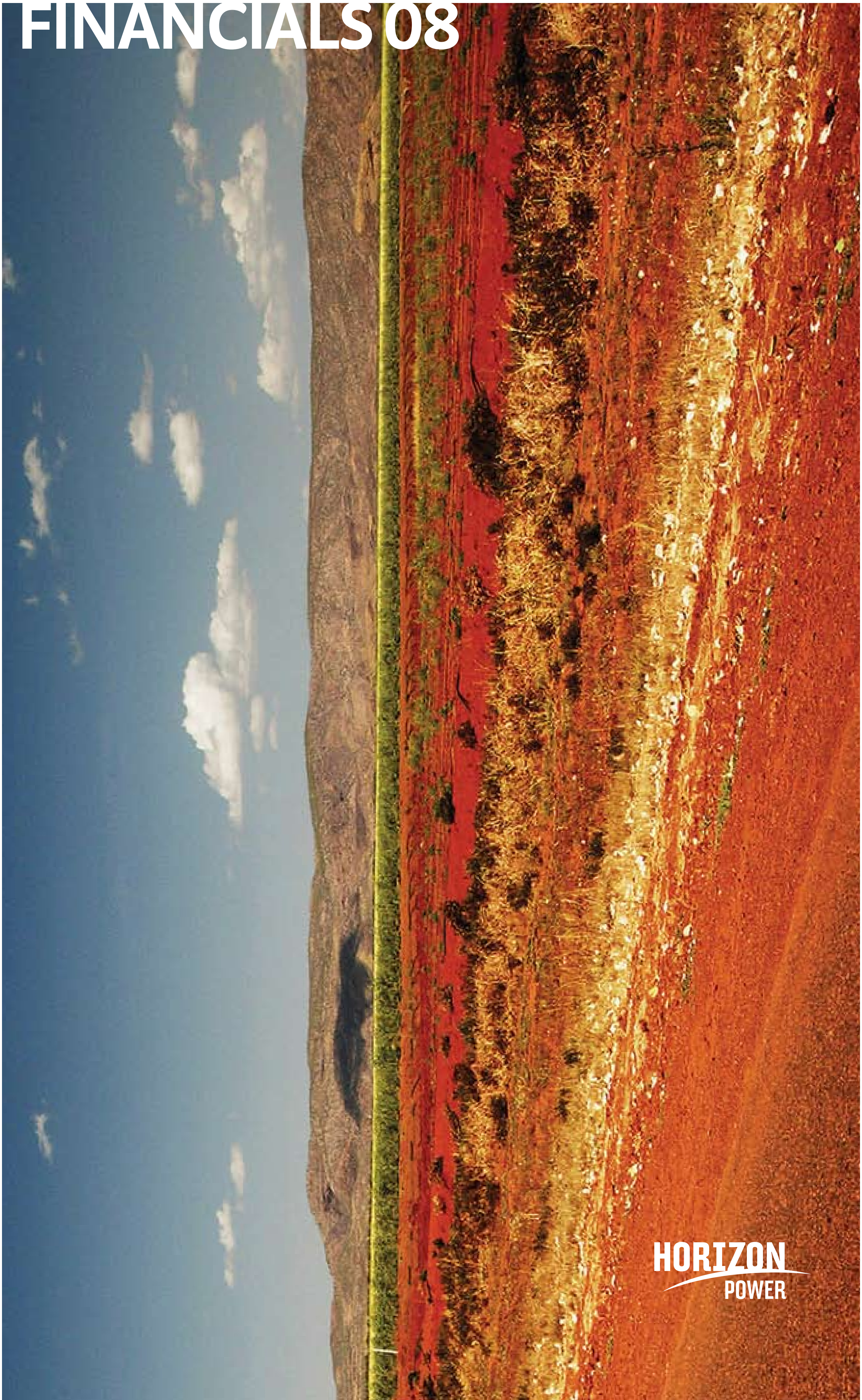
FINANCIALS 08



HORIZON POWER

FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	30 June 2008 $'000	30 June 2007 $'000
REVENUE	4	164,085	148,222
Cost of sales	6	(160,058)	(145,166)
Gross profit		4,027	3,056
Other income	5	79,726	70,934
Expenses, excluding finance costs	6	(49,643)	(52,714)
Finance costs	6	(32,306)	(14,416)
Profit before income tax		1,804	6,860
Income tax expense	7	(259)	(1,955)
Profit after tax		1,545	4,905
Profit for the year		1,545	4,905

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

BALANCE SHEET

AS AT 30 JUNE 2008

	Notes	30 June 2008 $'000	30 June 2007 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	2,332	11,807
Trade and other receivables	9	33,506	17,078
Inventories	10	7,550	5,171
Derivative financial instruments	3	1	-
Current tax receivables	11	10	-
Other current assets	12	506	348
Total current assets		43,905	34,404
Non-current assets			
Property, plant and equipment	13	643,093	364,876
Net deferred tax assets	14,23	15,714	16,515
Intangible assets	15	91	233
Total non-current assets		658,898	381,624
Total assets		702,803	416,028
LIABILITIES			
Current liabilities			
Derivative financial instruments	3	9	-
Trade and other payables	16	44,093	28,309
Provisions	17	7,647	7,605
Interest bearing liabilities	18	61,883	43,382
Current tax liabilities	19	-	741
Other current liabilities	20	5,863	5,208
Total current liabilities		119,495	85,245
Non-current liabilities			
Other payables	21	1,113	1,515
Interest bearing liabilities	22	446,217	199,772
Provisions	24	9,287	10,337
Retirement benefit obligations	25	1,789	1,399
Total non-current liabilities		458,406	213,023
Total liabilities		577,901	298,268
Net assets		124,902	117,760
EQUITY			
Contributed equity	26	130,121	124,524
Accumulated losses		(5,219)	(6,764)
Total equity		124,902	117,760

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	30 June 2008 $'000	30 June 2007 $'000
Total equity at the beginning of the financial year		117,760	101,905
Profit for the year		1,545	4,905
Contributions of equity, net of transaction costs	26	5,597	10,950
Total equity at the end of the financial year		124,902	117,760
Effect of correction of error in prior year			
Total equity as reported in the 2007 financial report		-	117,259
Derecognition of finance lease assets			716
Tax effect			(215)
Restated total equity at the beginning of the financial year		-	117,760
Profit as reported in the 2007 financial report		-	4,814
Derecognition of finance lease		130	
Tax effect		-	(39)
Restated profit		-	4,905

