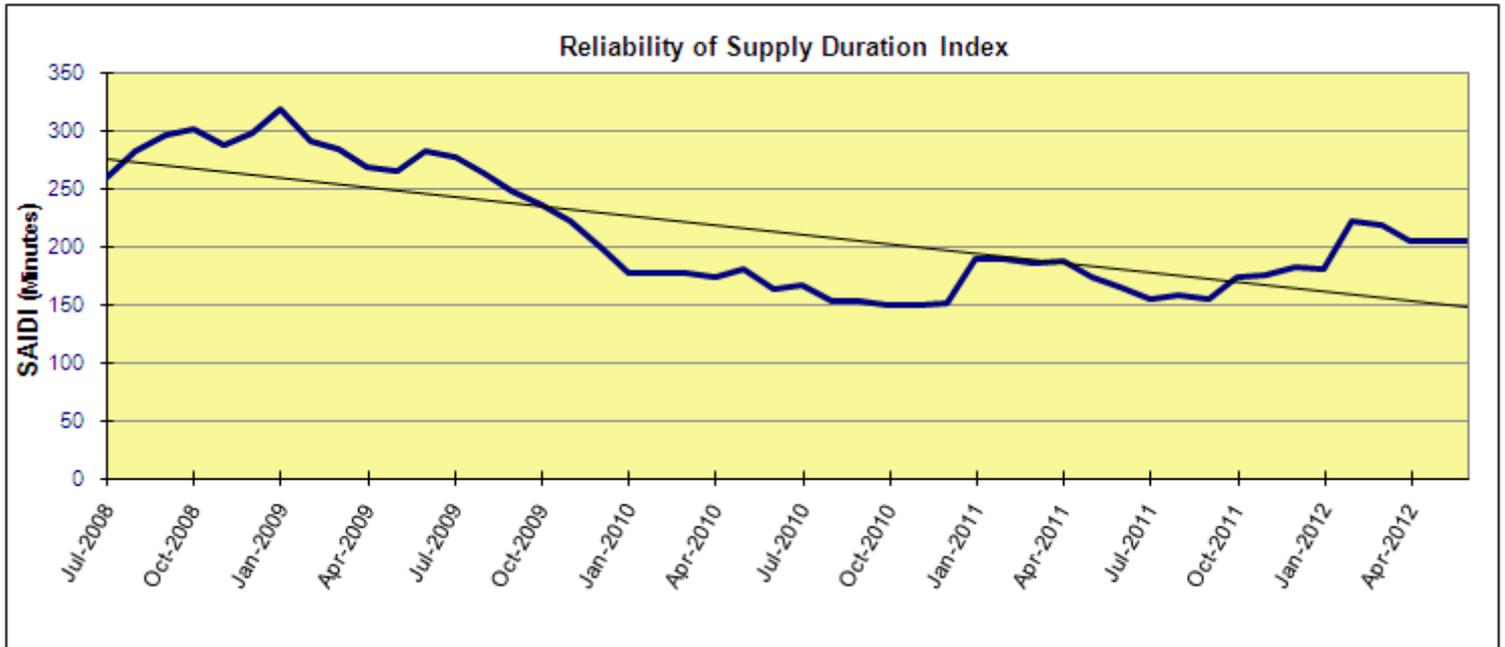
As we move into 2012/13, Horizon Power is in a strong position to meet future challenges in the rapidly changing energy market. Horizon Power has a revised strategic approach, a refined project management structure and more rigorous financial controls as a result of a business restructure in 2010/11.

Horizon Power also achieved the five per cent efficiency target in 2011/12 set by the State Government and continues to review the business for efficiency opportunities in order to deliver further value to its customers and the State Government.

In the May 2012 Budget, the State Government announced that an additional 2.5 per cent would be applied to the Government Trading Entity efficiency dividend for the 2012/13 financial year. Horizon Power is well placed with its improved accountability controls to meet this target.

Horizon Power recorded a net profit after tax of \$33.3 million which is lower than our forecast of \$42.9 million; this reduction was due to accounting adjustments including increases to provisions and treatment of capital projects.

Sales revenue grew by \$30.6 million, mostly due to the increase in electricity tariffs by the State Government in July 2011. The Tariff Equalisation Fund payment to Horizon Power, which is the subsidy provided by the State Government, was \$181.2 million in 2011/12, up from \$175.7 million in the previous year.



Reliability performance – SAIDI (using normalised data) over four year period.

Performance overview

Horizon Power made a number of performance commitments in our Statement of Corporate Intent for the 2011/12 financial year. The following table provides an overview of how we performed compared to those commitments. It also provides a guide as to how we performed against the previous year.

Key result area	Objectives	Performance target description	Target for 2011/12	Performance results in 2011/12	Performance results in 2010/11	Indicator against target
Customer value	Improved value to the customer through safe, improved and expanded service	Safety: Lost time injury severity rating	58	6.9	32.3	●
		Public safety: Number of public safety incidents related to Horizon Power performance	10	2	2	●
		Operational performance Performing towns/systems: Number of towns/systems within reliability (duration and interruption) targets.	31/38	29/38	32/36	●
		Operational impact on customers: target is 80 per cent of customers not experiencing outages longer than 290 minutes	80%	85%	82.8%	●
		Customer satisfaction: Customer satisfaction survey result – target is 80 per cent of customers satisfied	80%	81%	75%	●

Community social benefit	Building capacity, capability and opportunity to improve the lives of residents within the communities we serve	Power supply regularisation: Number of remote and Aboriginal communities	5	2	0	
Environmental Benefit	Sustainably minimising the impact on the environment from both our current and future operations	Greenhouse emissions: Greenhouse Intensity kgCO2/kWh sold	0.68	0.60	0.58	
Business value	Increasing our profitability and building the value of the business	Profit after tax	\$49.8 million	\$33.3 million	\$40.7 million	
Economic benefit	Working with all stakeholders to drive and deliver value from regional development	Stakeholder satisfaction:	77%	82%	78%	

Processes and knowledge	Achieving a state where we operate at or above industry standards	Corporate reputation: percentage of those surveyed believe we are operating at or above industry standards	70%	71%	76%	
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Chairman's report – Horizon Power Annual Report 2011/12

Energy for life

Our focus is to create value for future generations of Western Australians and to make a difference to the lives of people in the communities we service. We use the term inter-generational assets to describe our purpose. We firmly believe that our role in communities should not stop with the tangible assets we create and upgrade, such as new power stations and upgraded networks, but that equal importance should be placed on developing human capabilities, for example through our Aboriginal employment program, and continued engagement with communities at a local level. In essence this means a focus on working with our neighbours and customers to develop long-term energy solutions that transcend generations.

Horizon Power achieved several key milestones both operationally and strategically in 2011/12, which will reassure regional Western Australians that the utility is well positioned to face future economic challenges and opportunities.

Our strategy – keeping the lights on

Our primary focus continues to be the provision of a safe and reliable supply of electricity to our regional and remote customers.

Horizon Power's crisis response work is a clear demonstration of this commitment to customers and communities and in 2011/12 our crews throughout regional Western Australia overcame various challenges with minimal disruption to customers.

Our crews worked diligently, undertaking planning and restoration works during fires in Carnarvon, flooding in the remote Aboriginal community of Kalumburu and protecting Pilbara communities from the threats posed by Tropical Cyclones Lua, Heidi and Iggy.

The benefits of undergrounding power were highlighted by Tropical Cyclone Heidi, with power supplies unaffected in Port Hedland where undergrounding has taken place.

Dedicated to the communities we serve

In October 2011, the Board formalised Horizon Power's commitment to Aboriginal engagement by endorsing the Aboriginal Employment and Engagement Strategy, which sets clear targets and performance indicators annually for Aboriginal employment and training.

I am proud to be able to report that Horizon Power has significantly surpassed its Aboriginal employment target for 2011/12, with 43 Aboriginal Australians now employed in our business. We recently engaged 12 Field Services Officers who

read meters and carry out other field services in our community. We are well on the way to achieving our target of 20 per cent of our work force being of Aboriginal descent by 2015. This is a critical milestone for Horizon Power because it ensures our workforce is representative of the communities we serve and that we are playing our part in supporting community development.

Working with communities to develop the right infrastructure to meet their needs

Our ability to adapt and effectively deal with the constant challenges of operating a business in regional and remote Western Australia is one of the capabilities that sets us apart.

Major infrastructure projects in the North-West are facing significant cost pressures due to rising labour costs, the shortage of accommodation and other issues associated with the booming resources sector. The Pilbara Cities initiative will in due course not only increase the attractiveness of living in the Pilbara, but also mitigate further project input cost increases. Almost without exception, all companies operating in this environment have been subject to these cost increases and must work hard to keep costs down to ensure efficiencies in the delivery of goods and services.

These cost pressures and a resulting contractual dispute have impacted on the delivery of the Pilbara Underground Power Project which is critical for the improved safety and reliability of the Pilbara power supply system. Horizon Power remains committed to this Project and will complete it over a longer period of time as funds become available, ensuring that its compelling safety and liveability benefits are realised.

Staff and Board

It has been 12 months since the business restructure however the business is continuing to make refinements to ensure the structure aligns with the evolving strategy. The restructure has resulted in a smaller executive team, reduced organisational layers, improved clarity of roles and accountabilities and has laid the foundations for improved project management outcomes in the year ahead. Work is also underway to ensure our culture supports our commitment to high performance.

I would like to congratulate the staff of Horizon Power for their commitment over the last year to the customers of regional Western Australia and acknowledge each Board member for their contribution throughout the year. In 2011/12, we farewelled inaugural Board member Susan Bradley and fellow member John Elkington and welcomed former East Pilbara Shire President Lynne Craigie as Board member and Ian Fletcher as a Special Advisor to the Board .

Managing Director's Report

In the 12 months since the restructure of our business and the adoption of a new management framework, the business has undergone a significant transformation with changes to resource planning, asset management and IT systems.

Public safety, improved customer service and cost efficiencies have been key drivers of these changes and we are pleased to be able to report that we have met the State Government's efficiency target of five per cent for 2011/12. The savings have been gained from a reduction in travel, which is particularly difficult in a business with 2.3 million square kilometres of terrain to service, a reduction in annual leave liability and a review of consultants' costs.

Safe and reliable supply of electricity

While this work has been underway, Horizon Power has remained focused on delivering reliable power supplies and I am pleased to report that Horizon Power exceeded its regulatory obligations in delivering safe and reliable power supplies to over 100,000 regional and remote residents in 2011/12.

Of our 38 isolated power systems, 29 met reliability standards, with customers receiving an average of 3.15 interruptions over the 2011/12 period – well below the regulated limit of 6.6 interruptions. While we continually aim to improve upon our performance, it is important to remember that these standards were met amid flooding in the East Kimberley, fires in Carnarvon and three Tropical Cyclones and a tropical low which battered the Pilbara and West Kimberley regions.

Despite our crews working in such trying conditions, Horizon Power recorded a very low lost time injury severity rate of 6.9 and recorded only two public safety incidents this financial year.

During the year, Horizon Power was audited by WA's safety regulator, WorkSafe WA. It is an honour to manage a business that has been acknowledged for our commitment to safety. Horizon Power's Kununurra, Broome, Esperance and Bentley offices and depots were awarded Gold WorkSafe Plan Awards for their achievements and our Port Hedland and Carnarvon offices and depots received Silver Awards. The Awards recognise best practice safety management systems and processes.

We continue to balance the challenges of our asset base with budget pressures while ensuring we maintain a safe and reliable network. We are continuing our wood pole replacement and reinforcement program in the Esperance region. This builds on our network upgrade work in Esperance over the past few years and the benefits of the program were clearly evident when severe winds buffeted the Perth metropolitan area and the South-West, Great Southern and Goldfields-Esperance regions in June

2012 resulted in minimal damage and disruption in Esperance. Again it's a testament to planning and our absolute belief in safety above all that we have spent tens of millions of dollars over the past six years to deliver works on schedule and within budget but more importantly with zero Lost Time Injuries.

Providing energy solutions in the Pilbara and beyond

Horizon Power is committed to undergrounding power in the Pilbara through the Pilbara Underground Power Project which is supported by local government and the State Government through Royalties for Regions.

To date, we have hundreds of customers connected to underground power as a result of this Project. While we are unable to deliver on our original forecast budget and timeframe we are planning to complete 60 per cent of the project by mid next year. We remain committed to completing this critically important Project and reducing the inherent risk of supplying reliable electricity in cyclonic parts of the State and enhancing the liveability of our Pilbara communities.

Challenges impacting this project include cost pressures brought about by the resources boom and a contractual dispute with our major contractor. Horizon Power has assumed direct control of the work through our Operations division based in Karratha and has selectively used Western Power and other contractors to progress the residual work. Putting safety above all and ensuring started work was safely progressed, with minimum inconvenience to our customers, was our number one priority.

We have apologised to our customers in the Pilbara for any inconvenience.

This year the Executive, with the support of the Board, has redirected our business strategy to target the massive growth in regional Western Australia.

All of the State's major resource projects have consequences in terms of energy infrastructure for the towns surrounding them and Horizon Power is responding to this demand with the provision of infrastructure solutions to meet that demand.

In Karratha, temporary generation will be installed to underpin security of supply and ensure we meet demand for electricity ahead of the peak summer period in 2012/13.

We are also working hard behind the scenes with private industry to secure agreements to provide long-term infrastructure solutions such as a new power station in South Hedland and a transmission line connecting Port Hedland to Newman, which would improve energy security and reduce energy costs.

Close to our customers – your local energy partner

The continued refinement of our structure this financial year reinforced our commitment to a decentralised model that ensures the needs of regional Western Australia are better met through the management of our assets at a local level and closer collaboration with our key stakeholders and customers.

This year we held community forums in all the regions we service to engage with our customers on issues such as renewable energy changes and energy efficiency.

We have developed an innovative approach to renewable energy pricing through which buyback prices are aligned with the cost of generation in each town to ensure the sustainability of the system. The buyback prices being offered from 1 July 2012 will encourage investment in renewable energy in high cost to serve towns and most importantly, make the product economically sustainable, ensuring Horizon Power is able to offer a buyback product to our customers for many years to come.

Horizon Power also continued to deliver on its commitment to educate communities with further development of our Horizon Discovery Zone education resource for teachers to deliver in Western Australian schools about energy efficiency, electrical safety and renewable energy. We have also partnered with Rio Tinto to provide our education resources to more than 1,000 children in the Pilbara and have developed an interactive children's website featuring our much-loved mascot, Gilbert, a frilled neck lizard.

Year ahead

In the year ahead, I will be working closely with the recently formed Aboriginal Community Advisory Council. This prominent group of Aboriginal people, chaired by Peter Yu, will advise me about what we need to do to improve our service to, and engagement with, Aboriginal people.

We will also finish two projects which will result in improved reliability and safety of power supplies in five Aboriginal communities in the Kimberley, the Town Reserves Regularisation Project and the Aboriginal and Remote Communities Power Supply Project.

In the next few months we also expect to sign an agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to build a power station for the Australian Square Kilometre Array Pathfinder - CSIRO's new radio telescope under construction at the Murchison Radio-astronomy Observatory (MRO) in the Mid West region of Western Australia.

I would like to thank the dedicated employees of Horizon Power who have embraced our new performance-based culture and during a time of significant change have maintained their focus on delivering excellent services to our customers and stakeholders.

Sharing our stories

Surveying the stars

In December 2011, Horizon Power welcomed \$15.5 million in funding from the Royalties for Regions and the Science and Innovation portfolios, to construct a power station with installed capacity of approximately one megawatt to support the CSIRO's Australian Square Kilometre Array Pathfinder project (ASKAP). The ASKAP is a pilot project for what will be the largest telescope on the planet, the Square Kilometre Array (SKA).

Since 2009, Horizon Power has been a substantial and proactive Australasian SKA Industry Consortium member, contributing outstanding strategic support and technical insight into developing energy solutions for the ASKAP telescope.

Recognising our experience in delivering energy solutions to remote areas, CSIRO selected Horizon Power to design, build, operate and maintain the solar-diesel station on the ASKAP site at the Murchison Radio Observatory at Boolardy Station, approximately 400 kilometres north east of Geraldton.

Chair of the Australian Square Kilometre Array Industry Consortium, John Humphries, said
Horizon Power had been contributing technical and strategic advice since its membership in 2009.

"This is a significant project and Horizon Power, along with other industry partners, has developed a cost-effective and sustainable energy solution which can interact with emerging technologies that are required," he said.

We are honoured to be involved in what will be one of the largest and most ambitious international science projects ever realised. We are also looking forward to the opportunities co-hosting the SKA with New Zealand and South Africa will bring.

The SKA will help answer fundamental questions about the evolution of the universe, and reveal information about dark matter and other galaxies.

SKA will involve the installation of radio telescopes over vast areas of Australia and New Zealand with the main presence being within Horizon Power's service area. The SKA will require up to 50 islanded power systems to be dispersed from the core site, plus a 50 to 100 MW power solution at the core site.

Astronomers, engineers and industry experts from more than 20 countries are designing the SKA which will be 50 times more sensitive and will survey the sky 10,000 times faster than any other telescope. Signals will be transferred to a central high performance super computer by optical fibres carrying up to 420 gigabytes per second per dish, with data rates far exceeding those of existing internet traffic.

The Pawsey Centre Project being built in Kensington, WA, will host new supercomputing facilities and expertise to support SKA research and other high-end science.

ASKAP is a much smaller project, representing one per cent of the total SKA development and will require a renewable radio-quiet hybrid power system of about one megawatt capacity at the MRO site.

5. Operational Performance Report

Horizon Power continued to deliver a safe and reliable electricity supply to customers throughout 2011/12 despite the challenges posed by severe weather conditions.

