Quarterly Performance Report

For the period January – March 2017

Performance overview

This performance report covers the three month period ending 31 March 2017. For statistics prepared on a rolling 12-month basis, data prior to 1 April 2016 is used.

Business highlights

- Over 400 Port Hedland residents and businesses participated in the *Power Ahead* research pilot, helping us test and develop a new way of charging for electricity, modelled on a mobile phone style of plan which incorporates a larger fixed component and on-peak and off-peak elements, the trial has now concluded and a report will be provided to government in June.
- The Pilbara Underground Power Project is tracking three months ahead on current works schedule and expected to deliver savings by the end of financial year 2018. The Shire of Ashburton officially endorsed the delivery of works in Onslow which is now underway.
- Murchison Radio-astronomy Observatory (MRO) Power Supply project Stage One has been successfully completed.
- Downer EDI has mobilised to site and commenced clearance work for construction of a new modular power station for Onslow.
- Carnarvon has made Western Australian history by having the power station supported with energy provided by utility scale batteries which are in the process of being commissioned for a cutting-edge trial.
- Horizon Power achieved its Strategic Review annual subsidy reduction target of $100M, with $102M delivered as at March 2017. Key successes include the Advanced Meter Infrastructure project, the Revenue Leakage project, the Rationalisation of Properties Facilities Fleet, Remote Towns project and the NWIS Generation Optimisation (spinning reserve).

Financial performance

- Horizon Power reported a year to date Net Profit After Tax (NPAT) of $29.8M resulting in a favourable variance of +$12.9M compared to the budgeted (State Budget Forecast) profit of $16.9M. The favourable variance was primarily driven by lower cost of goods sold (+$18.4M) - resulting mainly from lower prices for gas purchases – lower operating expenses (+$10.3M) and lower interest costs (+$3.7M). This favourable variance was offset by a lower income (-$13.4M), higher depreciation (-$2.0M) and higher tax expenses (-$4.1M).
- Compared to the Mid Year Review budget, the actual NPAT recorded a favourable variance of +$1.2M. The main drivers behind the favourable variance are lower cost of goods sold (+$4.0M) – resulting mainly from lower prices for gas purchases – lower interest (+$1.0M), lower operating expenses (+$9.5M) and lower tax (+$1.0M),offset by lower income (-$8.7M) and higher depreciation (-$5.6M).
- Year to date capital expenditure amounted to $88.3M against a budget of $92.4M. The variance of $4.1M is mainly due to timing differences.
- A final dividend of $16.4M was paid in December 2016. Total dividend paid for the financial Year 2015/16 amounted to $23.8M against a budget of $9.9M.

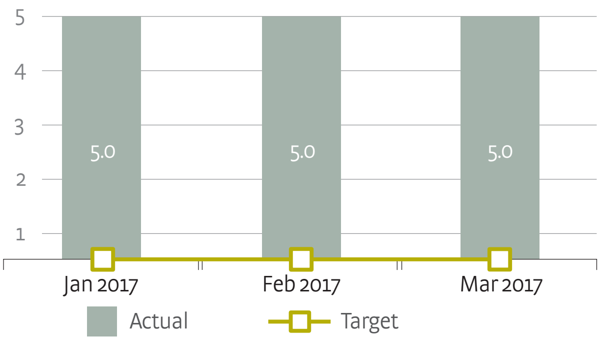
Stakeholder service

- During the quarter, Horizon Power provided responses to four Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; Quarterly Performance Report, employee travel report, consultants and service provider report and customer funded works enquiries.

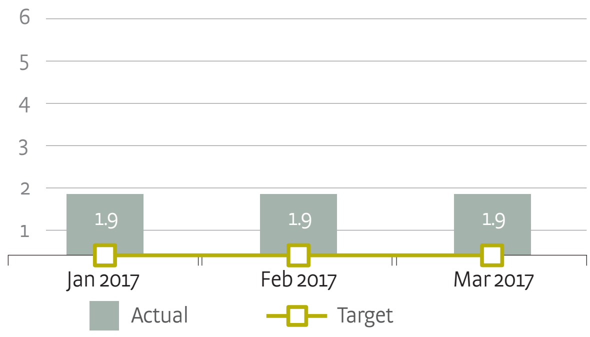
HORIZON POWER
energy for life

Safety, health and the environment

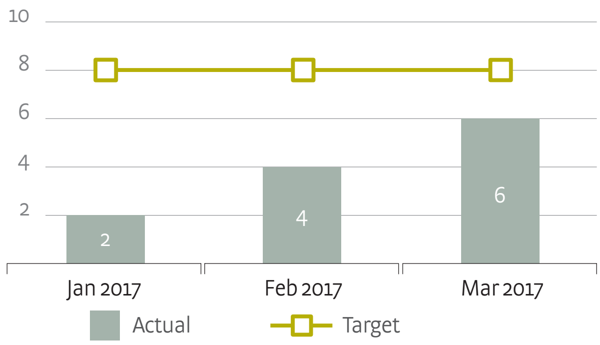
Lost Time Injury Severity Rate *12 month rolling average*



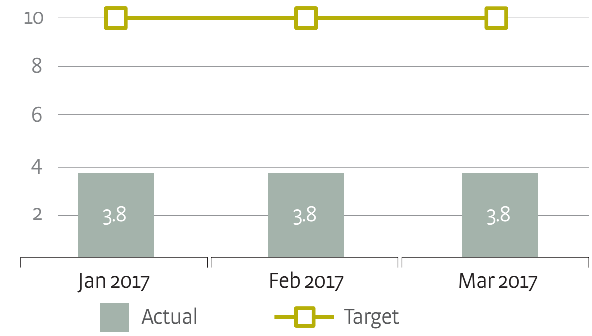
Lost Time Injuries Frequency Rate *12 month rolling average*