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Notes	30 June 2008 $'000	30 June 2007 $'000
Cash flows from operating activities			
Receipts from continuing operations (inclusive of goods and services tax)		153,120	135,241
Other receipts		72,266	71,594
Net Goods and Services Tax (GST) and Fuel Tax Credits received		10,347	9,476
Interest received		1,307	1,393
Payments to suppliers and employees (inclusive of GST)		(208,061)	(189,653)
Borrowing costs		(31,657)	(14,186)
Income tax paid		(77)	-
Net cash (outflow) inflow from operating activities	33	(2,755)	13,865
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4,712	1,177
Payments for property, plant and equipment		(65,986)	(55,086)
Payments for intangible assets		(19)	-
Net cash (outflow) inflow from investing activities		(61,293)	(53,909)
Cash flows from financing activities			
Proceeds from borrowings		40,140	15,659
Developer and customer contributions to capital works		9,238	23,186
Proceeds from contributed equity		5,597	12,025
CES, customers' and contractors' deposits/(refunds)		(402)	(228)
Net cash inflow (outflow) from financing activities		54,573	50,642
Net increase (decrease) in cash and cash equivalents		(9,475)	10,598
Cash and cash equivalents at the beginning of the financial year		11,807	1,209
Cash and cash equivalents at the end of financial year	8	2,332	11,807

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

1 CORPORATE INFORMATION

The financial report of Regional Power Corporation, trading as Horizon Power, for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 9 September 2008.

The nature of the operations and principal activities of Horizon Power are described in the Corporate Governance section.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, the framework and other authorative pronouncements of the Australian Accounting Standards Board, AASB Interpretations 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 equivalent to International Accounting Standards (AIFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention except derivative financial instruments.

(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.

- *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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Significant accounting judgements, estimates and assumptions (continued)

- *Impairment of non-financial assets other than good-will*

  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. Management does not consider that triggers for impairment testing have arisen in the current financial period.

Significant accounting estimates and assumptions

- *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 balance sheet by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 17 and note 24.

- *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*

  Electricity meters are read on a periodic basis throughout the year. The estimation of accrued revenue associated with unread meters at the year end has been based on historical experience.

(c) Foreign currency translation

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

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

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

(d) Revenue recognition

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

Sale of electricity

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition (continued)

Community service obligations

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

- Air conditioning subsidy for seniors;
- Pensioner concessions;
- Tariff migration;
- Aboriginal and Remote Communities Power Supply Project; and
- Coral Bay electricity supply.

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
- Upgrades 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.

Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Others

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

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

(e) Tariff Equalisation Fund

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Cost of Sales

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

Fuel costs

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

Electricity costs

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

Transmission and distribution operating costs

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

(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 income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the reporting period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred income tax is provided on all temporary differences at the balance sheet 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 good-will 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.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Commitments and contingencies are the 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 income statement and reduction of the lease liability in the balance sheet so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Horizon Power has recognised finance leases implicit in existing electricity purchase agreements in accordance with AASB 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 2008.

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

(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 income statement.

(j) Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Trade and other receivables

Trade receivables, which generally have 21 day terms for tariff customers, 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 irrecoverable amounts. This provision is raised when collection of the full amount is no longer probable.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable 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 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 Income Statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(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 – weighed 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

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

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

(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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Derivatives (continued)

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

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 income statement, together with any changes in the fair value of the hedged asset or hedged liability that are attributable to the hedged risk. There is no impact on the equity reserves. Horizon Power has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges.

Cash flow hedges

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

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

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

Derivatives that do not qualify for hedge accounting

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

Embedded derivatives

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

At 30 June 2008, Horizon Power did not have any derivatives embedded in contracts.

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.

Acquisition of assets

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

Decommissioning costs

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

Capitalisation of borrowing costs

Borrowing costs are capitalised during the construction of major capital projects that have construction periods extending beyond one year.

Depreciation

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

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

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

- Buildings	40 years
- Plant and equipment	10 15 years
- Equipment under finance leases	based on term of contract, which typically ranges between 10 to 20 years
- Construction in progress	no depreciation

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

Disposal of assets

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

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

(p) Intangible assets

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

Amortisation

The useful lives of intangible assets are assessed to be either finite or indefinite. For intangible assets with finite useful lives, an amortisation expense is recognised in the income statement over the useful lives of the assets. Computer software assets have finite useful lives. Amortisation is calculated using the straight-line method. The useful lives of Horizon Power's computer software are 2.5 years

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Intangible assets (continued)

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

(q) Trade and other payables

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

(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 income statement over the period of the interest bearing liabilities using the effective interest method.

(s) Borrowing costs

Borrowing costs are recognised in the income statement as an expense when incurred, except where they are included in the costs of qualifying assets as described in note 2(o). Borrowing costs are capitalised where they relate to the financing of significant projects under construction for more than one year up to the date of commissioning or sale. Borrowing costs are capitalised at the weighted average interest rate applicable to Horizon Power's outstanding borrowings during the period of capitalisation.

Borrowing costs may include:

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

(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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions (continued)

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.

Other provisions

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

(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.

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

Defined contribution superannuation plans

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

Defined benefit superannuation plans

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Renewable Energy Certificates

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

The RE liability is extinguished by annual surrender of an equivalent number of renewable energy certificates (RECs) with a penalty applying for any shortfall. Horizon Power has a contract with Verve Energy for the acquisition of RECs. Horizon Power's liability is based on estimated sales volume multiplied by the agreed contract price per REC from Verve Energy.

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

(w) New accounting standards and interpretations as at June 2008

AASB 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 year ended 30 June 2008.