Of our 38 systems, 29 met performance reliability standards. The Onslow, Broome, Kununurra, Wyndham, Lake Argyle, Esperance Rural and Hopetoun Rural systems did not meet their targets in the 2011/12 financial year.

Whole of system outages caused by power station operations severely affected the reliability performance for Onslow, Broome, Kununurra, Wyndham and Lake Argyle. Horizon Power is working with the Independent Power Producers of these systems to identify and improve their performance for the communities serviced.

Network enhancement programs, including the Aged Wood Pole Replacement and the Wood Pole Reinforcement Programs, are underway and will continue to drive safety and reliability performance to an acceptable level for the Esperance Rural and Hopetoun Rural networks.

Horizon Power's Emergency Management Team (EMT) and Local Response Teams were on a state of heightened operational readiness over the cyclone season, and the EMT was activated for 13 days over the past year to protect the communities and restore systems impacted by severe weather events, including Tropical Cyclones Heidi, Iggy and Lua and severe flooding in Kalumburu. During this time we were able to maintain normalised reliability standards, with a System Average Interruption Duration Index (SAIDI) of 203 minutes – within the regulated 290 minutes – and a System Average Interruption Frequency Index (SAIFI) of 3.15 against the target of 6.6.

These results are better than the previous four year average, highlighting our commitment to improving the reliability of our power supplies.

Horizon Power is moving from a Fit for Purpose Asset Management Strategy to an Asset Lifecycle Strategy. The long-term programs associated with this Asset Lifecycle Strategy are designed to deliver sustained improvements in the safety and delivery of reliable power supplies to our customers.

The Capital Works Program has been delivered against our agreed Asset Management Plan (AMP). Extreme and high risk mitigation works are all in progress, with significant progress being made on the:

- Aged Wood Pole Replacement Program
- Wood Pole Reinforcement Program
- Copper Conductor Replacement Program
- Customer Service Apparatus Replacement Program

AMP Driver	Budget	Actual
Safety	\$20,284,048	\$20,868,014
Regulatory/Compliance	\$8,472,163	\$8,390,584
Reliability	\$1,943,602	\$2,221,105
Growth/Capacity	\$656,877	\$712,551
Asset Services	\$3,753,170	\$4,085,281
Asset Management Support	\$984,365	\$995,003
Total	\$36,094,225	\$37,272,537

During 2011/12, Horizon Power aligned its Asset Management Framework model to the PAS55 (Publicly Available Specification) which utilities around the world are moving to as the best practice standard for asset management.

This work ensures Horizon Power's Asset Management Framework is aligned to international best practice to comprehensively address our asset management issues to meet the needs of our customers and stakeholders.

Pole management

Our Operations division has managed a focused age-based wood replacement and reinforcement program with full visibility of Energy Safety.

In 2011/12:

- 1,017 poles older than 40 years old were replaced
- 2,683 poles older than 24 years were reinforced

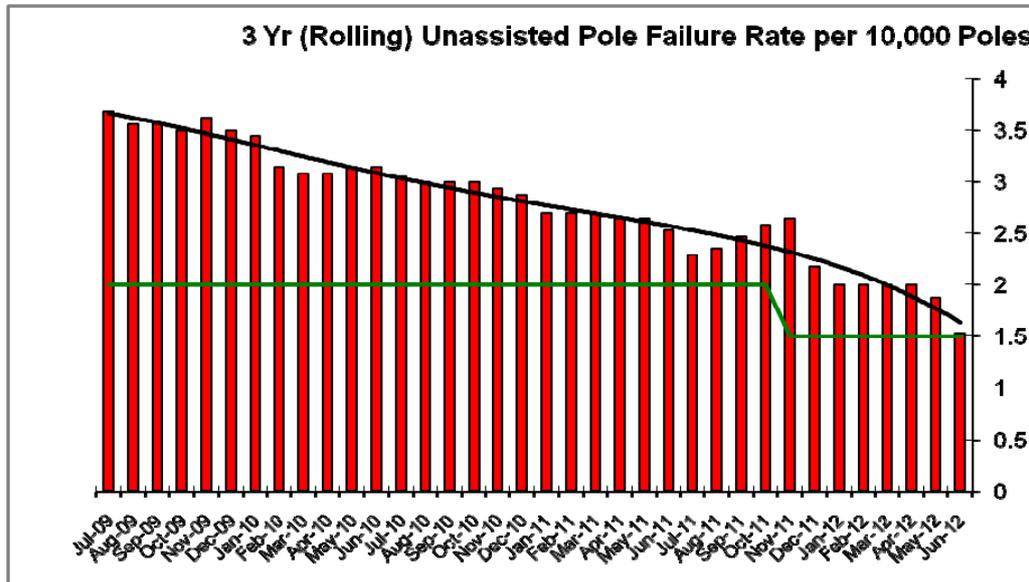
As a result of this work, Horizon Power expects to be compliant with Australian Standard AS1720, as required by State regulations, for wood poles at the end of 2012/13.

Horizon Power has set a target to replace 2.5 per cent of poles each year and exceeded this target in 2011/12, replacing 3.7 per cent of our total pole asset base.

Limitations of Horizon Power's existing metal pole testing led to research to improve the reliability and consistency of metal pole testing. Technology for the condition assessment of metal poles has been sourced and is now being applied to Horizon Power's metal poles. This technology is new for Australia. It provides a much higher level of confidence in metal pole strength assessment than previously available. Horizon Power now employs its own pole inspectors to further improve confidence on the serviceability assessment of poles.

Horizon Power has developed streetlight pole reinforcement technology in response to the failure of some streetlight poles. This technology is being applied to affected streetlight poles as identified through our inspection process.

The combined impact of Horizon Power’s pole management work throughout the year can be seen in the improving unassisted pole failure rate as detailed in the graph below. Horizon Power has nearly reached its target of 1.5 in 10,000 unassisted failing poles.



Through Horizon Power’s pole management program, the 2012/13 works plan includes the reinforcement of more than 5,000 poles. These poles will require replacement in 2027 when they reach their 40 year life. Strategies are being developed to manage pole serviceability.

Horizon Power has also carefully considered the recommendations of the Standing Committee on Public Administration into Unassisted Failure in relation to pole management. Horizon Power is preparing to develop key performance indicators in relation to pole management on which it will report next financial year.

Conductor management

Conductor (powerline) management has been identified as a major risk to electricity businesses. Horizon Power is developing a condition-based monitoring process to assess the condition of our conductors to develop a risk-based replacement program.

The first phase of this program involves the replacement of small copper conductors:

- the removal of the highest risk conductors (all 7/18 and 7/20 copper streetlight wire was completed in 2011/12)
- a program to remove 7/16 copper streetlight conductor by 2015
- replacement of 7/16 distribution high voltage conductor by 2018
- development of a conductor condition assessment methodology for the management of the remaining in-service conductors

- commencement of condition and criticality assessment of our overhead conductors

Capital funding for asset management

The outcomes of Horizon Power's State Budget forecast submissions resulted in a lower than requested capital funding amount for Horizon Power in the outer years of the forward estimates. This translates into the Asset Management Plan being allocated less capital than required to address all currently classified high risk matters in accordance with the Board approved Risk Mitigation Strategy in financial years post 2012/13. Horizon Power is reassessing the risk rating and, where required, enhancing business cases to justify additional capital requirements for discussion and re-submission to government.

Safety Above All

Horizon Power is extremely proud that we have not had a lost time injury in Port Hedland for 11 years, in Kununurra for 10 years, in Carnarvon for five years, in Broome for four years and in Esperance for two years.

Horizon Power recorded a lost time severity injury rating of 6.9, down from the previous year's rating of 32.3 and significantly lower than the national industry average.

In 2011/12 Horizon Power was recognised by WA's safety regulator WorkSafe WA for our commitment to safety in our offices and depots throughout regional Western Australia. Horizon Power was assessed by an external specialist safety organisation using the WA State Government regulator WorkSafe WA's WorkSafe Plan. The WorkSafe Plan measures and recognises best practice safety management systems and compliance to safety and health legislation. The WorkSafe Plan measures safety performance across five critical areas; management commitment, planning, consultation and reporting, hazard management and training and supervision.

WorkSafe WA awarded Horizon Power with four Gold Awards and two Silver Awards based on the outcome of the assessments and lost time injury performance. The Gold Award is based on a score of more than 75 per cent over the five elements and a reduction of 30 per cent in the lost time injury frequency rate (LTIFR). A Silver award is based on a score of more than 60 per cent over the five elements and a reduction of 10 per cent in the LTIFR.

Our West Pilbara office in Karratha was ineligible for the award because it had one lost time injury in the 12 months before the audit was undertaken. The West and East Kimberley offices, Esperance and Bentley offices received Gold Awards and the East Pilbara and Gascoyne/Mid-West received Silver Awards.

Sharing our stories

Rain or shine, safety is our focus

Weather conditions in 2011/12 gave Horizon Power crews ample opportunity to demonstrate their experience and capability in responding to emergency situations.

Tropical Cyclone Heidi caused damage and outages for more than 3,000 customers in Port Hedland and South Hedland. Repairs were completed and full power was restored within 24 hours to the vast majority impacted. We were prepared to respond quickly to Tropical Cyclones Lua and Iggy and activated of emergency response teams, however no infrastructure was damaged.

Further north, to ensure the safety of residents, power supplies in Kalumburu in the East Kimberley were disconnected due to heavy rain and severe flooding following a tropical low in the region.

Crews flew in from Kununurra to assist while Horizon Power worked closely with the State Emergency Coordination Group to coordinate assistance to the community. Horizon Power was instrumental in drawing attention to the flooding of the community and securing assistance from key agencies across the State, further reinforcing the key role Horizon Power seeks in the communities we serve.

Despite the severity of the weather conditions, our staff managed to restore power supplies in the least amount of time, without recording any safety incidents.

Through the winter months the State's South West electricity infrastructure was buffeted by severe weather that caused significant damage. Horizon Power assisted Western Power crews to restore power in the Katanning, Bridgetown and Wagin, following these wild storms. The two companies have signed a Memorandum of Understanding to underpin these cooperative arrangements, where assistance will be provided to one party by the other as necessary.

We continue this focus on safety to the communities we service and our employees in our daily operations.

6. Securing our future

Horizon Power's structure and strategy

Horizon Power's focus for 2011/12 has been to refine our strategy, structure and cultural elements of our business following the 2010 restructure.

These changes were designed to eliminate role duplication and reduce the number of organisational layers, thereby improving efficiency and service delivery. Through this major organisational change we have assigned and clarified single-point accountability to the level of each role. In so doing we have attained full visibility of legacy issues that we are now managing as we work more closely with our regional communities to plan and develop well-considered energy solutions to meet current and future needs.

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

Inter-generational assets include tangible benefits relating to the delivery of physical infrastructure, such as poles, wires and transformers, and direct and indirect employment in regional areas and intangible benefits which relate to an accumulation of knowledge embedded not just in our people, but in institutions and processes, and in how they interact. This includes building diversity, capability and capacity in our workforce and creating capacity and opportunity in the communities we serve, today and in the future.

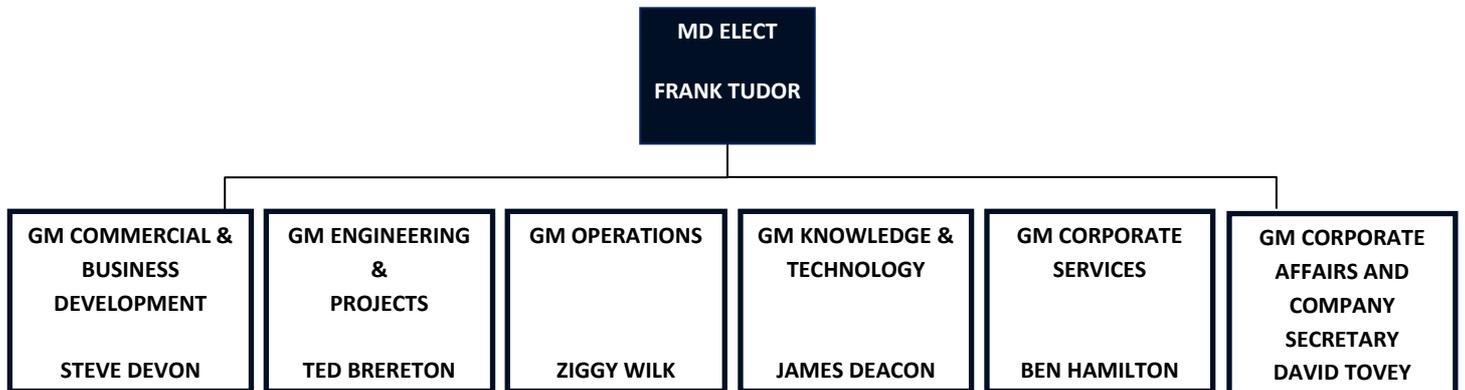
In 2011/12, Horizon Power's strategy centred on a number of key areas:

- Safety – to improve our well-designed safety system to one that is considered best practice around the world
- People – continue to simplify roles and develop improved people systems.
- Aboriginal engagement – to provide Aboriginal candidates with the opportunity to fill new roles in the organisation to help us meet the 2014/15 target of 20 per cent Aboriginal employees.
- Customer value – to reduce our cost of service while improving customer-related functions to ensure we work well with our customers to shape their energy needs and deliver simple, easy and effective products and services.
- Business transformation – to develop a solid and effective platform of affordable core business systems which are managed intelligently and with discipline.
- Innovation – to continue to find more effective and efficient ways of conducting our business including leveraging technology and innovation to create better solutions.
- Business growth – to operate under a holistic integrated service delivery approach across all systems in the business to ensure we harness early

opportunities to secure commercial infrastructure investments and increase our enterprise value.

In 2012/13, our revised business strategy clearly reflects Horizon Power's commitment to safety, to maximising value from our customers and stakeholders and to helping develop communities throughout regional Western Australia.

Horizon Power's Executive structure



Sharing our stories

Creating jobs closer to communities

Horizon Power has improved the delivery of metering services to customers by bringing the work in-house and thereby assuming greater control. At the same time we have provided employment opportunities across the State for 12 Aboriginal Australians in our new Field Services Officers team. They are joined by four existing meter readers from our previous contractor and include two Aboriginal employees who provide training and mentoring support.

Esperance meter reader Desma Lawrence said she learnt a lot during the Broome-based training program and enjoys putting her new skills to good use.

“I am still learning some tricks of the trade, but have a great support system here in Esperance so I can only see it getting easier from here,” she said.

The training program is just one of the initiatives developed under Horizon Power’s Aboriginal Employment and Engagement Strategy.

Horizon Power also continued to pilot the nationally-endorsed Remote Community Utilities Workers apprentice training program which employs five apprentices from remote Aboriginal communities. The program, developed by Horizon Power and recognised by the electrical industry training body EE-OZ, improves power reliability by ensuring routine maintenance and safety work can be carried out immediately in some remote communities rather than waiting hours for assistance from our main regional centres.

The Remote Community Utilities Workers (RCUWs) recently completed another stage of training at the Wyndham Power Station in the East Kimberley.

Minty Sahanna (Beagle Bay), Keith Hunter (Bidyadanga) and Brendan Walters (Yungngora) took part in stage five training of the 11 stage Certificate III qualification.

Two of the components they completed are ‘Working Safely in Remote Area Power Stations’ and ‘Maintaining Safety and Tidiness in Remote Area Power Stations’. These components enable the RCUWs to work autonomously in remote area power stations.

Horizon Power also employed three business administration trainees this year. One of our trainees, Kununurra-based Simone Long, said she was enjoying the work, particularly helping the communications team with a photo shoot and doing a voice-over for audio posters being introduced in Aboriginal communities to assist with providing electrical safety and energy efficiency messages.

“The photo shoot, getting my voice recording done for the audio posters and the laughter I share with fellow colleagues are my favourite experiences so far,” she said.

7. Business highlights

Powering the Pilbara

Pilbara Underground Power Project

The Pilbara Underground Power Project (PUPP) is a partnership between the State Government's Royalties for Regions Pilbara Cities Initiative and local government, delivered by Horizon Power.

The Project aims to provide cyclone affected North-West towns with a safer and more reliable power supply, by replacing ageing overhead electricity infrastructure with underground networks. The project scope covers Karratha, South Hedland, Wedgefield, Onslow and Roebourne.

Similar to other industries and large projects in the Pilbara, the PUPP has experienced increased costs against the budget due to the booming Pilbara cost escalation. As a direct comparison, costs for undergrounding per lot have nearly tripled since the Port Hedland State Underground Power Project commenced in 2004.

BHP recently stated that costs in the Pilbara had increased 600 per cent in the last 10 years.

In order to understand the reason for the cost escalation, as well as implement the required mitigation actions, a full, detailed and independently verified review of the scope was completed.

The result is the implementation of a new approach for the execution of the PUPP, with particular focus on scope, cost, schedule and project management. This plan was approved by the Horizon Power Board in June 2012.

Horizon Power recognises that this is such a critical project that we need to balance the pace of delivery with the need to be fiscally responsible and ensure we allocate available funds effectively and efficiently.

The new PUPP schedule includes the following key elements:

- Delivery is staged across the four towns with completion expected by 2015
- Completion of Millars Well and majority of Bulgarra (suburbs in Karratha), along with South Hedland and Wedgefield, by mid 2013
- Integration of the PUPP within Horizon Power for greater in-house control
- Introduction of smaller work packages with a view to balancing the pace of delivery with available funding i.e. ensuring work is only released once funding is approved
- Development and implementation of an Aboriginal engagement strategy for project works

- Horizon Power will work with the State Government and local governments in the Pilbara to identify funding required to complete the project

Karratha short-term generation project

Horizon Power is due to install an additional 20 megawatts (MW) of energy in the Pilbara in early 2013, following the State Government's allocation of \$43.5 million in the State Budget.

