

ASX COMPANY ANNOUNCEMENT

5th September 2001

HORIZON ENERGY INVESTMENT GROUP - REPORT FOR YEAR ENDED 30 JUNE 2001

The Directors of Horizon Energy Investment Management Limited, the Manager of the Horizon Energy Investment Group, today announced the financial results for the year ended 30 June 2001.

The key financial results for Horizon for the period were: -

- Loy Yang Power recorded a \$2.8 million profit for the year to 30 June 2001, of which Horizon's 25% interest was a \$0.7 million profit;
- The small profit was achieved in spite of the industrial action in November 2000 which resulted in a revenue loss to Loy Yang Power of approximately \$20 million. In the absence of that event, Loy Yang Power would have recorded a significantly greater profit for the period;
- Horizon's Net Result From Ordinary Activities After Tax for the year was \$0.4 million;
- Horizon's available cash, after allowance for creditors, at 30 June 2001 was \$2.2 million; and
- There were no distributions paid to unit holders during the period.

Loy Yang Power Key Financial Results

The following table shows the Key Financial Results for Loy Yang Power partnership.

	12 months to 30 June 2001 \$m	12 months to 30 June 2000 \$m
Generation revenue	524.7	470.5
Other revenue	54.0	53.0
Total revenue	578.7	523.5
Finance expenses	(335.3)	(319.0)
Operating costs	(133.4)	(110.7)
Depreciation	(107.2)	(104.5)
Total costs	(575.9)	(534.2)
Net operating Profit/(Loss)	2.8	(10.7)
Horizon quarter share	0.7	(2.7)

- 11.5% increase in Generation Revenue over previous corresponding period
- 2.1% increase in other revenue over previous corresponding period
- Finance expenses increased by 5.1% as a result of an increase in underlying swap prices.
- After adjustment for a non-cash item in the previous year, operating costs in 2001 are broadly comparable.

Electricity Prices

Electricity pool prices were encouraging throughout the period. The strong average pool price was influenced by a number of abnormal events, including the prolonged outage of one 500 MW unit at the Loy Yang B power station from mid May to September 2000 and the industrial action at Loy Yang Power, Yallourn Energy and Hazelwood Power in early November.

The first quarter of 2001 saw significant volatility with pool prices averaging \$71.56/MWh for the quarter. The average price in February of \$120.11/MWh reflected a period of very high electricity usage, including a record Victorian demand of 8,019 MW in February.

The contract market has been particularly encouraging since the cessation of vesting contracts at the end of December 2000. Flat load contract prices for calendar 2002, which had risen substantially since February 2001, peaked at in excess of the \$50/MWh and are currently around \$45/MWh. The easing in contract prices for 2002 reflects the belief that most market participants have reached their desired level of contract for the year. Consequently there is now limited trading for 2002 contracts.

In spite of the potential increase in peaking capacity, the possible upgrade of the Victoria– NSW interconnect and Basslink, contract prices for calendar 2003 remains at around \$40/MWh, having peaked at \$48.50/MWh earlier this year. However, caution must be exercised in interpreting and extrapolating these forward prices as the market is experiencing one of its biggest changes in contracting behaviour since the commencement of the National Electricity Market.

Valuation of Loy Yang Power

Horizon wrote down its investment in Loy Yang Power to \$0.50 per dollar of initial investment in its financial statements for the year ended 30 June 2000. The directors believe that there have been no material adverse changes since that time. Given the current strength of the contract market and potential for additional cost effective capacity, the outlook for Loy Yang Power, has, if anything, improved.

Consequently, the directors may consider writing back some of the provision against Horizon's investment in Loy Yang Power if Loy Yang Power satisfactorily resolves the uncertainty regarding future ownership and refinancing commitments.

Additional Capacity

Plant enhancements and improved operating efficiencies have resulted in Loy Yang Power announcing an increase in potential output capacity of approximately 180-200MW from the existing generators. This increase can be achieved with minimal capital cost. Additionally, Loy Yang Power has also been considering further plant enhancements which would result in the utilisation of current excess boiler capacity and could be expected to increase overall plant capacity to around 2,300MW.

Outlook

The electricity market is experiencing a period of substantial change as it moves from a substantially contracted position to one that is relatively less contracted. Peak demand increases and associated market volatility have lead to approximately 1,000 MW of planned, but not necessarily committed, gas-fired peaking plants for Victoria. Whilst the cost structure of gas-fired plants means they would not replace Loy Yang Power as a base load generator, the number of high price events may be reduced if these plants are built.

Current financial modelling suggests Loy Yang Power will not be in technical default under its Senior Debt lending covenants. However, due to triggers in its financing documents, it is anticipated that Loy Yang Power will be required to increase the level of its senior debt service reserve from 3 months of debt service to 6 months, later in 2001. This would result in approximately \$100 million of additional surplus project cashflow being accumulated into the senior debt service reserve account.

The other key financial issue facing Loy Yang Power is the maturity of a \$500 million tranche of senior debt in May 2003. Consideration is being given to the best alternative for this refinancing but to-date no decisions have been taken. The directors believe this refinancing will be a major step towards putting Loy Yang

Power on a stronger financial footing thereby unlocking the value of Horizon's investment in the asset.

Until such time, however, an investment in Horizon must still be seen as speculative but that the opportunity for capital gains remains a real possibility.

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