These are outlined below:

Reference	*Title*	*Summary*	*Application date of standard**	*Impact on Horizon Power financial report*	*Application date for Horizon Power**
AASB Int. 12 and AASB 2007-2	Service Concession Arrangements and consequential amendments to other AASB Standards	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Unless Horizon Power enters into service concession arrangements or public-private-partnerships (PPP), the amendments are not expected to have any impact on Horizon Power's financial report.	1 July 2008
AASB Int. 4 (Revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008
AASB Int. 14	AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	Horizon Power has a defined benefit pension plan and as such this interpretation may have an impact on Horizon Power's financial report. However, Horizon Power has not yet determined the extent of the impact, if any.	1 July 2008
AASB Int. 129	Service Concession Arrangements: Disclosures	Requires disclosure of provisions or significant features necessary to assist in assessing the amount, timing and certainty of future cash flows and the nature and extent of the various rights and obligations involved. These disclosures apply to both grantors and operators.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and interpretations as at June 2008 (continued)

Reference	*Title*	*Summary*	*Application date of standard**	*Impact on Horizon Power financial report*	*Application date for Horizon Power**
AASB Int. 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services	1 July 2008	Horizon Power does not have any customer loyalty programmes and as such this interpretation is not expected to have any impact on Horizon Power's financial report.	1 July 2008
AASB 2007-9	Amendments to AASB Standards arising from the Review of AASs 27, 29 and 31	The amendments were issued as a result of the review of AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments and AAS 31 Financial Reporting by Governments and largely relocates these industry-based standards to topic-based standards.	1 July 2008	These amendments are not applicable to GTE's and as such the amendments are not expected to have any impact on Horizon Power's financial report.	1 July 2008
AASB 1004 (revised)	Contributions	This standard contains the original requirements on contributions from AASB 1004 as issued in July 2004, as well as the requirements on contributions from AASs 27, 29 and 31 substantively unamended (with some exceptions).	1 July 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB Int. 1038 (Revised)	Contributions by Owners Made to Wholly-Owned Public Sector Entities	This interpretation has been revised as a consequence of revised AASB 1004.	1 July 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 1049	Whole of Government and General Government Sector Financial Reporting	New standard to address differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS).	1 July 2008	Refer to AASB 2007-9 above.	1 July 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and interpretations as at June 2008 (continued)

Reference	*Title*	*Summary*	*Application date of standard**	*Impact on Horizon Power financial report*	*Application date for Horizon Power**
AASB 1050	Administered Items	This standard contains the requirements for the disclosure of administered items from AAS 29, substantively unamended (with some exceptions).	1 July 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 1051	Land Under Roads	This standard contains the specific transitional requirements relating to land under roads. It applies to general purpose financial reports of local governments, government departments and whole of governments and financial statements of GGSs.	1 July 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 1052	Disaggregated Disclosures	This standard contains the requirements for the reporting of disaggregated information by local governments from AASs 27 and 29, substantively unamended (with some exceptions).	1 July 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other AASB Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	Horizon Power is a not for profit entity and therefore AASB 8 does not have application.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other AASB Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. Horizon Power already capitalises borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on Horizon Power's financial report.	1 July 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and interpretations as at June 2008 (continued)

Reference	*Title*	*Summary*	*Application date of standard**	*Impact on Horizon Power financial report*	*Application date for Horizon Power**
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other AASB Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of Horizon Power's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. Horizon Power has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to AASB Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	Horizon Power has no share-based payment arrangements.	1 July 2009
AASB 2008-2	Amendments to AASB Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	These amendments are not expected to have any impact on Horizon Power's financial report as Horizon Power does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 July 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and interpretations as at June 2008 (continued)

Reference	*Title*	*Summary*	*Application date of standard**	*Impact on Horizon Power financial report*	*Application date for Horizon Power**
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	Horizon Power is unlikely to enter into business combinations and as such the amendments are not expected to have any impact on Horizon Power's financial report.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	Horizon Power has no subsidiaries.	1 July 2009
AASB 2008-3	Amendments to AASB Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009

*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 and cash and cash equivalents.

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 2008 $'000	*30 June 2007 $'000*
Financial assets		
Cash and cash equivalents	*2,332*	*11,807*
Trade and other receivables	*33,506*	*17,078*
Derivative financial instruments	*1*	*-*
	35,839	*28,885*
Financial liabilities		
Trade and other payable	*45,206*	*29,824*
Interest bearing liabilities	*508,100*	*243,154*
Derivative financial instruments	*9*	*-*
	553,315	*272,978*

(a) Market risk

(i) Foreign exchange risk

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

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 is low.

(ii) Commodity price risk

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. Although diesel fuel payments are made in Australian dollars, the relevant wholesale market for gasoil is denominated in US dollars and as such, there is an indirect exposure to the AUD/USD exchange rate.

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

The year end exposure to commodity risk is low. 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(ii) Commodity price risk (continued)

The table below summarises the impact of increases/decreases of gasoil price on Horizon Power's post-tax profit for the year and on equity. The analysis is based on the assumption that the gasoil price had increased/decreased by 10% with all other variables held constant. At 30 June 2007 there were no gasoil commodity swap contracts in place.

	Impact on post-tax profit -10%		*Impact on equity +10%*	
30 June 2008	*Profit $'000*	*Equity $'000*	*Profit $'000*	*Equity $'000*
Gasoil 50ppm Diesel	-1,630	-1,630	1,630	1,630
	-1,630	-1,630	1,630	1,630

(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 are all obtained through the Western Australian Treasury Corporation (WATC) and 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 2008		*30 June 2007*	
	Weighted average interest rate %	*Balance $'000*	*Weighted average interest rate %*	*Balance $'000*
Financial Assets				
Cash and cash equivalents	6.7%	2,332	6.2%	11,807
Financial Liabilities				
Interest bearing borrowings	7.4%	15,500	6.3%	-
Net exposure to cash flow interest rate risk		13,168		11,807

Horizon Power's policy is to manage its finance costs using a mix of fixed and 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.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iv) Summarised sensitivity analysis

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit would have been affected as follows.