The 20 MW of gas generation for the North West Interconnected System (NWIS) - the Horizon Power network that provides power to residents and businesses in Port Hedland and Karratha – is currently scheduled to be available to meet peak power requirements from the first quarter of 2013.

Additional capacity has also been secured through the renewal of a contract to purchase electricity from Alinta Energy Ltd in Port Hedland. The reliability of this contract will, however, reduce as large resource companies drive expansion and increase power uptake.

These measures will boost the total generation capacity on the NWIS to approximately 160 MW, in line with forecast demand for 2013/14.

The new gas turbine will be located adjacent to the ATCO power station in Karratha which feeds power into the NWIS for Horizon Power customers.

South Hedland power project

Horizon Power is developing a medium-term power solution to meet the Pilbara's energy requirements up until 2016, when a longer-term power solution will be required to meet demand.

Horizon Power is working with the State Government through the Pilbara Power Procurement Board, on this medium-term solution. This Board is considering the staged development of a multi-user power precinct for the South Hedland project.

Horizon Power has acquired a site under a management order at the Boodarie Industrial Estate, Port Hedland. With the uncertainty in the broader macro-economic environment and its emerging affect on iron-ore expansion, it is important that Horizon Power, the State and the private sector work closely to assure security of supply through optimised power development.

The aspiration is to assure short-term supply and in the medium-term aggregate demand through involvement of the private sector, and develop the site into a power precinct involving common user services.

Pilbara transmission projects

East Pilbara Link

Horizon Power is developing a submission to address transmission network capacity limitations in the Pilbara.

Horizon Power has signed a Memorandum of Understanding with Canadian power company ATCO (owners of the Karratha Power Station which Horizon Power buys electricity from to service Pilbara customers) to jointly develop a proposal which will be submitted to potential foundation companies to support new resource projects in the Pilbara.

The probability of success has been reduced in recent times as resource companies grapple with the dynamics in the sea-borne iron-ore market. The project itself was promoted by Horizon Power, with Ministerial support, because it is critical to underpinning supply security, reducing costs and energy market evolution in the Pilbara. The timing was dictated by an opportunity to aggregate sufficient demand to commercially underwrite the transmission links without recourse to financial support from governments.

The regional development benefits of reducing barriers to entry of junior mining resource holdings along the East Pilbara corridor were also thought to be considerable.

The project is entirely consistent with recommendations of studies that have been completed over the last 10 years by Government agencies, industry bodies, independent consultants and energy companies.

High voltage transmission underground project

Horizon Power was asked by Main Roads WA and BHP Billiton (BHP) to underground high voltage transmission lines in Port Hedland to facilitate high and wide load transportation.

Horizon Power's Operations and Engineering and Projects divisions combined forces to overcome the impediment lifting powerlines poses to resource companies in the Pilbara.

Horizon Power has been engaged by Main Roads Western Australia to underground six 66kV operated overhead transmission lines at locations where they cross the proposed Great Northern Highway to the Wedgefield realignment heavy haulage route being planned to service new port facilities in Port Hedland.

Horizon Power has also been contracted by BHP to arrange undergrounding of the Anderson Street Substation to Mount Newman Mines Substation (AST – MNM 71) 66 kV overhead transmission line where it crosses Gilbert Street in Port Hedland.

The lines currently operate at 66 kV however the cable installations will be designed and constructed at 132 kV to allow for future upgrading of the Port Hedland transmission system.

SKM has been engaged by Horizon Power to carry out the design, documentation and technical support for the works. Horizon Power is overseeing the construction and commissioning of works.

Horizon Power is excited at this opportunity to work closely with these respected partners in a project removing obstacles to regional development by streamlining vehicle movement.

Mungullah Power Station

Horizon Power is scheduled to complete construction of the \$73 million Mungullah Power Station and related transmission infrastructure in 2012/13. The new energy-efficient station will operate on both diesel and gas, and will serve the growing needs of the Carnarvon community.

The project represents a significant investment by the Government of Western Australia into power infrastructure in the Gascoyne region.

The 18 MW power station is being built at Brown Range, about 6.5 kilometres from the town centre and residential areas. It will service the needs of 6,600 people for approximately the next ten years and has been designed to ensure extra generation capacity can be installed.

Horizon Power has worked with the traditional owners and custodians of the area, the Gnulli People, and the State Government to acquire the land for the new station. The Gnulli People have given the name for the power station as part of an agreement with Horizon Power. Mungullah is the Yinggarda word for the hill on which the power station is located.

The project is taking place in two phases, which means power will continue to be generated from the existing site for some time. The new power station will deliver increased performance as well as reduced maintenance costs and will be operational in early 2013.

The project will largely be completed within budget despite an increase in scope to bring forward the installation of some generators originally planned for 2015/16. This avoids the technical complexity and operational cost of running the two power stations concurrently for a number of years.

Sharing our stories

Engaging with communities

In Horizon Power's service area of regional and remote Western Australia, a significant proportion of the population are Western Australians who identify as being of Aboriginal descent.

Horizon Power is committed to engaging with our Aboriginal customers in a respectful way and ensuring Aboriginal communities are fully informed about any work taking place. We also want to ensure our workforce is representative of the communities we service.

In 2011, the Board and Executive of Horizon Power committed to an Aboriginal Employment and Engagement Strategy that includes targets for employment and training and improving our service to communities.

During the year we illustrated our improved focus on engagement through a number of projects that are delivering improved power supplies in Aboriginal communities.

During 2011/12 we carried out work in the large, remote community of Yungngora, formerly Noonkanbah Station, upgrading the power supply and preparing to build a new power station under the Aboriginal and Remote Communities Power Supply Project.

Our Remote Community Utilities Worker employed in Yungngora, Brendan Walters, and Aboriginal Community Liaison Officer Sam Lovell (who is also a member of Horizon Power's Aboriginal Community Advisory Council, see page 32), assisted with the upgrade of the electrical network and provided payment and energy efficiency education to residents when they became Horizon Power customers in November 2011.

Work on upgrading the electrical networks in the town-based Aboriginal communities of Bayulu, Looma and Mowanjum also began in 2011/12 under the Town Reserve Regularisation Project.

Looma, 120 kilometres south east of Derby, has a new multi-functional police station connected by Horizon Power.

Looma Police Senior Sergeant Kevin Hall, Officer in Charge of Looma Multifunctional Police Station said, "Our new facility here is quite sophisticated in terms of its power needs, and the upgrade appears to have catered for those needs well."

Mr Lovell, Community Compliance and Mentor Coordinator Terry Shadforth and Community Development Officer Jason Oakley, together with the people of Bayulu, have been exploring ways to save power and reduce consumption. Bayulu is 10 kilometres south of Fitzroy Crossing.

Business highlights (continued)

Improving reliability and safety in Aboriginal communities

Town Reserves Regularisation Project

Under the Town Reserves Regularisation Program (TRRP) phase three, the Department of Housing has contracted Horizon Power to audit, design and undertake electricity network upgrades for the West Kimberley communities of Looma and Mowanjum. In the town-based community of Bayulu, Horizon Power has designed the network upgrade and the work is being undertaken by Department of Housing contractors. Work is nearly complete in Bayulu and will begin in the third quarter of 2012 in the communities of Looma and Mowanjum. Work in all three communities is expected to be completed by the end of 2012.

Between 2005 and 2010 Horizon Power has upgraded electrical networks in 25 town-based communities under TRRP.

Aboriginal and Remote Communities Power Supply Project

Residents of two remote communities in the Kimberley region, Kalumburu and Yungngora (Noonkanbah), became Horizon Power customers this financial year when we connected them to an upgraded electrical network.

In November 2011, Horizon Power took responsibility for the Kalumburu electricity network after installing underground power to improve safety and reliability of power supplies, particularly important in cyclone-prone areas.

In November, residents in the West Kimberley community Yungngora were connected to the upgraded network.

Horizon Power has undertaken the upgrades under the Aboriginal and Remote Communities Power Supply Project (ARCPSP) funded by the State Government through the Public Utilities Office.

Due to a review of the project scope, the delivery of new power stations in those communities has been delayed. Work on the power stations on those communities will begin in the next few months and Horizon Power is committed to delivering the new power stations by the end of 2013.

As part of ARCPSP, Horizon Power has also delivered to the residents of Kalumburu and Yungngora education on safety, energy efficiency and the new way of paying for power. As Horizon Power customers, residents will pay the same price per unit of electricity as most other Western Australians and are now able to apply for State Government energy rebates and subsidies.

Aboriginal Engagement and Employment Strategy

Horizon Power's Aboriginal Employment and Engagement Strategy came into effect in October 2011.

Key projects under the strategy include the review and development of protocols for training, job and procurement opportunities for Aboriginal people at Horizon Power

At the end of June 2012, Horizon Power's workforce included 43 Aboriginal people, exceeding a progress target for the employment of five per cent of Aboriginal people across the business.

Horizon Power also established the Managing Director's Aboriginal Community Advisory Council (ACAC) to ensure the business can improve delivery of services to Aboriginal people and communities.

Other key initiatives and projects include:

- In a joint bid, Horizon Power and Parsons Brinckerhoff won a tender to fill the role of program manager for the Remote Area Essential Services Program (RAESP), a WA public sector program delivering services to remote Aboriginal communities.
- A cultural competency assessment of Horizon Power staff was undertaken which will inform a new cultural awareness program under development. The program will identify with various Aboriginal protocols, values and interests and is representative of the diversity and richness of Aboriginal culture and heritage throughout regional Western Australia.
- Innovative ways of improving communication with Aboriginal communities were investigated with new technology being introduced in the next few months.

Upgrading metering technology in communities

Horizon Power is currently preparing to trial a new pre-payment meter (PPM) for Aboriginal communities in order to meet Economic Regulation Authority regulations gazetted in June 2010 which took effect in January 2011. These regulations required Horizon Power to cease installing the existing pre-payment meter in Aboriginal communities after 31 December 2010. Horizon Power has since sought a culturally and technically appropriate solution and will soon begin a trial of a new pre-payment meter which meets the regulation requirements, including:

- Abolition of emergency credit function of existing PPMs and establishment of a \$20 maximum debt pool in each meter.
- The new meter can only disconnect automatically between the hours of 9.00 am and 2.00 pm on Monday through Thursday, or when the debt pool reaches \$20.

Feedback from residents in Aboriginal communities serviced by Horizon Power is that PPMs help residents manage their power costs as they pay for their power as they use it, rather than receiving bi-monthly bills.

The trial of new PPM technology is expected to be completed by the end of 2012 with a new meter being available to install in 2013.

Horizon Power is in the process of regularising three town-based Aboriginal communities, Bayulu, Mowanjum and Looma. Bayulu and Mowanjum already have PPMs however Looma does not. Horizon Power will be required to install credit meters, or meters which result in a bi-monthly bill, in Looma given the ERA regulations which prevent the existing meter being installed.

Promoting renewable energy installations

During the 2011/12, Horizon Power has focused on assisting customers with the installation of renewable energy installations. As at 30 June 2012, Horizon Power had a total of 7.4 MW of customer renewable energy systems connected or approved to connect to its networks, an increase of 1.8 MW over the past 12 months.

To facilitate further growth in customer renewable energy installations, Horizon Power has implemented industry-leading generation management requirements for connecting renewable energy systems onto its networks. Generation management controls the output of renewable energy systems and will help minimise the impact of the intermittency of renewable energy generation on the security and supply of power to the whole network. This means Horizon Power can connect more renewable energy onto its networks.

Renewable energy systems with generation management will provide customers with more choice because the renewable energy buyback offer is now available to more customers and provides the ability to install much larger systems.

Horizon Power has also introduced a new pricing structure for its renewable energy buyback scheme (REBS), effective from 1 July 2012. The new pricing structure is a variable rate aligned to the cost of generation in each town. By linking the buyback rate to real cost drivers, the product offer is consistent with Horizon Power's commercial focus and provides the industry with greater price certainty and transparency

Native Title and Heritage

The Environmental Management Utility (EMU) system, implemented in 2010, has continued to prove a success with an ever increasing number of heritage and native title clearance requests forms being submitted from across the business.

The EMU system includes a well established native title and cultural heritage approvals process. Through this process we have been able to continually meet our

commitment to provide preliminary heritage and native title advice for new projects within five working days, despite an average 22 per cent increase in requests received this financial year.

Horizon Power has also commenced a case study of its existing Esperance network which involved consultation with local Aboriginal groups. This audit will continue onto the rest of the networks and lead to the establishment of heritage protection agreements. Through these efforts we can ensure Horizon Power continues to improve its heritage and native title processes.

Carbon pricing

The price on carbon took effect on 1 July, 2012 with the introduction of the Federal Government's Clean Energy Future legislation. In this first year, the price per tonne of carbon dioxide-equivalent greenhouse gases is \$23. Carnarvon Power Station's emissions in 2010/11 were approximately 30,000 tonnes, exceeding the scheme's facility-based annual threshold of 25,000 tonnes.

Horizon Power also purchases energy from its suppliers, many of whom are also liable entities. These organisations will pass their carbon costs on to Horizon Power and we estimate these costs to be \$16 million in the first year of the scheme.

In 2011, Horizon Power launched a comprehensive program of work aimed at achieving compliance with the carbon pricing mechanism, and ensuring accurate and timely pass-through of emissions costs from its energy suppliers to its customers.

Sharing our stories

Helping our customers save energy

Horizon Power is helping our customers to manage the impact of rising electricity tariffs by providing information about ways to reduce energy.

In November 2011, our business ran the *Betterways Battle* in our On The Horizon customer newsletter; a four-month long energy-saving competition in which four randomly chosen households competed to see who could lower their electricity use the most.

Because of the varying climate across our vast service area and to ensure fairness, Horizon Power compared the energy use of each entrant at the end of the four month period with their own energy use during the same period the previous year.

The biggest savings were made through reducing air-conditioner usage and using higher temperature settings, reducing hot water use and being vigilant about turning off lights and appliances when not needed.

The two winning households won a \$5,000 energy efficiency refit or appliance upgrade and the runners-up were rewarded with \$2,000 worth of new appliances or refit work.

Contestants	Daily energy use 2010	Reduction over four months	Weekly saving on electricity bills
Hinkley family of Karratha	66 units a day	30 per cent	\$71
Pusep family of Broome	33 units a day	23 per cent	\$28
Witt-Stone family of Port Hedland	14 units a day	71 per cent	\$42
Best couple of Norseman	9 units a day	53 per cent	\$19

In June 2011, Horizon Power joined Synergy and Western Power in the Future Energy Alliance.

Through the delivery of the State Government's energy saving campaign, *Switch the Future*, the Future Energy Alliance is committed to helping Western Australians understand how they can reduce their environmental impact and save money on their electricity bills.

The competing families also agreed to support this campaign by being part of the *Switch the Future* television and print advertising.

Helping our customers reduce their electricity bills is at the forefront of our minds, not only to ease the financial burden, but to work towards building a more sustainable future for generations to come.

Business highlights (continued)

Wood Pole Testing Technique Evaluation Program

Horizon Power has developed a Wood Pole Testing Technique Evaluation Program in consultation with Energy Safety that aims to reduce the risk to the public created by aged wooden poles and optimise expenditure on the wood pole assets.

Specifically, Horizon Power is striving to improve the accuracy by which it identifies for replacement poles that are at high risk of unassisted pole failure. The data obtained from the Program will be qualitative information used to support Horizon Power's decision making process to further improve the current wood pole inspection regime.

A report of the data compiled has been tabled with Energy Safety and Horizon Power is now moving forward with two testing systems, with blind trials to be conducted in 2012/13.

Horizon Power and Western Power are working together on further trials to increase the understanding of previously reinforced wood poles and the suitability of those reinforcement methods. The outcomes of the program will provide Horizon Power with a condition-based wood pole monitoring system, replacing the age-based monitoring system that currently dominates the wood pole asset management strategy. Horizon Power is working with regulator EnergySafety to obtain an exemption from AS1720.2. This process may take up to five years. Once exempt, Horizon Power will be allowed to move to a condition-based wood pole management system which will provide cost savings in excess of \$100,000 per year for testing, and means that poles can be replaced on condition rather than age. This means that the process has the potential to save millions of dollars by extracting the maximum life from assets and managing work programs more effectively.

Esperance upgrade work complete

Horizon Power and alliance partners Transfield Services have completed a program of works to upgrade the single phase network six months ahead of schedule bringing safer and more reliable power supplies to over 14,000 residents in the Esperance district.

The program began in April 2010 with a focus on ensuring the electrical network continued to meet all current safety standards and reducing the number of unplanned power interruptions.

In two years, the team has replaced 508 wooden power poles with steel poles, installed an additional 868 power poles to reduce the distance between power poles and raised the height of 398 powerlines to meet ground clearance requirements.

Horizon Power and Transfield Services are now focused on replacing or reinforcing wooden poles throughout the district.

Training our people

Learning and development:

Horizon Power is reviewing its learning and development programs to align with the development of the organisation culture. Once implemented, these programs will contain core and job essential training and development modules. Our technical workforce continues to be trained in the core competencies required to maintain appropriate certification.

Training:

The following table outlines the training programs we have in place and the number of individuals in these programs, as well as how many Aboriginal trainees are involved.

Training Program	No. of employees	No. of Aboriginal employees
Apprentice Distribution Workers	16	3
Remote Community Utility Workers	7	6
Administration Trainees	3	3
Field Services Officers	14	12

Transforming the business

The work that began in 2008 to separate core operating systems and business processes from Western Power is managed under two major programs. Both programs moved into the final implementation stages this financial year.

Business Transformation

The purpose of the Business Transformation Program is to implement resource management and planning systems more suited to the size and scale of Horizon Power. The systems Horizon Power shared with Western Power did not address our generation and retail requirements and posed challenges for the management of network assets.