		2007/08			
		-1%		+1%	
	Carrying amount	*Profit*	*Equity*	*Profit*	*Equity*
30 June 2008	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Financial assets					
Cash and cash equivalent	2,332	(23)	(23)	23	23
Financial liabilities					
Interest bearing borrowings	15,500	155	155	(155)	(155)
Total increase/(decrease)		132	132	(132)	(132)

		2006/07			
		-1%		+1%	
	Carrying amount	*Profit*	*Equity*	*Profit*	*Equity*
30 June 2007	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Financial assets					
Cash and cash equivalent	11,807	(118)	(118)	118	118
Financial liabilities					
Interest bearing borrowings	-	-	-	-	-
Total increase/(decrease)		(118)	(118)	118	118

The movements in profit are due to higher/lower interest costs from variable rate debt and cash balances. The sensitivity is higher in 2008 than 2007 due mainly to the new term floating rate lending due to Western Australian Treasury Corporation in 2008.

(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 as evidenced by the historical performance of aged debtor balances.

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 manages 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 commitments of Horizon Power, as they arise.

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

	2008 $'000	*2007 $'000*
6 months or less	100,623	71,575
6 - 12 months	44,951	13,312
1 - 5 years	247,603	124,585
Over 5 years	532,078	153,588
	925,255	363,060

Maturity analysis of financial assets and liabilities 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, trade payables and other financial liabilities mainly originate from the financing of assets used in the ongoing operations such as property, plant and equipment and investments in working capital eg: inventories and trade 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 2008	*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	2,332	-	-	-	2,332
Trade and other receivables	33,506	-	-	-	33,506
Derivative financial instruments	1	-	-	-	1
	35,839	-	-	-	35,839
Financial liabilities					
Trade and other payables	43,990	102	600	514	45,206
Interest bearing borrowings	37,190	26,243	114,442	330,225	508,100
Derivative financial instruments	69	(60)	-	-	9
	81,249	26,285	115,042	330,739	553,315

	30 June 2008 $'000	30 June 2007 $'000
4 REVENUE		
Revenue consisted of the following items:		
Sale of electricity	117,311	109,518
Sales of gas	5,297	-
	122,608	109,518
Other revenue from operations:		
Community service obligation revenue	20,063	12,716
Developer and customer contributions	8,578	21,162
Interest	1,307	1,393
Others	11,529	3,433
	41,477	38,704
	164,085	148,222
5 OTHER INCOME		
Tariff equalisation fund	71,600	69,706
Net gain on derecognition of finance lease (i)	7,243	-
Net gain on derivatives	883	54
Net gain on disposal of property, plant and equipment	-	1,174
	79,726	70,934

(i) During the year, a generating facility associated with a power purchase agreement (PPA), previously classified as a finance lease, was expanded by the owner of the generating facility. This expansion caused a reassessment of the classification of the PPA. The reassessment resulted in the PPA no longer being classified as a lease and the associated lease asset and liability were derecognised from the financial statements.

	30 June 2008 $'000	30 June 2007 $'000
6 COST OF SALES AND EXPENSES		
Cost of sales		
Fuel purchases	47,650	59,270
Electricity purchases	65,729	48,049
Labour, materials and services	46,679	37,847
	160,058	145,166
Classification of expenses by function:		
Marketing	526	412
Administration	49,117	52,302
	49,643	52,714
Profit before income tax includes the following specific expenses:		
Contingent rent		
Contingent rent	1,838	1,838
Employee benefits expense		
Salaries and wages	17,392	14,875
Superannuation	2,406	2,046
Long service leave	192	890
Annual leave	2,119	1,265
Other related expenses	1,244	958
	23,353	20,034
Depreciation		
Leasehold buildings	752	743
Plant and equipment	12,829	9,843
Equipment under finance lease	12,700	5,909
	26,281	16,495
Amortisation		
Patents, trademarks and other rights	3	-
Computer software	158	156
	161	156
Finance costs		
Interest on debts	9,860	8,537
Finance lease interest	21,800	5,879
Unwinding of discount on decommissioning provision	507	-
Unwinding of discount on contributory extension scheme	139	-
	32,306	14,416
Loss on disposal of property, plant and equipment (net gain in 2007 see note 5)		
Net loss on disposal of property, plant and equipment	444	-
Loss on revaluation of financial assets at fair value through profit or loss		
Net loss on revaluation of financial assets at fair value through profit or loss	59	4,403

	30 June 2008 $'000	30 June 2007 $'000
7 INCOME TAX EXPENSE		
(a) Income tax expense		
Current tax	-	479
Deferred tax	560	1,201
Adjustments for net deferred tax assets and liabilities of prior period	372	11
Adjustments for current tax of prior periods	(673)	264
	259	1,955
Income tax expense is attributable to:		
Profit from continuing operations	259	1,955
Income tax expense	259	1,955
Deferred income tax included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 14)	22,488	(5,871)
(Decrease) increase in deferred tax liabilities (note 23)	(21,928)	7,072
	560	1,201
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	1,804	6,860
Tax at the Australian tax rate of 30% (2007 30%)	542	2,058
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	38	30
Developer customer contributions income	-	(145)
Sundry items	(22)	1
	558	1,944
Adjustments for current tax of prior periods	(299)	11
Total income tax expense	259	1,955
8 CURRENT ASSETS - CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	2,332	11,807
	2,332	11,807

	30 June 2008 $'000	30 June 2007 $'000
9 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Net trade receivables		
Trade receivables (i)	32,117	16,584
Provision for impairment of receivables	(57)	(374)
	32,060	16,210
Other receivables		
Other receivable	1,446	868
	33,506	17,078

(i) The credit period on sales of electricity is 14 to 21 days. Non-energy customers generally have credit period of 30 to 90 days. No interest is charged on current trade receivables. An allowance has been made for estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience.

Trade receivables incorporate amounts attributable to 'unread sales', which are an estimate of electricity delivered to customers that has not been billed at the reporting date. The estimation of accrued revenue associated with unread meters at year end is based on historical experience.

(a) Credit risk

Trade receivables

Horizon Power operates predominantly within the electricity industry and accordingly is exposed to risks affecting that industry. The maximum exposure to this industry risk is the carrying value of the trade receivables.

At 30 June, the ageing analysis of trade receivables is as follows:

	30 June 2008 $'000	30 June 2007 $'000
00 - 25 days	26,384	12,862
26 - 50 days PDNI*	3,595	2,403
51 - 78 days PDNI*	426	494
+79 days PDNI*	1,712	825
	32,117	16,584

* Past due not impaired ('PDNI)

Receivables past due but not considered impaired above 26 days are $5,733K (2007: $3,722K). It is expected that payments will be received in full.

Other receivables do not contain impaired assets and are not past due. It is expected that these balances will be received when due.

	30 June 2008 $'000	30 June 2007 $'000
At 1 July	374	292
Provision for impairment recognised/(released) during the year	(130)	79
Receivables (written off)/recovered during the year	(187)	3
At 30 June	57	374

Other receivables

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

(b) Fair Value

The directors consider the carrying amounts of receivables represent their fair value.

	30 June 2008 $'000	30 June 2007 $'000
10 CURRENT ASSETS - INVENTORIES		
Fuel	1,571	973
Materials	4,890	3,289
Rotational spares	1,089	909
	7,550	5,171
11 CURRENT ASSETS - CURRENT TAX RECEIVABLES		
Excess of tax paid for previous period over amount due (tax payable in 2007 see note 19)	10	-
	10	-
12 CURRENT ASSETS - OTHER CURRENT ASSETS		
Other assets	225	103
Prepayments	281	245
	506	348

13 NON-CURRENT ASSETS -PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Leasehold buildings $'000	Plant and equipment (i) $'000	Equipment under finance lease $'000	Total $'000
30 June 2008					
Opening net book amount	4,241	9,263	247,371	104,001	364,876
Additions	735	1,755	69,292	298,851	370,633
Disposals	(26)	(314)	(4,824)	(60,971)	(66,135)
Depreciation charge	-	(752)	(12,829)	(12,700)	(26,281)
Closing net book amount	4,950	9,952	299,010	329,181	643,093
30 June 2008					
Cost	4,950	11,578	325,346	339,967	681,841
Accumulated depreciation	-	(1,626)	(26,336)	(10,786)	(38,748)
Net book amount	4,950	9,952	299,010	329,181	643,093

(i) Expenditure recognised in plant and equipment in the course of construction is $76,450K

13 NON-CURRENT ASSETS -PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land	*Leasehold buildings*	*Plant and equipment (i)*	*Equipment under finance lease*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
30 June 2007					
Opening net book amount	4,242	10,006	200,237	75,416	289,901
Additions	3	-	56,977	34,494	91,474
Disposals	(4)	-	-	-	(4)
Depreciation charge	-	(743)	(9,843)	(5,909)	(16,495)
Closing net book amount	4,241	9,263	247,371	104,001	364,876
30 June 2007					
Cost	4,241	10,150	259,607	111,214	385,212
Accumulated depreciation	-	(887)	(12,236)	(7,213)	(20,336)
Net book amount	4,241	9,263	247,371	104,001	364,876

(i) Expenditure recognised in plant and equipment in the course of construction is $72,309K.

14 NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	30 June 2008 $'000	30 June 2007 $'000
The balance comprises temporary differences attributable to:		
Tax losses *	1,045	-
Provisions	5,108	5,421
Property, plant and equipment	7,418	8,597
Power Purchase Agreements classified as finance lease	100,641	33,202
	114,212	47,220
Other		
Community Service Obligation (CSO)	1,073	811
Fringe benefit tax	-	20
Workers compensation premium	-	10
prepaid expenses	-	3
Accruals	29	25
Derivatives	2	-
Sub total other	1,104	869
Total deferred tax assets	115,316	48,089
Set off of deferred tax liabilities pursuant to set off provisions (note 23)	(99,602)	(31,574)
Net deferred tax assets	15,714	16,515
Movements:		
Opening balance at 1 July	48,090	42,128
Credited/(charged) to the income statement (note 7)	(22,488)	5,871
Acquisition or disposal of deferred tax assets	89,786	32
Adjustments for deferred tax assets of prior periods	(72)	59
Closing balance at 30 June	115,316	48,090
Deferred tax assets to be recovered within 12 months	6,181	5,479
Deferred tax assets to be recovered after more than 12 months	109,135	42,611
	115,316	48,090

*The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

15 NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Patents, trademarks and other rights *$'000*	*Computer software* *$'000*	*Total* *$'000*
30 June 2008			
Opening net book amount	-	233	233
Additions	11	8	19
Amortisation charge (ii)	(3)	(158)	(161)
Closing net book amount (i)	8	83	91
30 June 2008			
Cost	11	397	408
Accumulated amortisation and impairment	(3)	(314)	(317)
Net book amount	8	83	91

	Patents, trademarks and other rights *$'000*	*Computer software* *$'000*	*Total* *$'000*
30 June 2007			
Opening net book amount	-	389	389
Additions	-	-	-
Amortisation charge (ii)	-	(156)	(156)
Closing net book amount (i)	-	233	233
30 June 2007			
Cost	-	389	389
Accumulated amortisation and impairment	-	(156)	(156)
Net book amount	-	233	233

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

(ii) The software was commissioned in July 2006 and is deemed to have a useful life of 2 1/2 years (40% amortisation rate per annum)

	30 June 2008 $'000	30 June 2007 $'000
16 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES		
Trade payables (i)	43,705	28,014
Other payables	184	159
Payroll liabilities	-	20
Contributory extension scheme payables (ii)	204	116
	44,093	28,309

(i) Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables (excluding contributory extension scheme payables) are non-interest bearing and generally have settlement terms between 14 and 30 days.

(ii) Contributory extension scheme (CES) payables represent contributions received from customers to extend specific electricity supplies. These deposits are progressively refunded as other customers are connected to existing supply extension schemes. By 2022 when the scheme finishes, all scheme members will have their contributions refunded.

17 CURRENT LIABILITIES PROVISIONS

	30 June 2008 $'000	30 June 2007 $'000
Long service leave	1,697	1,352
Annual leave	2,753	2,344
Employee on-costs	436	-
Other employee entitlements	418	1,142
Decommissioning (i)	2,343	2,767
	7,647	7,605

(i) Decommissioning

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

Movements in decommissioning	*Decommissioning $'000*
2008	
Current	
Carrying amount at start of year	2,767
- reclassification from non-current liabilities	197
- payments/other sacrifices of economic benefits	(621)
Carrying amount at end of year	2,343

	30 June 2008 $'000	30 June 2007 $'000
18 CURRENT LIABILITIES - INTEREST BEARING LIABILITIES		
WATC loans (i)	53,145	38,410
Finance lease liabilities (ii)	8,738	4,972
	61,883	43,382

(i) The domestic currency loans are ultimately secured by government guarantee. They are governed by a facility agreement that provides Horizon Power with the full discretion to refinance all or any part of maturing debt. For domestic currency loans maturing over the next twelve months, it is the intention to refinance all maturing debt under this facility agreement. At 30 June 2008 the carrying value of the domestic currency loans is considered a reasonable approximation of their fair value.