The Business Transformation Program remains on target for completion by the end of 2012.

Upon completion, Horizon Power will be aligned with industry standards for asset management technology and have a lower technology 'cost per user'. Transformation also means Horizon Power will avoid future cost increases to upgrade and maintain technology.

The entire Business Transformation program will cost some \$30 million and will have taken approximately four years to deliver in a phased approach. It is significantly reducing the costs associated with antiquated and bespoke main-frame systems that were being managed by both Synergy and Western Power. Horizon Power has

opted for standardised fit-for-purpose systems that meet our requirements as a dispersed, vertically integrated energy company. To date five out of nine systems covering capital works management, metering, billing and customer services have been successfully implemented on budget and with minimal impact on customers.

The remaining systems will “go live” this year and will be followed by a period of refinement and adjustment. Horizon Power is justifiably proud of the fact that thus far we have delivered a comprehensive and fundamental overhaul and replacement of key processes and systems within budget and with only minor disruptions.

Technology Transition

The Technology Transition Program was completed in June 2012, on time and on budget. The Program was a series of complex projects that successfully brought IT systems under the strategic control and management of Horizon Power. This included technology infrastructure, desktop and application support services.

Horizon Power’s IT help desk was transitioned to Fujitsu Australia, which shares Horizon Power’s commitment to Aboriginal employment and training.

8. Environment

Greenhouse gas and carbon intensity

Energy industry participants have a key role in controlling carbon emissions from energy generation, transmission and consumption. In 2010, Horizon Power completed the construction of the new solar-diesel hybrid power stations in Marble Bar and Nullagine and partnered with ATCO for the construction of the new gas power station at Karratha to service the NWIS. Horizon Power is currently constructing a new gas power station in Carnarvon to replace the existing power station. Once the new power station is operational, the existing power station will be scheduled for decommissioning and site remediation.

Horizon Power reports total carbon emissions per financial year in accordance with the National Greenhouse and Energy Reporting Act 2007 (NGER). Total greenhouse gas emissions (as carbon dioxide equivalent) are submitted to the Clean Energy Regulator (CER), by 31 October each year. The 2011/12 NGER's report will be the fourth year of reporting for Regional Power Corporation (Horizon Power) and is made publicly available in the first quarter of 2013. Table 1 provides a summary of the previous year's NGER's reports. An estimate is made for the Scope 1 emissions for 2011/12 based on the most up to date information as at 4 July 2012. Greater complexity exists in establishing Scope 2 emissions; therefore it is too early to accurately estimate this value at the time of publishing.

Reporting year	Greenhouse gas emissions (tonnes CO ₂ -e)		
	Direct emissions (Scope 1)	Indirect emissions (Scope 2)	Total energy consumption (GJ)
2008/09	37218	43786	877350
2009/10	37242	31655	836547
2010/11	37460	40491	922464
2011/12	36816 (estimate)	Reported to CER by 31 October 2012, publicly available Q1 2013	

Table 1: Greenhouse gas emissions

Carbon intensity, measured as kgCO₂/kWh sold, of Horizon Power's total operations provides the key performance indicator (KPI) for greenhouse gas emissions. Based on data available on 4 July 2012, the 2011/12 Carbon Intensity is calculated as 0.60 kgCO₂/kWh sold, which is consistent with the previous reporting year. The decrease in carbon intensity achieved the previous reporting year is primarily attributed to a full year of operation from new power stations with lower emissions at Karratha, Marble Bar and Nullagine. The commencement of operations at Mungullah Power Station is expected to assist in reducing the carbon intensity further.

Reporting year	Carbon Intensity - kgCO2/kWh sold	Target - kgCO2/kWh sold
2008/09	0.71	No target set
2009/10	0.65	0.68
2010/11	0.58	
2011/12	0.60*	

* Estimate

Table 2: Carbon intensity

Management of contaminated sites

Horizon Power is actively managing 29 sites reported under the *Contaminated Sites Act 2003*. The sites are typically former power stations where historical spills and/or leaks of hydrocarbons have resulted in soil and/or groundwater impacts. The following provides a summary of key investigations completed during 2011/12.

The Act requires work to be undertaken in various stages and we are working through these for each site under the watch of the robust regulatory authority.

Former Power Station sites subject to contamination investigations during 2011/12:

Groundwater monitoring events (GME)		
Broome 12 Mile	Broome	Carnarvon Power Station (Operational)
Fitzroy Crossing	Onslow	Wiluna
Detailed site investigations (including additional DSI's)		
Broome 12 Mile	Gascoyne Junction	Halls Creek
Hopetoun	Laverton	Marble Bar
Nullagine		
Other investigations		
Broome – Quantitative Health Risk Assessment		
Broome – Natural Attenuation Modelling Report		
Derby – Review of Data Gaps (Regulation 58b)		
Fitzroy Crossing - Remedial Action Plan (RAP) (Review of Remedial Options)		

Former power station site investigations subject to external auditor review during 2011/12:

Groundwater monitoring events		
Exmouth – Review of GME and RAP	Fitzroy Crossing - Review of Preliminary Site Investigation (PSI), DSI, ADSI and RAP	Menzies (Voluntary) – Review of ADSI
Onslow – Review of PSI, DSI and GME		

Horizon Power is currently developing a comprehensive strategic plan to guide the ongoing contaminated sites management program as the program moves from investigation phase to remediation and site close out.

Environmentally Sensitive Areas Review Program

Horizon Power is completing a comprehensive review of the Environmentally Sensitive Areas (ESA) Program. The program identifies ESAs that intersect Horizon Power assets and provides staff and contractors with processes and procedures to follow when working within these areas.

This review is being undertaken on a regional basis due to Horizon Power's large service area. During the 2011/12 financial year, desktop and field based surveys of Horizon Power's networks in Esperance and the Kimberley regions were undertaken. Site specific procedures have been developed in consultation with the Department of Environment and Conservation (DEC), to minimise the risk of Horizon Power activities impacting these areas. The number of ESAs recorded along these networks included:

- 52 sites within the Esperance/Hopetoun network;
- 9 sites within the Broome network; and
- 10 sites within the Kununurra/Wyndham network.

During the surveys, nine new populations of five different priority species were recorded in the Esperance region. Of these, five new populations of *Acacia amyctica* (Priority 2) were recorded. This species has not been recorded in the area since 1971.

Environmental Management System

The Environmental Management System (EMS) was established in early 2010. A key principle of the international EMS standard, AS/NZS ISO14001:2004, is continuous improvement. Accordingly the EMS and site Environmental Management Plans (EMP's) will be reviewed and revised during 2012/13 to ensure fit for purpose environmental management and consistency with current operations.

Air emissions

Horizon Power reports annual air emissions for the period 1 July – 30 June to the National Pollutant Inventory (NPI) no later than 30 September each year. These reports are made publicly available on the NPI website (www.npi.gov.au). An estimate of combined air emission data from the Horizon Power generation facilities is provided below. This estimate is based on information available on 4 July 2012 and is consistent with the prior year's report. The final data supplied to the NPI may alter slightly from the estimated emissions and will also include additional reporting parameters.

Performance Indicators (Substance)	Total (tonnes)	Kgs/MWh (gen)
Sulphur Dioxide	0.3*	0.005*
Oxides of Nitrogen	916*	16.460*

* Estimate

Noise

Due to the age of the Carnarvon Power Station and changes to relevant legislation, operations are undertaken in accordance with the *Environmental Protection (Carnarvon Power Station Noise Emissions) Approval 2010*. This approval allows the power station to operate within a set of approved noise limits. Annual compliance monitoring was completed in February 2012 to coincide with the highest load and therefore worst case noise emissions. Noise levels at all receivers demonstrated ongoing compliance with the approval.

Environmental incidents and spill response training

One reportable spill occurred during the reporting year. This incident occurred in December 2011 on the Great Northern Highway approximately 70 kilometres north of Broome as a result of a faulty trailer separating from the towing vehicle while transporting transformers. Approximately 600 litres of mineral insulating oil leaked onto exposed soil within the road reserve. Impacted soil was removed and replaced with clean fill.

Spill response training has commenced for personnel within Horizon Power's depots. This training teaches the skills required to manage spills of chemicals and hydrocarbons including appropriate disposal of waste. This program will be continued with the remaining depots during 2012/13.

Sharing our stories

Sharing with all generations

Carnarvon children from five different schools participated on the Horizon Power education tour in early April, coordinated by Community and Customer Relations Manager Dave Shelton. The children saw electricity generators in action at the Carnarvon Power Station and learned how electricity travels to their homes, schools and community. They also visited the site of the new fuel-efficient Mungullah Power Station and the recently constructed EMC Solar Farm for a guided tour.

In Broome, Community and Customer Relations Manager Jodie Lynch was the guest speaker at the Broome Over 50's Club in June with a strong crowd turning up to hear information about the new tariff increases and rebates and energy efficiency.

Educating our children

Horizon Power's electricity education program, Horizon Discovery Zone (HDZ), and its lovable mascot Gilbert, the frilled-neck lizard, is becoming well known in regional Western Australian schools, with our Education Officer visiting schools in most of our regions during 2011/12. This year, Horizon Power has also produced a new set of resources for younger children in primary schools, including a book of lesson plans and activities, a kit of experiments and activities and was preparing to launch a reference website in August 2012.

Schools in communities we visited during 2011/12 included Beagle Bay, Lombadina, One Arm Point, Kununurra, Wyndham, Halls Creek, Broome, Bidyadanga, Tom Price, Paraburdoo, Dampier, Wickham and Pannawonica. The geographically vast nature of our supply area means that all towns are rotated over a two year cycle, with a focus on the Kimberley and Pilbara during the last financial year and the Mid West, Gascoyne and Goldfields the priority for 2012/13.

Horizon Power is also partnering with Rio Tinto to include all of the company's service towns' schools in our program. More than 1,000 school children in these Pilbara towns were visited in June.

Paraburdoo Primary School teacher Tamra Quadrio said that her students were all "highly engaged and learnt a lot about electricity and how to use it efficiently and safely".

A year 4/5 student from Pannawonica Primary School said that the Horizon Power and Rio Tinto presenters were really nice. "I think they were awesome and had a good way of teaching us how to use electricity and save energy."

The *Discovering Electricity* and *Discovering Junior Electricity* resource books were recently added to the Department of Education website for teachers. The resources

are available for teachers to download free of charge and communicate messages about electrical safety, energy efficiency and renewable energy resources through a variety of engaging, hands-on activities.

The Department of Education's Principal Project Officer E-Schooling Vicki Delves says the books are brilliant. "I am sure they will be well used by teachers in our schools," she said.

Horizon Power has also developed the Horizon Discovery Zone website for children across the State with interactive activities and lots of information about energy efficiency, safety, how electricity works and renewable energy.

9. Key statistics – electricity generation and sales

June2011/12 PowerStation	Generated Power (kWh)	Generated Power- Wind/Solar	Purchases(kW h)	Total Power Purchased/Ge nerated (kWh)	Used in Works	Sent Out (kWh)	RE buyback import into HP network (kWh)
Ardyaloon	0	0	1,503,086	1,503,086	0	1,503,086	0
Beagle Bay	0	0	1,481,868	1,481,868	0	1,481,868	0
Bidyadanga	0	0	2,488,727	2,488,727	0	2,488,727	0
Broome	0	0	126,816,908	126,816,908	0	126,816,908	959,290
Looma	0	0	2,398,883	2,398,883	0	2,398,883	0
Carnarvon	48,456,140	0	0	48,456,140	2,372,740	46,083,400	689,747
Coral Bay	0	0	3,143,310	3,143,310	0	3,143,310	40,617
Cue	0	0	2,117,064	2,117,064	0	2,117,064	2,859
Denham	3,388,689	2,043,176	0	5,431,865	112,718	5,319,147	109,753
Derby	0	0	32,927,779	32,927,779	0	32,927,779	120,320
Djarindjin	0	0	1,372,421	1,372,421	1	1,372,421	0
Esperance	0	0	70,798,955	70,798,955	2	70,798,955	389,608
Exmouth	0	0	24,878,249	24,878,249	3	24,878,249	326,189
Fitzroy Crossing	0	0	12,453,559	12,453,559	4	12,453,559	0
Gascoyne Junction	0	0	578,798	578,798	5	578,798	550
Halls Creek	0	0	10,191,440	10,191,440	6	10,191,440	0
Hopetoun	0	0	5,469,385	5,469,385	7	5,469,385	37,552
Kununurra	538,139	0	65,443,244	65,981,383	1,315,431	64,665,952	12,037
Lake Argyle	0	0	385,775	385,775	0	385,775	
Laverton	0	0	4,110,782	4,110,782	0	4,110,782	3,958
Leonora	0	0	10,087,145	10,087,145	0	10,087,145	33,661
Marble Bar	0	0	0	0	0	0	
New Marble Bar	1,628,006	611,456	0	2,239,462	368,965	1,870,497	0
Meekatharra	0	0	6,973,833	6,973,833	0	6,973,833	2,639
Menzies	0	0	691,522	691,522	1	691,522	1,513
Mount Magnet	0	0	4,141,949	4,141,949	2	4,141,949	4,708
Norseman	0	0	4,356,510	4,356,510	3	4,356,510	7,735
Nullagine	0	0	0	0	1	-1	
New Nullagine	1,257,103	250,391	0	1,507,494	343,712	1,163,782	1,017
Onslow	293,056	0	6,708,740	7,001,796	0	7,001,796	5,875
Sandstone	0	0	668,928	668,928	0	668,928	0
Warmun	0	0	2,533,324	2,533,324	0	2,533,324	0
Wiluna	0	0	2,536,603	2,536,603	0	2,536,603	605
Wyndham	0	0	2,735,821	2,735,821	0	8,993,672	
Yalgoo	62,406	0	948,853	948,853	0	948,853	0
NWIS	525,377,000	0	525,377,000	525,377,000	29,711,907	495,665,093	210,826
Totals	581,000,539	2,905,023	936,320,460	994,786,616	34,225,508	966,818,993	2,961,059

Source: Generated power - Power Station Report

Source: Purchases, Total Power Purchased and Sent Out– SCADA accrual reports

Source: RE buyback import into HP network – OOE (now PUO) and FIT report and Velocity import report

10. Employment and network assets

Employment

	Active FTEs			Total
	Permanent full-time	Permanent Part-time	Fixed-term, temporary	
Overall Horizon Power	415	9.73	29.53	454.3
Corporate Services	76	4	6	86
Engineering & Projects	37	0.6	5	42.6
Commercial and Business Development	33	1.73	4	38.73
Knowledge & Technology	22	0	1	23
Office of Managing Director	12	3.4	2	17.4
Operations	235	0	11.53	246.5

Network assets

Network Assets Network Type	Carrier	Km's
Transmission	220 kV	196.71
	132 kV Underground	1.83
	132 kV Overhead	196.71
	66 kV Overhead	150.0
	66 kV Underground	0.54
Distribution	HV 3-Phase Overhead	2102.06
	HV 3-Phase Underground	558.98
	HV Single Phase Overhead	2731.32
	LV Overhead	697.55
	LV Underground	894.77
	Total	7443.56
Assets		
Total transformer capacity		644 MVA
Number of Transformers		3956

11. Directors' Report

Corporate governance

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

- the organisation's business objectives are set and achieved
- risk is assessed and managed
- corporate fairness, transparency and accountability are promoted
- performance of the organisation is optimised

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

- provides a structure and consistency to the way we do business with our customers and stakeholders
- allows us all to respond to situations as they arise with confidence that we understand the requirements of the business promotes our business values and corporate governance principles, systems and practices, including the roles, responsibilities and authorities of the Board and Executive
- encourages the creation of intergenerational assets consistent with our Business Model
- is aligned with our Strategic and Business Plans
- provides accountability and control systems commensurate with the risks involved
- is an essential component to the overall success of the business

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

This means that employees are able to perform their activities in a responsible, thoughtful, knowledgeable and consistently professional manner, contributing to the overall direction and success of the business.

Our Risk Management Framework is designed to encourage and support the development of an appropriately risk-aware culture within the organisation and assist Horizon Power to realise the benefits that will accrue from a conscious, structured and dynamic approach to the management of risk.

Board of Directors

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

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

The Board formally delegates the day-to-day management of Horizon Power to the business' Managing Director and Executive management team.

Horizon Power's Board consists of the following people:

Mr Brendan Hammond, Chairman

Mr Ian Mickel, Director

Mr Ron Johnston, Director

Ms Lynne Craigie, Director

Brendan Hammond (Chairman)

Brendan brings with him a wealth of experience as Horizon Power's inaugural Chairman. He has worked in large mining corporations for most of his career, progressing through all levels of line management, and until recently served as Managing Director of Argyle Diamond Mines in Western Australia.

In 2011 Brendan was appointed Adjunct Professor of Sustainability at Curtin University.

Also in 2011, Brendan was awarded WA Citizen of the Year under the category of the Governor's Award for Regional Development.

Lynne Craigie

Lynne was appointed a Board Director in October 2011.

Lynne is a psychologist and director of Workplace Consultancy Services in Newman, providing employee assistance programs, counselling and training programs and workers compensation case management. Lynne also manages the Newman Visitors' Centre.

Lynne was elected to the East Pilbara Shire in 2003 and was elected Shire President in 2005. She was also appointed to the Board of the Pilbara Development Commission in early 2011.

Susan Bradley JP CMC

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

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

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

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

Susan Bradley retired from the Horizon Power Board on 30 September 2011.

John Elkington

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

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

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

John Elkington resigned from the Horizon Power Board on 23 February 2012.

Ian Mickel

Ian has been a farmer and grazier in the Esperance region for more than 30 years. He has a strong focus on local government, especially in the areas of finance and economic development. Ian was elected to the Esperance Shire Council in 1989 and has served as Vice President from 1991 to 1993 and as President from 1994 to 2001 and again from 2003 until October 2011 when he retired from Local Government.