(ii) Finance lease liabilities are disclosed in note 30 to the financial statements.

19 CURRENT LIABILITIES - CURRENT TAX LIABILITIES

	30 June 2008 $'000	30 June 2007 $'000
Income tax payable	-	741
	-	741

20 CURRENT LIABILITIES - OTHER CURRENT LIABILITIES

	30 June 2008 $'000	30 June 2007 $'000
Deferred developer and customer contributions	5,863	5,208
	5,863	5,208

21 NON-CURRENT LIABILITIES - OTHER PAYABLES

	30 June 2008 $'000	30 June 2007 $'000
Contributory extension scheme payables (note 16)	1,113	1,515
	1,113	1,515

22 NON-CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

	30 June 2008 $'000	30 June 2007 $'000
Secured		
WATC loans (note 18)	119,475	94,070
Unsecured		
Finance lease liabilities (note 30)	326,742	105,702
	446,217	199,772

	30 June 2008 $'000	30 June 2007 $'000
23 NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
Contributory extension scheme	301	310
Consumable stocks	431	-
Power Purchase Agreements classified as finance lease	98,754	31,200
	99,486	31,510
Other		
Fringe benefit tax	3	-
Accruals	65	64
Research and development	48	-
Sub total other	116	64
Total deferred tax liabilities	99,602	31,574
Set off of deferred tax liabilities pursuant to set off provisions (note 14)	(99,602)	(31,574)
Net deferred tax liabilities	-	-
Movements:		
Opening balance at 1 July	31,574	24,433
Charged/(credited) to the income statement (note 7)	(21,928)	7,072
Adjustments for deferred tax liabilities of prior periods	300	69
Acquisition or disposal of deferred tax liabilities	89,656	-
Closing balance at 30 June	99,602	31,574
Deferred tax liabilities to be settled within 12 months	546	64
Deferred tax liabilities to be settled after more than 12 months	99,056	31,510
	99,602	31,574

	30 June 2008 $'000	30 June 2007 $'000

24 NON-CURRENT LIABILITIES - PROVISIONS

	30 June 2008 $'000	30 June 2007 $'000
Long service leave	945	1,470
Employee on-costs	61	262
Decommissioning	8,281	8,605
	9,287	10,337

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

	Decommissioning $'000
2008	
Non-current	
Carrying amount at start of year	*8,605*
Reclassification to current liabilities	*(197)*
Charged/(credited) to the income statement	
- unused amounts reversed	*(634)*
- unwinding of discount	*507*
Carrying amount at end of year	*8,281*

25 NON-CURRENT LIABILITIES - RETIREMENT BENEFIT OBLIGATIONS

(a) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	30 June 2008 $'000	30 June 2007 $'000
Present value of unfunded obligations (i)	1,789	1,399
Net liability in the balance sheet	1,789	1,399

(i) The present value of the retirement benefit obligations liability was assessed by Price Waterhouse Coopers at 30 June 2008 as required under AASB119. For the period 1 July 2007 to 30 June 2008, a provision has been raised to recognise the increase in value of this liability over this period.

(b) Reconciliations

Reconciliation of movement in the present value of the unfunded obligations recognised in the balance sheet:

	30 June 2008 $'000	30 June 2007 $'000
Balance at the beginning of the year	1,399	898
Members transferred in	-	160
Interest cost	81	-
Actuarial (gains) and losses	309	-
Other adjustments	-	341
Balance at the end of the year	1,789	1,399

	30 June 2008 $'000	30 June 2007 $'000

25 NON-CURRENT LIABILITIES - RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Amounts recognised in income statement

	30 June 2008 $'000	30 June 2007 $'000
The amounts recognised in the income statement are as follows:		
Members transferred in		
Interest cost	-	160
Other adjustments	81	-
Actuarial (gains) and losses	-	341
Total included in employee benefits expense	309	-
Balance at the end of the year	390	501

(d) Principal actuarial assumptions

	30 June 2008	30 June 2007
The principal actuarial assumptions used were as follows:		
Discount rate	6.5%	5.8%
Expected future salary increases	4.5%	4.5%
Expected future pension increases	3.0%	2.5%

(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

	2008 $'000	2007 $'000
Defined benefit plan obligation	1,789	1,399
Surplus	1,789	1,399

26 CONTRIBUTED EQUITY

	30 June 2008 $'000	30 June 2007 $'000
Contributed equity at the beginning of the financial year	124,524	112,499
Prior year adjustments	-	1,075
Equity contribution during the financial year	5,597	10,950
Contributed equity at the end of the financial year	130,121	124,524

27 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

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

(b) Other key management personnel

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

Name	*Position*
R Hayes	Managing Director
T Cocks	General Manager Finance and Corporate Services (finished 2 May 2008)
M Laughton Smith	General Manager Generation and Technical Services
D McDonald	General Manager Retail
D Martin	General Manager People and Public Affairs
F Tudor	General Manager Commercial and Strategy
Z Wilk	General Manager Network Customer Services
P Feldhusen	General Manager Governance and Legal Services and Acting General Manager Finance and Corporate Services

Due to an organisation restructure, T Cocks accepted a redundancy offer on 2 May 2008. P Feldhusen assumed the role of Acting General Manager Finance and Corporate Services until the new organisation structure is confirmed. Subsequent to the year end, D McDonald accepted a redundancy and will leave 29 August 2008.

(c) Key management personnel remuneration

Principles used to determine the nature and amount of compensation

Compensation approval protocols are as follows:

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

The compensation policy is to:

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

27 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Key management personnel remuneration (continued)

Managing Director and Executives

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

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

In addition to total target remuneration, those Executives resident in remote locations are also provided with non-monetary benefits such as housing and location allowances.

Total fixed remuneration

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

Non-financial benefits

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

Superannuation

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

Annual at risk remuneration (ARR) element

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

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

The next determination of ARR will be for the 12 months period ended on 30 June 2008, which is expected to be performed within the first quarter of the 2008/09 financial year.

27 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Key management personnel remuneration (continued)

Annual at risk remuneration (ARR) element (continued)

(i) Non-executive directors' remuneration

2008 *Name*	*Cash salary and fees* *$*	*Superannuation* *$*	*Total* *$*
B Hammond	95,000	8,550	103,550
A Dundas	60,000	5,400	65,400
P Yu	45,000	4,050	49,050
S Bradley	45,000	4,050	49,050
T Chilvers	45,000	4,050	49,050
Total	290,000	26,100	316,100
2007			
B Hammond	95,000	8,550	103,550
A Dundas	60,000	5,400	65,400
P Yu	45,000	4,050	49,050
S Bradley	45,000	4,050	49,050
T Chilvers	45,000	4,050	49,050
Total	290,000	26,100	316,100

(ii) Executives' remuneration

2008 *Name*	*Cash salary and fees* *$*	*Performance Pay (i)* *$*	*Non-monetary benefits* *$*	*Superannuation* *$*	*Total* *$*
R Hayes	369,614	92,880	130,735	34,045	627,274
T Cocks (includes redundancy payment)	481,026	29,051	-	22,651	532,728
P Feldhusen	195,138	23,929	-	20,338	239,405
M Laughton Smith	194,982	35,467	-	22,870	253,319
D McDonald	200,639	47,294	43,259	18,057	309,249
D Martin	157,492	15,932	-	14,377	187,801
F Tudor	212,623	47,356	-	19,136	279,115
Z Wilk	257,205	42,516	106,982	22,296	428,999
Total	2,068,719	334,425	280,976	173,770	2,857,890

(i) Performance pay related to financial performance FY 2006/07 was paid in FY 2007/08.

27 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Key management personnel remuneration (continued)

Annual at risk remuneration (ARR) element (continued)

(ii) Executives' remuneration (continued)

2007 *Name*	*Cash salary and fees* $	*Non-monetary benefits* $	*Superannuation* $	*Total* $
R Hayes	326,906	87,663	32,157	446,726
T Cocks	134,954	40,097	22,651	197,702
P Feldhusen	160,922	12,187	18,297	191,406
M Laughton Smith	172,154	10,704	20,348	203,206
D McDonald	163,253	85,331	17,224	265,808
D Martin	137,745	3,300	12,572	153,617
F Tudor	189,687	256	23,616	213,559
Z Wilk	166,383	81,075	20,225	267,683
Total	1,452,004	320,613	167,090	1,939,707

(iii) Service agreements

R Hayes – Managing Director

- Term of Agreement – two years commencing from 30 January 2006 and extended for another year to 30 Jan 2009.
- Notice period – 26 weeks written notice by the Managing Director or 52 weeks written notice by Horizon Power, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Termination redundancy: should the Minister for Energy (the Minister) elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 50 per cent of annual salary.
- Performance pay – at the Board's discretion, with the concurrence of the Minister, the Managing Director is eligible for incentive payments up to 23 per cent of total target remuneration (less $60 thousand) for achievement of specific performance targets covering Horizon Power's major measurable outcomes.

T Cocks – General Manager Finance and Corporate Services (finished 2 May 2008)

- Term of agreement not a fixed term contract.
- Notice period four weeks written notice by the General Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus three weeks per year of service to a maximum of 87 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the General Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

27 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Key management personnel remuneration (continued)

Annual at risk remuneration (ARR) element (continued)

(iii) Service agreements (continued)

P Feldhusen – General Manager Governance and Legal, Company Secretary and Acting General Manager Finance and Corporate Services

- Term of Agreement – not a fixed term contract.
- Notice period – four weeks written notice by the General Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus three weeks per year of service to a maximum of 87 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the General Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

M Laughton Smith – General Manager Generation and Technical Services

- Term of Agreement – not a fixed term contract.
- Notice period – four weeks written notice by the General Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus three weeks per year of service to a maximum of 87 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the Genera Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

D McDonald – General Manager Retail (due to leave 29 August 2008)

- Term of Agreement – not a fixed term contract.
- Notice period – four weeks written notice by the Genera Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus three weeks per year of service to a maximum of 52 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the General Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

D Martin – General Manager People and Public Affairs

- Term of Agreement – not a fixed term contract.
- Notice period – four weeks written notice by the General Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, or dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus three weeks per year of service to a maximum of 87 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the General Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

27 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Key management personnel remuneration (continued)

Annual at risk remuneration (ARR) element (continued)

(iii) Service agreements (continued)

F Tudor – General Manager Commercial and Strategy

- Term of Agreement – not a fixed term contract.
- Notice period – four weeks written notice by the General Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, of dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus three weeks per year of service to a maximum of 52 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the General Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

Z Wilk – General Manager Network Customer Services

- Term of Agreement – not a fixed term contract.
- Notice period – four weeks written notice by the General Manager.
- Termination – redundancy: should the Minister elect to merge, restructure, of dispose of the business of Horizon Power, there will be a redundancy payment of 12 weeks in lieu of notice plus 3 weeks per year of service to a maximum of 87 weeks. Incapacity or poor performance: four weeks notice, or without notice for serious misconduct. For any other reason: 52 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- Performance pay – At the Board's discretion, the General Manager is eligible for incentive payments up to 20 per cent of total target remuneration for achievement of specific performance targets as defined by the Board.

28 REMUNERATION OF AUDITORS

	30 June 2008 $'000	*30 June 2007 $'000*
Audit services		
Audit and review of financial reports	95	82
Total remuneration for audit services	95	82

29 CONTINGENCIES

(a) Contingent liabilities

A supplier has claimed increased costs of $20,834,708.84 (excluding GST) relating to charges for 'over run gas' it contends has been supplied to Horizon Power under a Gas Supply Agreement (GSA). Horizon Power has considered the claim and does not believe that either the definition of 'over run gas' adopted by the supplier or the unit rate applied to that gas by the supplier has merit. 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 2008.