Ian has served as President of the Country Shire Councils' Association and President of the WA Local Government Association. He was awarded an Order of

Australia Medal in Australia Day 2007 Honours list for his service to local government. Ian is a Fellow of the Australian Institute of Company Directors.

Ron Johnston

Ron has specialised experience in land developments and tourism, having worked in various roles with Ansett Airlines and the Broome International Airport for 30 years.

Ron has served his community as Broome Shire President and Councillor, President and Executive Member of the Broome Chamber of Commerce, Deputy Chair of the Kimberley Development Commission, President of the Kimberley Tourism Association, President of the Broome Turf Club and memberships on the North West Tourism Association and TAFE.

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

David Powell (Special Adviser to the Board)

The Horizon Power Board has retained the services of David Powell as a Specialist Adviser to enable the Board to prudently discharge its Audit and Risk obligations.

David has over 28 years accounting industry experience, including 10 years as a partner in consulting to clients in a range of industries on risk management, corporate governance and internal, external and IT auditing. In particular, he has been involved with some of the largest corporate and government internal audit assignments in Australia providing advice to management and Boards of major Australian enterprises in both the private and public sector.

David is a Chartered Accountant, Certified Internal Auditor, Certified Information Systems Auditor and member of the Institute of Company Directors.

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

Ian Fletcher (Special Adviser to the Board)

Horizon Power has retained the services of Ian Fletcher as a Special Adviser to the Board. Most recently with BHP Billiton, Ian brings with him a wealth of experience, with over forty years in the private sector, and in local, State and Federal Government.

Ian was responsible for media and investor relations and the ongoing working relationship between BHP Billiton and the West Australian Government, as well as the Federal Government and local governments.

In October 2011, Ian was appointed Chair of the Regional Development Council, the peak advisory body for regional development across Western Australia, which is also responsible for the delivery of the Royalties for Regions programs.

Ian's involvement in regional Western Australia and with the State Government places him in a very significant position to assist Horizon Power to achieve its long term, strategic goals.

Frank Tudor (Managing Director Elect)

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

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

Frank has been the National President of the Australia China Business Council (ACBC) since November 2008. Frank has also lectured in Oil and Gas Economics and Legal Frameworks at the University of Western Australia over the last 10 years and is Vice Chairman of the Chamber of Commerce and Industry's Energy and Resources Forum.

David Tovey (Company Secretary)

David was appointed as Company Secretary in May 2011 and is also General Manager Corporate Affairs.

David has extensive experience in the electricity industry in a variety of strategic, business development, operational and corporate governance roles. He is a Member of CPA (Certified Practising Accountant) Australia, the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia.

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

Attendance at Board meetings

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

	Board Meetings	
	A	B
Brendan Hammond	13	13
Ian Mickel	13	13
Ron Johnston	12	13
Lynne Craigie	9	9
David Powell	8	8
Ian Fletcher	4	4
Susan Bradley	4	4
John Elkington	8	9

A – Number of meetings attended

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

Horizon Power Directors' Terms of Appointment

Director	Appointed	Expires
Brendan Hammond (Chairman)	1 December 2005	31 March 2009
Second Term	1 April 2009	31 March 2012
Third Term	1 April 2012	2 April 2015
Ian Mickel	1 May 2011	30 April 2013
Ron Johnston	1 May 2011	30 April 2013
Lynne Craigie	1 October 2011	30 September 2014
Susan Bradley	1 April 2006	30 June 2007
Second Term	1 July 2007	30 June 2008
Third Term	1 July 2008	30 September 2011
John Elkington	11 August 2009	23 February 2012

Special Advisers to the Board	Appointed	Expires
David Powell (Chair Audit and Risk Management Committee)	11 February 2011	10 February 2012
Second Term	11 February 2012	Ongoing
Ian Fletcher	30 January 2012	Ongoing

Audit and Risk Management Committee

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

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

Financial reporting

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

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

Internal Control and Risk Management

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

Composition of ARMC

The ARMC comprises of:

- David Powell, Chair
- John Elkington, Board member (retired from ARMC October 2011)
- Ian Mickel, Board member
- Lynne Craigie, Board member (appointed 13 December 2011)

ARMC meetings in the 2011/12 financial year were attended by:

- Frank Tudor, Managing Director Elect

- David Tovey, General Manager Corporate Affairs and Company Secretary
- Ben Hamilton, General Manager Corporate Services
- Amelia Yam, Chief Financial Officer (resigned 3 January 2012)
- James Deacon, General Manager Knowledge and Technology (invitee)
- Craig Young, Manager Risk, Audit and Governance
- Liang Tay, Risk and Audit Manager
- Henry Thong, Chief Financial Officer

ARMC Meetings Attended

Audit and Risk Management Committee meetings

	A	B
Mr David Powell (Chair)	7	7
Mr Ian Mickel	7	7
Ms Lynne Craigie	4	4
Mr John Elkington (resigned October 2011)	1	2

A – Number of meetings attended.

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

Governance disclosures

Ministerial reporting requirement

In compliance with the accountability provisions of the *Electricity Corporations Act* (the Act), Horizon Power will provide the Minister with a Quarterly Report for the first three quarters and an Annual Report for the whole financial year. Each Quarterly Performance Report will be submitted one month after the end of the quarter and include an overview of performance and highlights of important achievements. The Annual Report will follow the end of the financial year and be provided to the Minister within the time specified by the Act. It will include:

- consolidated statutory financial statements and other statutory information required of any

company under the *Electricity Corporations Act*.

- an overview of major achievements and an appraisal of future prospects,
- a comparison of performance with Statement of Corporate Intent targets
- other information required by the Act to be included, such as the particulars of any directions given by the Minister for Energy

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

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

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

Ministerial Directives	There were no Ministerial Directives issued to Horizon Power during the financial year 2011/12.
Shares in Statutory Authorities	N/A
Shares in Subsidiary Bodies	N/A
Declarations of Interest	<p>Horizon Power's Code of Conduct and Conflicts of Interest Guidelines are endorsed by the Board and Executive, and provide all employees with information on what constitutes a conflict of interest and how they should be managed. The policy states that a conflict of interest may arise in a number of situations involving a disparity between the interests of Horizon Power and the interests of an employee. Horizon Power is committed to avoiding such disparities as they may:</p> <ul style="list-style-type: none">• affect an employee's ability to carry out their duties and responsibilities to Horizon Power due to a perception the employee is receiving more benefits than another; and/or• create an unfavourable image (actual or perceived)

for either the employee or Horizon Power.

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

Declarations of Interest

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

- **Ian Fletcher:**
 - Chair of the Regional Development Council
 - Holds BHP Billiton and Commonwealth Bank shares

- **Ron Johnston**
 - Owns properties in Karratha and leases properties through the Kimberley and Pilbara

- **Ian Mickel:**
 - Holds Commonwealth Bank shares

- **Lynne Craigie:**
 - Chair of Pilbara Regional Council
 - President of Shire of East Pilbara
 - Holds BHP Billiton shares
 - Spouse works for BHP Billiton

- **Frank Tudor:**
 - Chair of Australia China Business Council
 - UWA lecturer
 - Chamber of Commerce and Industry Energy and Resources Forum Vice-Chairman

Indemnification of Directors

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

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

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

Corporate compliance disclosures

Legislation	<p>The <i>Electricity Corporations Act 2005 (WA)</i> establishes Horizon Power as a corporation with responsibility of the provision of electricity outside the South West Interconnected System and sets out the powers and duties of the corporation.</p>
Electricity Licences	<p>The <i>Electricity Industry Act 2004 (WA)</i> requires participants who generate, transmit, distribute or retail electricity in Western Australia to obtain a licence to operate. Licences are issued by the Economic Regulation Authority. Horizon Power was issued an Integrated Regional Licence on 30 March 2006. The Integrated Regional Licence requires Horizon Power to comply with a number of Codes, including:</p> <ul style="list-style-type: none">• <i>Code of Conduct for the Supply of Electricity to Small Use Customers</i>• <i>Electricity Industry (Network Reliability and Quality of Supply) Code 2005</i>• <i>Electricity Industry Metering Code 2005</i> <p>Horizon Power is also required to submit a Licence Performance Audit and an Asset Management System Review to the Economic Regulation Authority at intervals determined by the Authority. The next Licence Performance Audit will be for 1 April 2011 to 31 March 2013. The next Asset Management System review will be for the period 1 April 2011 to 31 October 2013.</p>
Freedom of Information Act 1992	<p>The Freedom of Information Act 1992 requires Horizon Power to publish an information Statement. Our Information Statement is available online at http://www.horizonpower.com.au/foi.html#process</p>
Compliance with other legislation	<p>Horizon Power has a number of controls and systems in place which support the business in complying with all legislation and regulations affecting its activities. They include an online compliance register as well as compliance mapping and monitoring software.</p>
Restriction on the area within which Horizon Power may operate	<p>Within Western Australia, the performance of Horizon Power's functions is limited to those parts of the State that are not serviced by the South West Interconnected System.</p>

Observance of the Code of Conduct for Horizon Power

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

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

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

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

There were four reported incidents that breach the Code of Conduct for the 2011/12 financial year. Appropriate action has been taken in relation to these including reporting to relevant authorities.

Our Code of Conduct is due to be reviewed again in the first quarter of 2013.

Public Interest Disclosures

Public Interest Disclosures help mitigate the adverse effects of corruption and other improper conduct. Horizon Power has a Disclosures of Public Interest Policy that encourages the disclosure of information in the public interest.

The principles of the policy ensure personnel will be supported and protected by Horizon Power when making disclosures about corruption or other improper conduct. They also provide protection for those who are the subject of a disclosure, thus protecting the assets, profitability, performance and reputation of Horizon Power.

There were no public interest disclosures in relation to the activities of Horizon Power during the 2011/12 financial year.

Disability Services Act

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

On October 2011, Horizon Power re-launched its external website with a focus on standards, user interface and accessibility improvements. Our Public Affairs and Communication team followed

W3C standards to improve stability and performance, Web 2.0 technologies have been implemented to create a better user experience and the business has also implemented an ongoing process to improve accessibility standards.

State Records Act

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

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

Environmental Regulations

The primary environmental legislation in Western Australia is the *Environmental Protection Act 1986*. The Act gives rise to many regulations.

The main regulations relevant to Horizon Power include, but are not limited to:

- *Environmental Protection Regulations 1987* provide generally for the prevention and control of pollution and ensure that appropriate processes are established to manage pollution, noise and other environmental impacts generated by construction projects and operations.
- *Environmental Protection (Controlled Waste) Regulations 2004* provide for the licensing of carriers, drivers and vehicles involved in the transportation of controlled waste on public roads.
- *Environmental Protection (Native Vegetation Clearing) Regulations 2004* protects all native vegetation in Western Australia. Clearing native vegetation is prohibited, unless a clearing permit is granted by the Department of Environment and Conservation (DEC) or the clearing is for an exempt purpose. These exemptions ensure that low impact day to day activities involving clearing can be undertaken.
- *Environmental Protection (Unauthorised Discharge) Regulations 2004* provide for the prevention of unauthorised discharge of potentially environmentally harmful materials.
- *Environmental Protection (Noise) Regulations 1997* provide for noise emitted on a premises or public place and received on another premises. There is a special provision allowing persons who are unable to reasonably comply with the assigned levels to apply to the Minister for approval to vary from the assigned levels, via an Environmental Protection Authority (EPA) assessment process (regulation 17).

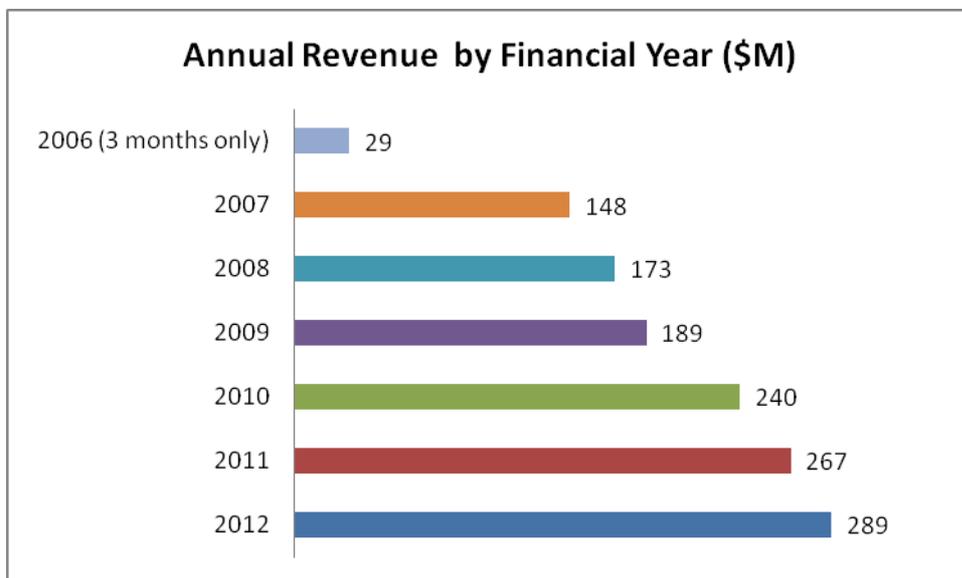
Horizon Power operates in accordance with other relevant environmental obligations which include, but are not limited to:

- *Environmental Protection and Biodiversity Conservation Act 1999 (Commonwealth)*
- *Contaminated Sites Act 2003*
- *Dangerous Goods Safety Act 2004*
- *National Greenhouse and Energy Reporting Act 2007*
- *National Environment Protection (National Pollutant Inventory) Measure*

Horizon Power has a site-specific licence to operate the existing power station at Carnarvon. This licence contains specific requirements and conditions relating to air emissions, air and noise emissions monitoring, guidelines for storing liquid fuels and chemicals and supplying an annual report to the DEC on power station operations.

Financial performance

Horizon Power delivered a Net Profit for the year of \$33.5 million for the year ended 30 June 2012, down from \$40.5 million in 2010/11). Revenue from electricity sales increased by \$30.6 million, up 16 per cent, a combination of price increases and consumption in regional Western Australia. Developer and customer contributed assets were less than last year, down by \$12.7 million however this was offset by other non-core revenue streams. The State Government’s contributions from the Tariff Equalisation Fund was \$181.2 million in 2011/12, up 3 per cent on 2010/11) and remained stable for the year.



Horizon Power continued to manage its costs tightly within an operating environment with significant upward cost pressures. During the year, efficiency initiatives delivered savings of \$6.2 million in line with the State Government’s five per cent efficiency dividend target. Tight fiscal measures were implemented across a range of discretionary expenditure items to achieve these savings. Electricity and fuel

purchases increased by 6.4 per cent, reflecting increased sales. Labour costs, \$55.6 million, up 1.1 per cent, were lower in real terms however the cost of contracted services, up 7.6 per cent from 2010/11, more accurately reflected the upward cost pressures in regional Western Australia. Abnormal costs absorbed by the business included \$10.1 million in impairment charges in accordance with Australian Accounting Standards. Depreciation and amortisation charges increased by \$8.5 million as a result of newly-capitalised assets and the ongoing assessment of the useful life of assets in accordance with Australian Accounting Standards. The business also absorbed the cost of higher reactive maintenance and emergency response arising from the cyclone and wet season in the North-West of the State.

Balance Sheet

Horizon Power net assets increased by \$39 million achieved through the \$2.5 million equity injection for the Murchison Radio Observatory Project and Profit for the year.

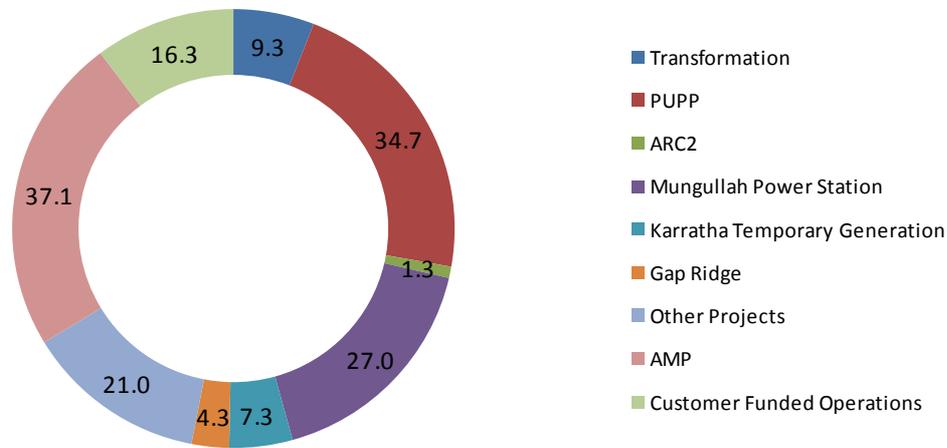
Property, plant and equipment increased by \$96 million from 2010/11 and this was funded by an increase in interest bearing loans with the West Australian Treasury Commission of \$75 million, taking interest bearing loans to a total of \$392.2 million as at 30 June 2012.

Capital Expenditure

Capital expenditure excluding gifted assets and decommissioning assets for 2011/12 was \$131 million, \$5 million below the expenditure in 2010/11. Horizon Power invested \$37.1 million through its Asset Management Plan (AMP) to maintain safety and reliability of its systems during 2012/13. This continued investment is necessary if Horizon Power is to remain compliant with our statutory obligations and deliver against key service delivery targets agreed with our stakeholders.

Other major items included the Pilbara Underground Power Project, \$36.9 million (funded by Royalties for Regions and local government contributions (an equity injection of \$100 million received in prior years), Mungullah Power Station, \$27.0 million, and Business Transformation costs (core information systems migration and enhancements) of \$9.3 million.

Capital Spend Financial Year 2011/12 (\$M)



Dividends

No dividends have been declared or paid for this financial year. The Horizon Power Board will continue to consider this issue through the course of the year and it will be the subject of continuing discussions between the Horizon Power Board and Government.

Significant Changes in Horizon Power's state of affairs

Tariff Equalisation Contribution

Following the Economic Regulatory Authority's 2011 inquiry into the funding arrangements of Horizon Power, the Department of Treasury commenced a review of the methodology used to calculate the Tariff Equalization Contribution (TEC) funding received by Horizon Power.

This included a review of the methodology for formulating the required subsidy amount, associated modelling and consideration of the funding source with an original view to delivering a recommendation to Government in the 2012/13 Budget process.

Horizon Power has been provided with the opportunity to review the Model in detail and a project initiative is underway to clarify the impact of the Department of Treasury's recommendations, both in terms of the methodology and the absolute level of TEC funding.

The scope of this work involves reviewing the methodology of the Model, evaluating the validity of inputs used and assessing the costs, benefits and risks associated with changes to the methodology currently employed.

Horizon Power is now in the process of reviewing the Methodology and Model in detail with the following objectives:

- assess the impact of the Model outputs on Horizon Power, primarily in regards to the total funding level, but also how using the Model will affect future investment decisions;
- determine whether the modelling adopted by the Department of Treasury accurately reflects Horizon Power's cost to serve, including how items such as carbon liability and in-house generation costs are calculated; and
- advise on whether particular aspects of the methodology are appropriate.

While the Treasurer has already implemented its preferred TEC recommendation and gazetted a subsidy amount, Horizon Power remains in a position to amend the inputs and therefore the calculated subsidy requirement and possibly the methodology. In addition to the analysis undertaken internally, Horizon Power is also actively working with the Department of Treasury and Public Utilities Office.

Capital funding for asset management

The outcomes of Horizon Power's State Budget forecast submissions resulted in a lower than requested capital funding amount for Horizon Power in the outer years of the forward estimates. This translates into the Asset Management Plan being allocated less capital than required to address all currently classified high risk matters in accordance with the Board approved Risk Mitigation Strategy in financial years post 2012/13. Horizon Power is reassessing the risk rating and, where required, enhancing business cases to justify additional capital requirements for discussion and resubmission to government.

Pilbara Power Procurement Board

Following a decision by the State Government through the 2012 State Budget process, the Pilbara Power Procurement Board (PPPB) was established to ensure adequate generation capacity was available to meet expected demand in the North West Interconnected System.

The PPPB comprises of representatives from the Department of Finance (Chair), Horizon Power, Department of Treasury, Department of Regional Development and Lands and the Department of State Development.

The matters described above represent the significant changes in the state of affairs of the Corporation for the year ended June 2012.

12. 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 2012 and of its performance for the 12 month period ended on that date; and
 - ii. complying with Accounting Standards, AASB Interpretations and Corporations Regulations; and

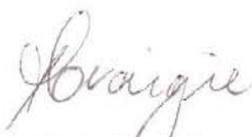
- (b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Ian Mickel

DEPUTY CHAIRMAN



Lynne Craigie

DIRECTOR

4 September 2012



13. Financial Statements

**Regional Power Corporation trading as Horizon Power
2012
Financial Statements**

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Horizon Power
Statement of Comprehensive Income
For The Year Ended 30 June 2012

Statement of Comprehensive Income

	Notes	30 June 2012 \$'000	30 June 2011 \$'000
Revenue	4	289,090	267,284
Other revenue	5	181,607	177,825
Electricity and fuel purchases	6	(136,679)	(128,454)
Employee benefits expenses	6	(55,567)	(54,945)
Materials and services	6	(66,765)	(62,140)
Depreciation and amortisation expense	6	(62,352)	(53,944)
Other expenses	6	(33,251)	(23,818)
Finance costs	6	(70,508)	(65,531)
Profit before income tax equivalent expense		45,575	56,277
Income tax equivalent expense	7(a)	(12,301)	(15,531)
Profit for the year		33,274	40,746
Other comprehensive income			
Cash flow hedges		197	(391)
Income tax relating to components of other comprehensive income	7(c)	1	117
Total other comprehensive income		198	(274)
Total comprehensive income for the year		33,472	40,472

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

		30 June 2012 \$'000	30 June 2011 \$'000
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents	8	53,225	47,262
Receivables	9	32,438	40,060
Inventories	10	12,708	12,324
Derivative financial instruments	11	20	230
Intangible assets	12	276	201
Other current assets	13	1,505	1,082
Total current assets		100,172	101,159
Non-current assets			
Property, plant and equipment	14	1,162,318	1,066,472
Net deferred tax assets	15	29,872	26,057
Intangible assets	12	14,398	8,935
Total non-current assets		1,206,588	1,101,464
Total assets		1,306,760	1,202,623
LIABILITIES			
Current liabilities			
Payables	16	76,461	70,950
Derivative financial instruments	11	1,714	252
Current tax liabilities	15	11,651	15,797
Provisions	17	21,458	17,232
Other current liabilities	18	34,935	35,684
Interest bearing liabilities	19	55,366	42,036
Total current liabilities		201,585	181,951
Non-current liabilities			
Provisions	17	24,904	27,379
Retirement benefit obligations	20	2,132	2,305
Interest bearing liabilities	19	777,372	729,338
Payables	16	774	971
Total non-current liabilities		805,182	759,993
Total liabilities		1,006,767	941,944
Net assets		299,993	260,679
EQUITY			
Contributed equity	21	236,775	230,933
Reserves	22	(13)	(211)
Accumulated profits		63,231	29,957
Total equity		299,993	260,679

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

		Contributed equity	Cash Flow Hedge Reserve	Retained earnings	Total equity
	Notes	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2010		166,154	63	(10,789)	155,428
Total comprehensive income for the year					
Profit for the year		-	-	40,746	40,746
Other comprehensive income		-	(274)	-	(274)
		<u>-</u>	<u>(274)</u>	<u>40,746</u>	<u>40,472</u>
Transactions with owners in their capacity as owners:					
Contributions of equity	21	64,779	-	-	64,779
		<u>64,779</u>	<u>-</u>	<u>-</u>	<u>64,779</u>
Balance at 30 June 2011		<u>230,933</u>	<u>(211)</u>	<u>29,957</u>	<u>260,679</u>
Balance at 1 July 2011		<u>230,933</u>	<u>(211)</u>	<u>29,957</u>	<u>260,679</u>
Total comprehensive income for the year					
Profit for the year		-	-	33,274	33,274
Other comprehensive income		-	198	-	198
		<u>-</u>	<u>198</u>	<u>33,274</u>	<u>33,472</u>
Transactions with owners in their capacity as owners:					
Contributions of equity	21	5,842	-	-	5,842
		<u>5,842</u>	<u>-</u>	<u>-</u>	<u>5,842</u>
Balance at 30 June 2012		<u>236,775</u>	<u>(13)</u>	<u>63,231</u>	<u>299,993</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Horizon Power
Statement of Cash Flows
For The Year Ended 30 June 2012

Statement of Cash Flows

	30 June 2012 \$'000	30 June 2011 \$'000
Notes		
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	298,023	263,387
Other receipts	181,200	175,700
Net GST and Fuel Tax Credits received	17,847	15,895
Interest received	4,504	1,963
Payments to suppliers and employees (inclusive of goods and services tax)	(348,851)	(319,387)
Borrowing costs	(69,745)	(64,470)
Receipts / (Payments) for financial assets at fair value through profit or loss	(430)	118
Income taxes paid	(20,263)	-
Net cash inflow from operating activities	<u>62,285</u>	<u>73,206</u>
30		
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	316	896
Payments for property, plant and equipment	(142,907)	(129,561)
Payments for intangible assets	(11,301)	(5,481)
Net cash outflow from investing activities	<u>(153,892)</u>	<u>(134,146)</u>
Cash flows from financing activities		
Proceeds from borrowings	74,602	9,079
Developer and customer contributions to capital works	18,312	30,756
Proceeds from contributed equity	4,567	65,000
CES, customers' and contractors' deposits/(refunds)	89	(218)
Net cash inflow from financing activities	<u>97,570</u>	<u>104,617</u>
Net increase in cash and cash equivalents	<u>5,963</u>	<u>43,677</u>
Cash and cash equivalents at the beginning of the financial year	<u>47,262</u>	<u>3,585</u>
Cash and cash equivalents at end of year	<u>53,225</u>	<u>47,262</u>
8		

The above statement of cash flows should be read in conjunction with the accompanying notes.

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1 Corporate information

The financial statements of Regional Power Corporation, trading as Horizon Power, for the year ended 30 June 2012, was authorised for issue in accordance with a resolution of the directors on 4 September 2012.

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

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

2 Summary of significant accounting policies

(a) Basis of preparation

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

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

Statement of compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

Historical cost convention

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

Comparative amounts

Comparative amounts are for the period from 1 July 2010 to 30 June 2011.

(b) Significant accounting judgements, estimates and assumptions

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

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from the estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

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

Significant accounting judgements

- *Lease Commitments*

Horizon Power has entered into power purchase agreements relating to specific generating facilities. Horizon Power has assessed whether it assumes all the significant risks and rewards of ownership in determining:

- i) whether the agreements represent leases; and
- ii) if the agreements represent leases, the classification of the leases is as operating or finance.

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

2 Summary of significant accounting policies (continued)

- *Long Service Leave*

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

- *Recovery of deferred tax assets*

Deferred tax assets are recognised for losses and deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those losses and temporary differences. Assessing the future utilisation of these assets requires Horizon Power to make significant estimates related to expectations of future taxable income.

- *Impairment of non-financial assets*

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

There were no indicators of impairment to property, plant and equipment and intangible assets at 30 June 2012.

- *Restoration and decommissioning*

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

- *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience as well as lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in note 6.

- *Estimation of Unread Sales*

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

(c) Foreign currency translation

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

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

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.

(d) Revenue recognition

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

2 Summary of significant accounting policies (continued)

Sale of electricity

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

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 statement of comprehensive income on a basis consistent with the associated CSO expenses. Horizon Power recognises revenue in respect of the reimbursement of CSOs including:

- Air conditioning subsidy for seniors;
- Pensioner concessions;
- Tariff migration;
- Aboriginal & Regional Communities Power Supply Project;
- Coral Bay electricity supply;
- Energy rebates;
- Dependant child rebates;
- Feed-in Tariff rebates; and
- Tariff Adjustment Payments.

Developer and customer contributions

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

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

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

Other revenue

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

Other revenue includes:

- Joint venture revenue;
- Account establishment fees;
- Property rent;
- External chargeable works; and
- Connection and disconnection fees.

2 Summary of significant accounting policies (continued)

(e) Tariff Equalisation Fund

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Electricity Networks Corporation trading as Western Power pays money into the TEF in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer and recognised on a receipts basis.

(f) Electricity and Fuel Cost

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

Fuel costs

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

Electricity costs

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

Transmission and distribution operating costs

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

(g) National Taxation Equivalent Regime and other taxes

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

Income tax on the profit or loss for the reporting period comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income 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 income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

2 Summary of significant accounting policies (continued)

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

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

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

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

Other taxes

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

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

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

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

(h) Leases

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

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

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

Horizon Power has recognised finance leases implicit in existing electricity purchase agreements in accordance with UIG Interpretation 4 "Determining whether an Arrangement contains a Lease" and AASB 117 "Leases". Horizon Power does not have any other finance leases as at 30 June 2012.

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 statement of comprehensive income in the reporting periods in which they are incurred.

(i) Impairment of assets

At each reporting date Horizon Power assesses whether there is any indication that an asset may be impaired, that is, where events or changes in circumstances indicate the carrying value exceeds recoverable amount. Where an indicator of impairment exists, Horizon Power makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

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

(k) Receivables

Trade receivables, which generally have 12-day terms for tariff customers, 7 to 14 day terms for contract customers and 30 to 90 days for non-energy customers, are recognised and carried at original invoice amount less a provision for any impaired receivables. This provision is raised when collection of the full amount is no longer probable.

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

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

(l) Inventories

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

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

(m) Interest in joint ventures

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

Interest in joint venture operations

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

- Assets controlled by Horizon Power in the joint ventures;
- Liabilities incurred by Horizon Power in relation to the joint ventures;
- Expenses incurred by Horizon Power in relation to the joint ventures; and
- Share of income earned from the joint ventures.

2 Summary of significant accounting policies (continued)

(n) Derivatives

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to fair value. The fair value of forward foreign exchange contracts, interest rate swaps and commodity price (oil) hedging contracts is obtained from an external financial risk adviser. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

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

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

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

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the statement of comprehensive income, 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 statement of comprehensive income.

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

When a hedging instrument expires, is sold, is terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. 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 statement of comprehensive income.

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 statement of comprehensive income.

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 statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(o) Property, plant and equipment

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

Acquisition of assets

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition. Direct costs together with associated indirect costs in respect of assets being constructed are capitalised.

Costs are only capitalised when it is probable that future economic benefits will flow from the establishment of the asset and the cost of the asset can be reliably measured. On this basis, business development costs are only capitalised when they meet both criteria.

Decommissioning costs

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

Capitalisation of borrowing costs

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

Depreciation

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

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

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

- Buildings	25 - 40 years
- Plant and equipment	4 - 50 years
- Equipment under finance leases	based on term of contract, which typically ranges between 10 to 20 years
- Construction in progress	no depreciation
- Leasehold improvements	2 - 20 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 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 statement of comprehensive income when the asset is derecognised.

(p) Intangible assets

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

2 Summary of significant accounting policies (continued)

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 statement of comprehensive income over the useful lives of the assets.

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

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

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

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

Disposal of assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the statement of comprehensive income when the asset is derecognised.

(q) Payables

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

(r) Interest bearing liabilities

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

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

(s) Borrowing costs

Horizon Power as a Not-for-Profit Public Sector Entity has elected to recognise borrowing costs in the statement of comprehensive income when incurred under AASB 123.

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).

(t) Provisions

Provisions are recognised when:

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

2 Summary of significant accounting policies (continued)

(i) Employee benefits

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

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

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

(ii) Decommissioning costs

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

Typically, the obligation arises when the asset is installed at the location. When the provision is initially recognised, the estimated cost is capitalised by increasing the carrying amount of the related generating facility. Over time, the provision is increased for the change in the present value based on a risk adjusted pre-tax discount rate appropriate to the risks inherent in the liability. The unwinding of the discount is recorded as an accretion charge within borrowing costs. The carrying amount capitalised in generating assets is depreciated over the useful life of the related assets (refer note 2(o)).

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

(u) Retirement benefit obligations

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

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

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

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

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

Defined contribution superannuation plans

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

2 Summary of significant accounting policies (continued)

Defined benefit superannuation plans

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

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

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

The defined benefits of the Pension Scheme are wholly unfunded. Horizon Power meets the cost of these benefits on an emerging basis 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 statement of comprehensive income.

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

(v) Renewable Energy Certificates

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

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

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

(w) Contributed equity

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

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

2 Summary of significant accounting policies (continued)

(x) New and Revised Accounting Standards

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

(y) New accounting standards and interpretations issued as at June 2012 but not yet effective.

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by Horizon Power for the annual reporting period ended 30 June 2012.

These are outlined below:

Reference	Title	Summary	Application date of standard*	Impact on Entity financial report	Application date for Entity*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The impact if any is still to be assessed by Horizon Power	1 July 2012
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities	1 January 2013	The impact if any is still to be assessed by Horizon Power	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	The impact if any is still to be assessed by Horizon Power	1 July 2013

2 Summary of significant accounting policies (continued)

Reference	Title	Summary	Application date of standard*	Impact on Entity financial report	Application date for Entity*
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	1 January 2013	The impact if any is still to be assessed by Horizon Power	1 July 2013

*Designates the beginning of the applicable annual reporting period unless otherwise stated.

3 Financial risk management

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

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

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

Horizon Power holds the following financial instruments:

	30 June 2012 \$'000	30 June 2011 \$'000
Financial assets		
Cash and cash equivalents	53,225	47,262
Receivables	32,438	40,060
Derivative financial instruments	20	230
	85,683	87,552
Financial liabilities		
Payables	77,235	71,921
Interest bearing liabilities	832,738	771,374
Derivative financial instruments	1,714	252
	911,687	843,547

(a) Market risk

(i) Foreign exchange risk

Horizon Power's exposure to foreign currency risk at the reporting date is low because all the transactions are denominated in Australian dollar (AUD) except for the United States dollar (USD) contract for the purchase of a Gas Turbine for a Transportable Generation Unit. Exchange rate exposures are managed by the Horizon Power Treasury within approved policy parameters utilising forward foreign exchange contracts.

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

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

	30 June 2012 USD \$'000	30 June 2011 USD \$'000
Forward exchange contracts - buy foreign currency (cash flow hedges)	18,659	2,632

Sensitivity

Based on the financial instruments held at 30 June 2012, had the Australian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the impact on Horizon Power's equity for the year would have been AUD 1,416,000 lower / AUD 1,159,000 higher.

3 Financial risk management (continued)

(ii) Commodity price risk

Commodity 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).

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

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

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

At 30 June 2012 Horizon Power has hedged 111,300 barrels at an average price of AUD 127.03 per barrel.

Sensitivity

At 30 June 2012, if commodity process had decreased/increased by 10 percent from the year end rates with all other variables held constant, Horizon Power's post tax profit for the year would have been AUD 896,000 higher /AUD 896,000 lower.