	30 June 2008 $'000	30 June 2007 $'000
30 COMMITMENTS		
(a) Capital commitments		
Property, plant and equipment		
Payable:	101,245	24,595
Within one year	51,386	29,240
Later than one year but not later than five years	-	-
Later than five years	152,631	53,835

(i) At 30 June 2008, capital expenditure commitments principally related to the customer driven connection works ($25 million), Aboriginal and Remote Communities Power Supply Project Phase 2 ($28 million), Marble Bar power station refurbishment ($14 million), Nullagine power station refurbishment ($13 million), East Kimberley interconnected system ($8 million), Carnarvon power station noise mitigation ($8 million), IT improvement and other projects ($57 million).

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

(b) Lease commitments

Operating leases

Horizon Power has recognised an operating lease over the Midwest power station in accordance with AASB Interpretation 4. 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.

During the year, Horizon Power reassessed the accounting treatment of Power Purchase Agreements. Onslow, which was classified as an operating lease in previous years, was found to no longer meet the criteria of a lease according to AASB Interpretation 4.

In addition, Horizon Power has commitments for two property leases as at 30 June 2008, the annual lease rentals for which are subject to revision yearly based on the fixed percentage review rate of 4 per cent.

	30 June 2008 $'000	30 June 2007 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	521	1,064
Later than one year but not later than five years	2,085	4,254
Later than five years	2,607	2,570
	5,213	7,888

30 COMMITMENTS (CONTINUED)

(b) Lease commitments (continued)

	30 June 2008 $'000	30 June 2007 $'000
Finance leases		
Finance leases relate to leases implicit in electricity purchase agreements identified in accordance with AASB Interpretation 4.		
Commitments in relation to finance leases are payable as follows:		
Within one year	37,771	11,935
Later than one year but not later than five years	149,768	46,827
Later than five years	480,473	114,196
Minimum lease payments (i)	668,012	172,958
Future finance charges	(332,532)	(62,284)
Total lease liabilities	335,480	110,674
Representing lease liabilities:		
Current (note 18)	8,738	4,972
Non-current (note 22)	326,742	105,702
	335,480	110,674

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

31 RELATED PARTY TRANSACTIONS

Other than as disclosed in note 27, key management personnel remuneration and in the following paragraph, Horizon Power did not transact with key management personnel or their related parties during the reporting period. As at 30 June 2008, Horizon Power did not recognise any assets or liabilities arising from transactions with key management personnel or related parties.

32 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 per cent

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:

	30 June 2008 $'000	30 June 2007 $'000
Midwest pipeline	1,408	2,682
Hill 60 Extension	664	794
Total non-current assets	2,072	3,476

	30 June 2008 $'000	30 June 2007 $'000
33 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Profit for the year	1,545	4,905
Depreciation and amortisation	26,442	16,652
Developer and customer contributions	(8,578)	(21,162)
Net (gain) loss on sale of non-current assets	(6,799)	(1,174)
Change in assets and liabilities:		
Increase/(decrease) in trade and other receivables	(16,430)	(2,546)
Decrease/(Increase) in inventories	(2,379)	260
Increase/(decrease) in other assets	(157)	118
(Decrease) increase in trade and other payables	4,162	5,943
Increase/(decrease) in derivatives	9	4,403
Increase (decrease) in income tax liabilities	50	1,922
Increase/(decrease) in employee provisions	128	1,038
Increase (decrease) in other provisions	(748)	3,506
Net cash (outflow) inflow from operating activities	(2,755)	13,865
34 NON-CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of plant and equipment by means of finance leases	298,851	34,494
	298,851	34,494

35 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 dependant on the sufficient and timely flow of these funds to remain solvent.

36 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.

37 CORRECTION OF ERRORS AND RECLASSIFICATIONS

Due to an error in assessing the classification of a power purchase agreement as a finance lease on initial application of AASB Interpretation 4 – Determining Whether an Arrangement Contains a Lease, certain balances were incorrectly stated in the 30 June 2007 financial statements.

Labour, materials and services costs were allocated to cost of sales and other expenses on a 70:30 basis in the 30 June 2007 financial statements. This has been changed in the 30 June 2008 financial statements where labour, materials and services were allocated according to the nature of transactions.

Other revenue comprised of joint ventures, property rent and interest income was reclassified from other income to other revenue.

The errors and reclassifications had the effect as follows:

		Per 2007 Accounts	*Correction of Error*	*Reclassification*	*Corrected 2007*
		$'000	*$'000*	*$'000*	*$'000*
Balance Sheet					
Finance Lease Liabilities	- Current	5,949	(977)		4,972
	- Non-current	112,151	(6,449)		105,702
Equipment under Finance Lease					
Cost		119,234	(8,020)		111,214
Accumulated depreciation		(8,523)	1,310		(7,213)
		110,711	(6,710)		104,001
Accumulated losses	- beginning of year	(12,079)	410		(11,669)
	- profit for the year	4,814	91		4,905
		(7,265)	501		(6,764)
Income Statement					
Revenue from ordinary activities		145,069	-	3.153	148,222
Cost of sales		(143,627)	(1,407)	(132)	(145,166)
Gross profit / (Loss)		1,442	(1,407)	3,021	3,056
Other income		74,401	-	(3,467)	70,934
Other expenses		(54,208)	1,048	446	(52,714)
Borrowing costs		(14,905)	489	-	(14,416)
Profit before income tax benefit		6,730	130		6,860
Income tax expense		(1,916)	(39)	-	(1,955)
Profit for the year		4,814	91	-	4,905

The error and the reclassifications have been corrected by restating the 2007 comparative financial statement line items.

The error and the reclassification had no impact on cash flows.

INDEPENDENT AUDIT REPORT

Auditor General

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

To the Parliament of Western Australia

I have audited the financial report of the Regional Power Corporation (trading as Horizon Power), which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

Directors' Responsibility for the Financial Report

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

Summary of my Role

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

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

Audit Opinion

In my opinion, the financial report of the Regional Power Corporation (trading as Horizon Power) is in accordance with schedule 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 2008 and of its performance for the year ended on that date; and

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

COLIN MURPHY
AUDITOR GENERAL

10 September 2008

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HORIZON POWER

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