(iii) Interest rate risk

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

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

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

	30 June 2012		30 June 2011	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Financial Assets				
Cash and cash equivalents	3.94%	53,225	5.8 %	47,262
Interest rate swaps		-		-
Financial Liabilities				
Interest bearing borrowings		-		-
Net exposure to cash flow interest rate risk		<u>53,225</u>		<u>47,262</u>

Horizon Power's policy is to manage its finance costs using fixed or variable debt with the objective of achieving cost effective outcomes whilst managing interest rate risk to avoid uncertainty and volatility in the market place. Horizon Power constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions and alternative financing.

Sensitivity

At 30 June 2012, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, Horizon Power's post tax profit for the year would have been AUD 373,000 higher / AUD 373,000 lower.

3 Financial risk management (continued)

(iv) Summarised sensitivity analysis

At 30 June 2012, if interest rates and exchange rate had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows.

30 June 2012	Carrying amount \$'000	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets									
Cash and cash equivalents	23,225	(373)	-	373	-	-	-	-	-
Financial liabilities									
Commodity Swaps	1,675	-	-	-	-	(896)	-	896	-
Forward foreign exchange contract (cash flow hedges)	20	-	-	-	-	-	(1,416)	-	1,159
Total increase/ (decrease)		(373)	-	373	-	(896)	(1,416)	896	1,159

30 June 2011	Carrying amount \$'000	Interest rate risk				Foreign exchange risk			
		-100bps		+100bps		-10%		+10%	
		Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity	Impact on post-tax profit	Impact on other components of equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets									
Cash and cash equivalents	5,262	(37)	-	37	-	-	-	-	-
Commodity Swaps	230	-	-	-	-	(895)	-	895	-
Financial liabilities									
Forward foreign exchange contract (cash flow hedges)	252	-	-	-	-	-	190	-	(156)
Total increase/ (decrease)		(37)	-	37	-	(895)	190	895	(156)

(b) Credit risk

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

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

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

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

3 Financial risk management (continued)

(c) Liquidity risk

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

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

	2012 \$'000	2011 \$'000
6 months or less	128,560	127,097
6 - 12 months	59,746	49,427
1 - 5 years	583,480	516,603
Over 5 years	640,929	699,659
	<u>1,412,715</u>	<u>1,392,786</u>

Maturity analysis of financial assets and liability based on management expectation

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital e.g: inventories and receivables. These assets are considered in Horizon Power's overall liquidity risk.

Risk associated with the liability on borrowings is reduced by Horizon Power paying a guarantee charge included in addition to the interest rate that guarantees payment to the WATC by Government for outstanding borrowings in case of default.

30 June 2012	Less than 6 months \$'000	6 - 12 months \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	53,225	-	-	-	53,225
Receivables	32,438	-	-	-	32,438
Derivative financial instruments	20	-	-	-	20
Total financial assets	<u>85,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,683</u>
Financial liabilities					
Payables	76,323	138	607	167	77,235
Interest bearing borrowings	28,434	26,933	374,924	402,447	832,738
Derivative financial instruments	1,714	-	-	-	1,714
Total financial liabilities	<u>106,471</u>	<u>27,071</u>	<u>375,531</u>	<u>402,614</u>	<u>911,687</u>

30 June 2011	Less than 6 months \$'000	6 - 12 months \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial assets					
Cash and cash equivalents	47,262	-	-	-	47,262
Trade and other receivables	40,060	-	-	-	40,060
Derivative financial instruments	230	-	-	-	230
Total financial assets	<u>87,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,552</u>
Financial liabilities					
Trade and other payables	70,934	18	802	167	71,921
Interest bearing borrowings	23,864	18,172	308,485	420,853	771,374
Derivative financial instruments	252	-	-	-	252
Total financial liabilities	<u>95,050</u>	<u>18,190</u>	<u>309,287</u>	<u>421,020</u>	<u>843,547</u>

4 Revenue

	30 June 2012 \$'000	30 June 2011 \$'000
Revenue consisted of the following items:		
Sale of electricity	<u>225,174</u>	<u>194,555</u>
Other revenue from operations:		
Community service obligation revenue	31,796	29,925
Developer and customer contributions	21,443	34,128
Interest	4,231	1,963
Others	6,429	6,522
Net gain on commodity swaps	17	96
Change in fair value of derivatives	-	95
	<u>63,916</u>	<u>72,729</u>
	<u>289,090</u>	<u>267,284</u>

5 Other revenue

	30 June 2012 \$'000	30 June 2011 \$'000
Tariff Equalisation Fund	181,200	175,700
Gain on disposal of property, plant and equipment	39	722
Government grants	368	1,403
	<u>181,607</u>	<u>177,825</u>

6 Expenses

	30 June 2012 \$'000	30 June 2011 \$'000
Profit before income tax includes the following specific expenses:		
<i>Electricity & Fuel Purchases</i>		
Electricity purchases	99,279	90,913
Fuel purchases	37,400	37,541
Total electricity & fuel purchases	136,679	128,454
<i>Employee Benefit Expense</i>		
Salaries, wages & allowance	40,219	35,919
Superannuation	4,490	4,434
Long service leave	1,759	1,685
Annual leave	3,876	3,771
Other related expenses	5,223	9,136
Total employee benefit expenses	55,567	54,945
<i>Materials & Services</i>		
Contracted services (note 14)	33,615	24,895
Other services	23,260	28,987
Materials	9,890	8,258
Total materials & services	66,765	62,140
<i>Depreciation</i>		
Leasehold buildings	1,543	1,596
Plant and equipment	28,806	22,633
Equipment under finance leases	25,978	25,978
Total depreciation	56,327	50,207
<i>Amortisation</i>		
Computer software	5,940	3,609
Patent, Trademarks and Other Rights	85	128
Total amortisation	6,025	3,737
Total depreciation and amortization expense	62,352	53,944
<i>Other Expenses</i>		
Loss on disposal of property, plant and equipment	39	-
Provision for impairment of receivables	1,276	1,959
Provision for decommissioning & site rehabilitation	(494)	2,896
Property expenses	9,229	7,607
Impairment of work in progress (note 14)	10,102	-
Other	13,099	11,356
Total other expenses	33,251	23,818
<i>Finance costs</i>		
Interest on debts	24,317	18,292
Unwinding of discount on contributory extension scheme	133	136
Unwinding of discount on decommissioning provision	725	613
Finance lease interest	45,333	46,490
Total finance costs	70,508	65,531

7 Income tax equivalent expense

	30 June 2012 \$'000	30 June 2011 \$'000
(a) Income tax equivalent expense		
Current tax	17,686	15,797
Deferred tax	(4,165)	230
Adjustments for net deferred tax assets and liabilities of prior period	522	(496)
Adjustments for current tax of prior periods	(1,742)	-
	12,301	15,531
Deferred income tax included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 15)	3,467	10,212
Increase in deferred tax liabilities (note 15)	(7,632)	(9,982)
	(4,165)	230
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	45,575	56,277
Tax at the Australian tax rate of 30% (2011 - 30%)	13,672	16,884
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment	30	55
Div 41 investment allowance	-	(942)
Sundry items	(181)	30
	13,521	16,027
Adjustments for current tax of prior periods	(1,220)	(496)
Total income tax equivalent expense	12,301	15,531
(c) Amounts recognised directly in equity		
Deferred tax arising in the reporting period and not recognised in net profit /(loss) but directly credited to equity		
Net deferred tax – credited /(charged) directly to equity (note 15)	1	117
	1	117

8 Cash and cash equivalents

	30 June 2012 \$'000	30 June 2011 \$'000
Cash at bank and in hand	(1,775)	(238)
Term deposits	55,000	47,500
	53,225	47,262

9 Receivables

	30 June 2012 \$'000	30 June 2011 \$'000
Net receivables		
Receivables - Energy (i) – billed	13,743	12,398
Receivables - Energy (ii) – unbilled	11,551	10,249
	25,294	22,647
Provision for impairment of receivables	(954)	(1,108)
	24,340	21,539
Receivables – Non Energy (i)	4,978	17,435
Provision for impairment of receivables	(332)	(564)
	4,646	16,871
Other receivables		
Other receivable (note (c))	3,452	1,650
	32,438	40,060

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

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

(a) Impaired receivables

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

	30 June 2012 \$'000	30 June 2011 \$'000
At 1 July	1,672	2,086
Provision for impairment recognised during the year	1,370	1,958
Receivables written off during the year	(1,662)	(2,353)
Receivables recovered during the year	(94)	(19)
	1,286	1,672

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

9 Receivables (continued)

(b) Past due but not impaired

As at 30 June 2012, trade receivables of \$10,342,000 (2011: \$9,818,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis below is broken down into trade receivables from energy customer and non-energy customers in line with their respective applicable credit period.

	30 June 2012 \$'000	30 June 2011 \$'000
Energy receivables		
Not overdue	15,243	13,537
Overdue: 0 - 28 days (PDNI)*	3,883	3,858
29 - 56 days (PDNI)*	1,299	1,287
57 - 90 days (PDNI)*	1,079	908
+90 days (PDNI)*	2,836	1,949
+90 days (impaired)	954	1,108
	25,294	22,647
Non –Energy receivables		
Not overdue	3,372	15,047
Overdue: 30 days (PDNI)*	893	1,336
60 days (PDNI)*	24	7
60 days (impaired)*	287	-
90 days (PDNI)*	222	35
120 days (PDNI)*	75	13
+120 days (PDNI)*	31	433
+120 days (impaired)	74	564
	4,978	17,435

*past due not impaired ('PDNI')

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

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Company.

No significant risk is believed to be attached to other receivables.

(d) Fair value and credit risk

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

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

10 Inventories

	30 June 2012 \$'000	30 June 2011 \$'000
Fuel	919	681
Materials	11,789	10,563
Rotational spares	-	1,080
	12,708	12,324

11 Derivative financial instruments

	30 June 2012 \$'000	30 June 2011 \$'000
Current assets		
Commodity Swaps – cash flow hedges((a)(i))	20	230
Total current derivative financial instrument assets	20	230
Current liabilities		
Forward foreign exchange contracts - cash flow hedges ((a)(ii))	(19)	(252)
Commodity swaps – cash flow hedges ((a)(i))	(1,695)	-
Total current derivative financial instrument liabilities	(1,714)	(252)
	(1,694)	(22)

(a) Instruments used by Horizon Power

(i) Commodity Swaps – cash flow hedges

Horizon Power is exposed to movements in the GasOil price through the purchase of fuel for its diesel power stations as well as fuel consumption by its power producers. Horizon Power has entered into AUD denominated commodity swaps to hedge against increases in wholesale crude oil prices and falls in the AUD/USD exchange rate. Horizon Power's policy is to hedge forecasted fuel cost for 1 year forward at 95% of forecast. In the year ended 30 June 2012 an unrealised loss of \$1,904,732 was recognised in the statement of comprehensive income.

(ii) Forward exchange contracts - cash flow hedges

In order to protect against exchange rate movements, Horizon Power entered into forward exchange contracts. These contracts are hedging known purchases for the 2013 financial year. The contracts are timed to mature when the materials have been delivered and passed testing.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flow occurs, the initial measurement of the component recognised in the statement of financial position is adjusted by the related amount deferred in equity. In the year ended 30 June 2012 a revaluation gain of \$232,477 was recognised directly in equity. There was no hedge ineffectiveness in the current year.

12 Intangible assets

Current assets

	Renewable Energy Certificates \$'000	Total \$'000
30 June 2012		
Opening balance	201	201
Additions	3,851	3,851
Surrendered	(3,776)	(3,776)
Closing balance	276	276
30 June 2011		
Opening net book amount	179	179
Additions	421	421
Surrendered	(399)	(399)
Closing net book amount	201	201

Non-current assets

	Patents, Trademarks and other rights \$'000	Computer software \$'000	Total \$'000
30 June 2012			
Opening net book amount	1,071	7,864	8,935
Additions	37	11,451	11,488
Amortisation charge	(85)	(5,940)	(6,025)
Closing net book amount	1,023	13,375	14,398
30 June 2012			
Cost	1,242	26,350	27,592
Accumulated amortisation and impairment	(219)	(12,975)	(13,194)
Net book amount	1,023	13,375	14,398
30 June 2011			
Opening net book amount	12	7,139	7,151
Additions	1,186	4,358	5,544
Disposal/Write-off	-	(24)	(24)
Amortisation charge	(127)	(3,609)	(3,736)
Closing net book amount	1,071	7,864	8,935
30 June 2011			
Cost	1,205	14,900	16,105
Accumulated amortisation and impairment	(134)	(7,036)	(7,170)
Net book amount	1,071	7,864	8,935

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

13 Other current assets

	30 June 2012 \$'000	30 June 2011 \$'000
Other assets	200	46
Prepayments	1,305	1,036
	1,505	1,082

14 Property, plant and equipment

	Freehold land \$'000	Buildings and leasehold improvements \$'000	Plant and equipment \$'000	Equipment under finance lease at cost \$'000	Total \$'000
30 June 2012					
Opening net book amount	7,967	33,476	612,708	412,321	1,066,472
Additions	3,030	4,822	154,738	-	162,590
Disposals	-	-	(315)	-	(315)
Work-in-progress written off	-	-	(2,983)	-	(2,983)
Impairment of work-in progress	-	-	(10,102)	-	(10,102)
Depreciation charge	-	(1,543)	(28,806)	(25,978)	(56,327)
Closing net book amount	10,997	36,755	728,223	386,343	1,162,318

30 June 2012					
Cost or fair value	10,997	43,437	831,228	487,586	1,373,248
Accumulated depreciation	-	(6,682)	(103,005)	(101,243)	(210,930)
Net book amount	10,997	36,755	728,223	386,343	1,162,318

Expenditure recognised in plant and equipment in the course of construction is \$238,113,313. During the year \$10.1M of work in progress was impaired relating to the Pilbara Underground Power Project and is included in Note 6. An additional \$7.3M, of which \$3.0M was accounted for as work-in-progress in 2011, relating to the same project was expensed due to adding no value to the on-going project and the majority of the cost was included under 'Contracted Services' in Note 6.

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2012 was \$1,999,684.

	Freehold land \$'000	Buildings and leasehold improvements \$'000	Plant and equipment \$'000	Equipment under finance lease at cost \$'000	Total \$'000
30 June 2011					
Opening net book amount	8,108	27,242	483,213	438,299	956,862
Additions	806	7,061	152,097	-	159,964
Disposals	(46)	(101)	-	-	(147)
Transfers between assets	(901)	870	31	-	-
Depreciation charge	-	(1,596)	(22,633)	(25,978)	(50,207)
Closing net book amount	7,967	33,476	612,708	412,321	1,066,472
30 June 2011					
Cost or fair value	7,967	38,614	687,024	487,586	1,221,191
Accumulated depreciation	-	(5,138)	(74,316)	(75,265)	(154,719)
Net book amount	7,967	33,476	612,708	412,321	1,066,472

Expenditure recognised in plant and equipment in the course of construction is \$161,149,330.

Horizon Power receives non-cash capital contributions in the form of gifted assets. The fair value of the non-cash capital contributions included in the additions to plant and equipment in 2011 was \$18,667,904.

15 Tax assets and liabilities

Deferred tax assets

	30 June 2012 \$'000	30 June 2011 \$'000
The balance comprises temporary differences attributable to:		
Provisions	14,934	14,619
Power Purchase Agreements classified as finance leases	<u>132,167</u>	<u>136,138</u>
	<u>147,101</u>	<u>150,757</u>
Other	1	-
Accruals	116	144
Contributory extension scheme	65	64
Derivatives	<u>514</u>	<u>6</u>
	<u>696</u>	<u>214</u>
Total deferred tax assets	<u>147,797</u>	150,971
Set-off of deferred tax liabilities pursuant to set-off provisions	<u>(117,925)</u>	<u>(124,914)</u>
Net deferred tax assets	<u>29,872</u>	26,057
Movements:		
Opening balance at 1 July	150,971	161,397
Credited/(charged) to the statement of comprehensive income (note 7)	(3,467)	(10,212)
Credited/(charged) to equity	(1)	117
Acquisition or disposal of deferred tax assets	387	39
Adjustments for deferred tax assets of prior periods	<u>(93)</u>	<u>(370)</u>
Closing balance at 30 June	<u>147,797</u>	150,971
Deferred tax assets to be recovered within 12 months	15,630	7,552
Deferred tax assets to be recovered after more than 12 months	<u>132,167</u>	<u>143,419</u>
	<u>147,797</u>	150,971

15 Tax Assets and Liabilities (continued)

Deferred tax liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
The balance comprises temporary differences attributable to:		
Consumable stocks	422	241
Property, plant and equipment	185	514
Power Purchase Agreements - classified as finance lease	115,903	123,696
	116,510	124,451
<i>Other</i>		
Community Service Obligation	1,019	435
Research and development	396	28
Sub-total other	1,415	463
Total deferred tax liabilities	117,925	124,914
Set-off of deferred tax liabilities pursuant to set-off provisions	(117,925)	(124,914)
Net deferred tax liabilities	-	-
Movements:		
Opening balance at 1 July	124,914	135,763
Charged/(credited) to the statement of comprehensive income (note 7)	(7,632)	(9,982)
Adjustments for deferred tax liabilities of prior periods	429	(867)
Acquisition or disposal of deferred tax liabilities	214	-
Closing balance at 30 June	117,925	124,914
Deferred tax liabilities to be settled within 12 months	1,441	676
Deferred tax liabilities to be settled after more than 12 months	116,484	124,238
	117,925	124,914

Current tax liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Income tax	11,651	15,797
	11,651	15,797

16 Payables

Current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Payables (i)	74,904	70,474
Other payables	1,055	260
Contributory extension scheme payables (ii)	502	216
	<u>76,461</u>	<u>70,950</u>

Non-current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Contributory extension scheme payables (ii)	774	971
	<u>774</u>	<u>971</u>

(i) 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.

17 Provisions

Current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Long service leave	5,179	4,124
Annual leave	5,862	5,503
Decommissioning and Rehabilitation (i)	10,417	7,605
	<u>21,458</u>	<u>17,232</u>

	30 June 2012 \$'000	30 June 2011 \$'000
Movements in provisions – Decommissioning and Rehabilitation		
Carrying amount at start of year	7,605	6,665
- reclassification (to) / from non-current liabilities	4,027	1,958
- payments/other sacrifices of economic benefits	(1,215)	(1,018)
Carrying amount at end of year	<u>10,417</u>	<u>7,605</u>

Non-current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Long service leave	2,396	2,301
Decommissioning and Rehabilitation (i)	22,508	25,078
	<u>24,904</u>	<u>27,379</u>

	30 June 2012 \$'000	30 June 2011 \$'000
Movements in provisions – Decommissioning and Rehabilitation		
Carrying amount at start of year	25,078	11,721
Reclassification (to) / from current liabilities	(4,027)	(1,958)
Charged/(credited) to the statement of comprehensive income		
- Additional provisions recognised	732	14,702
- unused amounts reversed	-	-
- unwinding of discount	725	613
Carrying amount at end of year	<u>22,508</u>	<u>25,078</u>

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

18 Other current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Deferred developer and customer contributions (i)	<u>34,935</u>	<u>35,684</u>
	<u>34,935</u>	<u>35,684</u>

(i) Horizon Power receives developer and customer contributions toward the extension of electricity infrastructure to facilitate network connection. Contributions can be in the form of either cash contributions or gifted assets. Cash contributions are initially deferred and subsequently recognised as revenue when the customers/developers are connected to the network in accordance with the terms of the contributions. Gifted assets are recognised as revenue at the point of handover. More information can be found in the note 2(d).

19 Interest bearing liabilities

Current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Secured		
WATC loans (i)	40,833	28,798
Unsecured		
Finance lease liabilities (note 26 (c))	<u>14,533</u>	<u>13,238</u>
	<u>55,366</u>	<u>42,036</u>

Non-current liabilities

	30 June 2012 \$'000	30 June 2011 \$'000
Secured		
WATC loans (i)	351,348	288,781
Unsecured		
Finance lease liabilities (note 26 (c))	<u>426,024</u>	<u>440,557</u>
	<u>777,372</u>	<u>729,338</u>

(i) The 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 debt maturing over the next twelve months, it is the intention of Horizon Power to refinance under this facility agreement. At 30 June 2012 the carrying value of the loans is considered a reasonable approximation of their fair value.

20 Retirement benefit obligations

(a) Statement of financial position amounts

The amounts recognised in the statement of financial position are determined as follows:

	30 June 2012 \$'000	30 June 2011 \$'000
Present value of unfunded obligations (i)	2,132	2,305
Net liability in the statement of financial position	<u>2,132</u>	<u>2,305</u>

(i) The present value of the retirement benefit obligations liability was assessed by Mercer Consulting (Australia) Pty Ltd at 30 June 2012 as required under AASB119. For the period 1 July 2011 to 30 June 2012, a provision has been reduced to account for the decrease in value of this liability over this period.

(b) Reconciliations

	30 June 2012 \$'000	30 June 2011 \$'000
<i>Reconciliation of the present value of the defined benefit obligation</i>		
Balance at the beginning of the year	2,305	2,382
Interest cost	94	122
Actuarial losses	184	108
Benefits paid	(451)	(307)
Balance at the end of the year	<u>2,132</u>	<u>2,305</u>

(c) Amounts recognised in statement of comprehensive income

The amounts recognised in the statement of comprehensive income are as follows:

	94	122
Interest cost	94	122
Actuarial losses	184	108
Total included in employee benefits expense	<u>278</u>	<u>230</u>

(d) Principal actuarial assumptions

The principal actuarial assumptions used were as follows:

	30 June 2012	30 June 2011
Discount rate	2.8%	5.2%
Expected future salary increases	5.5%	4.5%
Expected future pension increases	2.5%	3.0%

(e) Employer contributions

Employer contributions are made to meet the cost of the retirement benefit obligations as they fall due. For more details regarding the policy in respect of provision for retirement benefit obligations refer to Note 2(u).

(f) Historic summary

	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Defined benefit plan obligation	2,132	2,305	2,382	2,018
Deficit	<u>2,132</u>	<u>2,305</u>	<u>2,382</u>	<u>2,018</u>
Experience adjustments arising on plan liabilities (gain)/loss	5	52	279	(51)

	30 June	30 June
	2012	2011
	\$'000	\$'000
21 Contributed equity		
Contributed equity at the beginning of the financial year	230,933	166,154
Equity contribution during the financial year(i)	5,842	64,779
Total contributed equity at the end of the financial year	236,775	230,933

(i) In the year ended June 2012, the increase in Government's equity contribution related to \$ 2.5 million in support of the Murchinson Radio Observatory Power Station, loan interest recoupment of \$2.0 million in respect of the Midwest gas pipeline loans and funding of \$1.3 million in respect of the Aboriginal and Remote Community Power Supply Project Phase 2.

In the year ended June 2011, the equity contribution was in support of the Pilbarra Undergrounding Power Project. No shares have been allotted or issued for the equity contribution.

22 Reserves

	30 June	30 June
	2012	2011
	\$'000	\$'000
(a) Reserves		
Hedging reserve - cash flow hedges	(13)	(211)
	(13)	(211)

23 Key management personnel disclosures

(a) Directors

The Non-Executive Directors of Horizon Power during the year were:

B Hammond, Chairman
I Mickel, Director
R Johnson, Director
L Craigie, Director
J Elkington, Director (Retired 23 February 2012)
S Bradley, Director (Retired 30 September 2011)
D Powell, Special Advisor to the Board
I Fletcher Special Advisor to the Board (appointed 30 January 2012)

(b) Other key management personnel

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

F Tudor	Managing Director Elect
B Hamilton	General Manager Corporate Services
S Devon	General Manager Commercial and Business Development
Z Wilk	General Manager Operations
P Jensen	General Manager Engineering and Projects (resigned on 15 March 2012)
T Brereton	General Manager Engineering & Projects (appointed on 15 March 2012)
J Deacon	General Manager Knowledge & Technology
D Tovey	General Manager Corporate Affairs / Company Secretary

23 Key management personnel disclosures (continued)

(c) Key management personnel remuneration

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

The compensation policy is to:

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

Non-executive Directors

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

Managing Director and Executives

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

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

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

Total fixed remuneration

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

Non-financial benefits

Selection available: cost of novation of selected motor vehicle, electricity (to a maximum Fringe Benefits Tax allowable figure), health check-up and the cost of fringe benefits tax. As stated above, housing benefits are also provided to Executives resident in remote locations.

Superannuation

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

Annual at risk remuneration (ARR) element

In the previous year, at the Board's discretion and as agreed by the Minister, the Managing Director Elect and General Managers were eligible for incentive payments for achievement of specific performance targets covering Horizon Power's major measurable outcomes, in line with the Strategic Development Plan Balanced Scorecard of key performance indicators.

This incentive payment scheme ceased in the 2011/12 financial year.

23 Key management personnel disclosures (continued)

(a) Non-executive directors' remuneration

2012

Name	Cash salary and fees \$	Super-annuation \$	Total \$
B Hammond	95,000	8,550	103,550
I Mickel	45,000	4,050	49,050
R Johnston	45,000	4,050	49,050
L Craigie	32,019	2,882	34,901
S Bradley (Retired 30/09/11)	12,981	1,168	14,149
J Elkington (Retired 23/02/12)	31,154	2,807	33,961
Total	316,154	28,457	344,611

2011

Name	Cash salary and fees \$	Super-annuation \$	Total \$
B Hammond	95,000	8,550	103,550
R Eagle (Retired 30/4/2011)	57,692	5,192	62,884
S Bradley	45,000	4,050	49,050
N Lockwood (Retired 30/4/2011)	38,942	3,505	42,447
J Elkington	45,000	4,050	49,050
I Mickel	6,058	545	6,603
R Johnston	6,058	545	6,603
Total	293,750	26,437	320,187

(b) Executives' remuneration

2012

Name	Cash salary and fees \$	Super-annuation \$	Total \$
F Tudor (i)	447,729	40,292	488,025
B Hamilton	330,275	29,725	360,000
S Devon	302,752	27,248	330,000
Z Wilk (iii)	334,073	30,067	364,140
P Jensen (Resigned 15/03/12)	425,189	38,267	463,456
T Brereton (Appointed 15/03/12)	148,730	13,386	162,116
J Deacon	275,229	24,771	300,000
D Tovey	262,802	23,652	286,454
Total	2,526,779	227,410	2,754,190

23 Key management personnel disclosures (continued)

2011

Name	Cash salary and fees \$	Performance Pay 2009/10 (ii) \$	Performance Pay 2010/11 (ii) \$	Redundancy Pay \$	Super-annuation \$	Total \$
R Hayes (iii) (v)	379,341	77,500	38,949	-	25,000	520,790
A Yam	197,507	46,990	-	-	22,005	266,502
P Feldhusen	259,605	51,433	-	-	35,115	346,153
M Laughton-Smith (v)	447,349	46,253	33,978	369,227	32,688	929,495
D Martin (v)	295,124	40,006	32,329	149,927	26,002	543,388
F Tudor	330,287	58,827	-	-	35,020	424,134
S Devon	142,585	-	-	-	12,833	155,418
B Hamilton	44,460	-	-	-	4,001	48,461
Z Wilk (iii)	293,404	52,121	-	-	33,003	378,528
P Jensen	251,266	48,112	-	-	26,344	325,722
D Tovey	95,160	-	-	-	8,564	103,724
J Deacon	230,650	40,742	-	-	24,425	295,817
Total	2,966,738	461,984	105,256	519,154	285,000	4,338,132

Performance pay provided for 2010/11

Name	Performance Pay 2010/11 (ii) \$
A Yam	24,663
P Feldhusen	36,251
F Tudor	39,682
Z Wilk	35,724
P Jensen	29,742
J Deacon	24,754
Total	190,816

(i) A regional travel allowance was provided to the Managing Director Elect of \$40,000 (2011 \$Nil)

(ii) Performance pay relating to 2010/11 was accrued in periods prior to 30 June 2011 and paid in the Financial Year 2011/12. Performance pay related to FY 2009/10 was paid in FY2010/11. The performance pay related to FY 2010/11 was paid to R Hayes (part year), M Laughton-Smith and D Martin in FY 2010/11.

(iii) In addition to cash remuneration paid, non-monetary benefits such as housing and air-conditioning subsidies were provided to two executive key management personnel for the higher cost of living in regional areas. These benefits were, Z Wilk \$111,069 (2012) and \$ 105,790 (2011) and R Hayes \$44,245 (2011). These benefits are also common to a wide range of industries operating in regional locations.

(iv) **Service agreements**

All contracts of employment for key management personnel are unlimited in term but generally these contracts are capable of termination by the key management personnel on five weeks notice and that the Corporation retains the right to terminate the contract immediately by making payment equal to a maximum of 52 weeks pay in lieu of notice. The key management personnel are also entitled to receive on termination their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

(v) Employee entitlements were paid out as part of termination payments to staff leaving the business during the year.

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

24 Contingencies

(a) Contingent liabilities

Litigation in progress

i) A sub-consultant has commenced an action against a contracted supplier in respect of work undertaken during the last two years. Should the action be successful, the liability will be passed onto Horizon Power as per the terms of Horizon Power's contract with the contracted supplier. It has been estimated that the liability, should the action be successful, is \$1.2 million. A trial date has not yet been set and therefore it is not practicable to state the timing of any payment.

(ii) A consultant has commenced action directly against Horizon Power in respect of work undertaken in the year. It has been estimated that the liability, should the action be successful, is \$1.5 million.

Horizon Power has been advised by its Counsel that it is possible, but not probable, that the actions will succeed and accordingly no provision for any liability has been recognised in these financial statements.

(b) Contingent assets

Horizon Power did not have any contingent assets as at 30 June 2012 (2011: Nil)

(c) Contaminated sites

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

25 Remuneration of auditors

	30 June 2012 \$'000	30 June 2011 \$'000
Audit of financial reports	169	190
	<u>169</u>	<u>190</u>

26 Commitments

(a) Capital commitments

	30 June 2012 \$'000	30 June 2011 \$'000
<i>Property, plant and equipment</i>		
Payable:		
Within one year	54,001	210,136
Later than one year but not later than five years	9,431	129,744
Later than five years	-	-
	<u>63,432</u>	<u>339,880</u>

(i) At 30 June 2012 capital expenditure commitments principally related to Pilbara Underground Power Project (\$22.5 million), Karratha Temporary Generation Project (\$16.4 million), Business Transformation projects (\$8.7 million) and Aboriginal and Remote Communities Power Supply Project Phase 2 (\$8 million).

(ii) The amounts reported for the year ended 30 June 2011 are based on budgeted capital expenditure for projects less actual expenditure incurred against capital projects.

26 Commitments (continued)

(b) Operating commitments

	30 June 2012 \$'000	30 June 2011 \$'000
<i>Operating commitments</i>		
Payable:		
Within one year	44,057	39,691
Later than one year but not later than five years	154,584	95,147
Later than five years	296,996	123,669
	495,637	258,507

(i) These commitments consist of contractual obligations for the purchase of electricity, gas, renewable energy certificates and carbon charge.

(ii) The comparative amounts for the year ended 30 June 2011 have been restated to align with current year presentation.

(c) Lease commitments

(i) Operating leases

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

In addition, Horizon Power has commitments to property leases as at 30 June 2012. Lease rentals are subject to half yearly and yearly reviews.

	30 June 2012 \$'000	30 June 2011 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,749	1,817
Later than one year but not later than five years	6,103	3,993
Later than five years	1,037	432
	9,889	6,242

(ii) Finance leases

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

	30 June 2012 \$'000	30 June 2011 \$'000
Commitments in relation to finance leases are payable as follows:		
Within one year	58,571	58,571
Later than one year but not later than five years	233,298	234,024
Later than five years	588,036	645,880
Minimum lease payments	879,905	938,475
Future finance charges	(439,348)	(484,680)
Recognised as a liability	440,557	453,795
Representing lease liabilities:		
Current (note 19)	14,533	13,238
Non-current (note 19)	426,024	440,557
	440,557	453,795

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

27 Pilbara Underground Power Project (PUPP)

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

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

30 June	30 June
2012	2011
\$'000	\$'000

The following items relating to PUPP are included in the Financial Statements:

Plant and equipment	84,939	48,043
Reduction in interest bearing loans and investment on term deposits (i)	32,918	56,410
Trade payables	<u>(17,857)</u>	<u>(4,453)</u>
	100,000	100,000

(i) Remaining equity contribution received has been applied to reduce Horizon Power's interest bearing loans and investment in term deposits. This amount will be drawn upon when payments are required for the project.

28 Related party transactions

Other than as disclosed in Note 23 Horizon Power did not transact with key management personnel or their related parties during the reporting period. As at 30 June 2012, Horizon Power did not recognise any assets or liabilities arising from transactions with key management personnel or related parties.

29 Interests in joint ventures

(a) Jointly controlled operations and assets

Name of entity	Principal activity	Output interest
Mid-West Pipeline Joint Venture	Gas Transportation in the Mid West and Hill 60 Pipelines	29.2%

Horizon Power's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the financial statements under their respective asset categories. The balance of this joint Venture is owned by Australian Pipeline Ltd:

	30 June	30 June
	2012	2011
	\$'000	\$'000
Hill 60 Extension	141	272
Total Property, plant and equipment	<u>141</u>	<u>272</u>

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

	30 June 2012 \$'000	30 June 2011 \$'000
Profit for the year	33,274	40,746
Depreciation and amortisation	62,352	53,944
Work-in-progress written off	4,308	-
Developer and customer contributions	(21,443)	(34,128)
Net gain on sale of non-current assets	-	(722)
Change in operating assets and liabilities,		
(Increase)/decrease in other receivables	8,896	(3,039)
(Increase)/decrease in inventories	(383)	(3,305)
(Increase)/decrease in other assets	(423)	(233)
(Decrease)/increase in other payables	(18,411)	1,136
(Decrease)/increase in derivatives	1,870	22
(Decrease)/increase in income tax liabilities	(7,962)	15,374
(Decrease)/increase in employee provisions	1,191	920
(Decrease)/increase in other provisions	(984)	2,491
Net cash inflow from operating activities	<u>62,285</u>	<u>73,206</u>

As at 30 June 2012, Horizon Power's loans from the Western Australian Treasury Corporation amounted to \$392,180,759, just below the borrowing limit of \$392.2 M. These borrowing facilities have increased to \$ 620.6M for the year ending 30 June 2013.

31 Non-cash investing and financing activities

	30 June 2012 \$'000	30 June 2011 \$'000
Gifted assets	1,999	18,667
	<u>1,999</u>	<u>18,667</u>

32 Economic dependency

A significant portion of Horizon Power's revenue is derived from the Tariff Equalisation Fund (TEF). Western Power pays money into the Tariff Equalisation Fund in amounts determined by the Treasurer and the Minister for Energy. This money is released to Horizon Power as determined by the Treasurer. Horizon Power is dependent on the sufficient and timely flow of these funds to remain solvent. Horizon Power began receiving revenue from the Tariff Equalisation Fund from October 2006.

33 Subsequent events

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.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

REGIONAL POWER CORPORATION (TRADING AS HORIZON POWER)

I have audited the financial report of the Regional Power Corporation. The financial report comprises the Statement of Financial Position as at 30 June 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Independence

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

Opinion

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

- (a) giving a true and fair view of the Corporation's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Regional Power Corporation for the year ended 30 June 2012 included on the Corporation's website. The Corporation's management are responsible for the integrity of the Corporation's website. I have not been engaged to report on the integrity of the Corporation's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.


COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
6 September 2012