Public Safety Incidents *Financial year to date*



All Medical Injuries Frequency Rate *12 month rolling average*

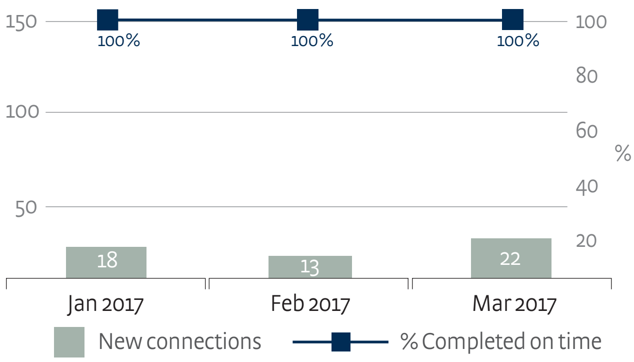


- Lost Time Injury Rates were stable at 1.9 as Horizon Power records eight consecutive months without employee lost time injury. All Medical Injury Frequency Rates in March on par with end of previous quarter.
- The lost time severity rate for the quarter was 5.0 remaining stable from the previous quarter.
- There were five new public safety incidents for the quarter cumulating to six for the period ended on 31 March 2017.
- There was no reportable fuel spill during the quarter.
- The Unassisted Pole Failure rate* was 1.05 compared to a target of <1.00.

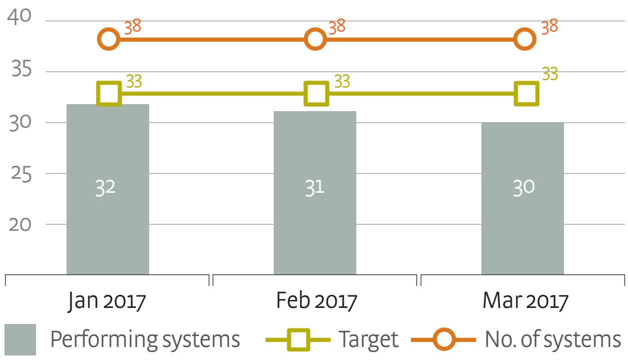
* based on a 3 year rolling average per 10,000 poles

Customer service and electricity delivery

Customer Connections



Performing Systems *out of 38 systems*



- 100% of new customer connections were completed on time.
- There were 53 new connections during the quarter.

Financial performance - Actual versus SBF

Net Profit After Tax for year to date March 2017 was higher than the State Budget Forecast, with variances broken down as follows:

Profit and Loss Summary (in $millions)

	Period Ended Mar 2017		
	ACTUAL	SDP	VAR
Income	369.2	382.5	(13.4)
Fuel and electricity purchases	(124.1)	(142.5)	18.4
Operating labour, overheads & materials	(86.7)	(97.0)	10.3
EBITDA	**158.3**	**143.0**	**15.3**
Finance lease adjustment			
Depreciation and amortisation	(65.2)	(63.2)	(2.0)
EBIT	**93.1**	**79.8**	**(13.4)**
Interest	(52.0)	(55.6)	3.7
Income tax	(11.3)	(7.2)	(4.1)
Net profit after tax	**29.8**	**16.9**	**12.9**

1. Income

An unfavourable variance of -$13.4M in income primarily due to the following:

(I) Electricity sales recorded a shortfall of -$16.8M (actual $203.0M v budget $219.8M) mainly due to lower volume and budgeted L4 tariff not gazetted.

(II) Contribution Service Obligation was higher by $1.6M due to higher TAP.

(III) Miscellaneous revenue were higher +$4.3 due to higher than expected wheeling revenue and unbudgeted foreign currency hedging gains.

(IV) Customer contributions was down by $2.5M.

2. Fuel and electricity purchases

A favourable variance of +$18.4M was mainly driven by savings in gas purchases due to lower gas prices and lower sales volumes.

3. Operating labour, overheads and materials

Operating expenditure is tracking under budget primarily driven by lower overheads due to cost management, savings across various items of operating expenses and the timing of project expenses.

4. Depreciation

Depreciation is higher than budget mainly due to projects being completed ahead of the budget schedule namely AMI and MRO.

5. Interest and income tax

The positive variance of +$3.7M in interest is due to lower debt than budgeted. The unfavourable variance in tax (-$4.1M) is resulting from higher earnings than budgeted.

Financial performance - Actual versus MYR

Net Profit After Tax for year to date March 2017 was higher than the Mid Year Review, with variances broken down as follows:

Profit and Loss Summary (in $millions)

	Period Ended March 2017		
	ACT	MYR	VAR
Income	369.2	377.9	(8.7)
Fuel and electricity purchases	(124.1)	(128.1)	4.0
Operating labour, overheads & materials	(86.7)	(96.2)	9.5
EBITDA	**158.3**	**153.6**	**4.7**
Finance lease adjustment			
Depreciation and amortisation	(65.2)	(59.6)	(5.6)
EBIT	**93.1**	**94.0**	**(0.9)**
Interest	(52.0)	(53.1)	1.1
Income tax	(11.3)	(12.3)	(1.0)
Net profit after tax	**29.8**	**28.6**	**1.2**

1. **Income**

   An unfavourable variance of -$8.7M in income primarily due to the following:

   Electricity sales recorded a shortfall of -$8.6M (actual $203M v budget $211.6M) mainly due to decrease in the Pilbara due to lower residential volumes partially offset by higher consumption by Fortescue Mining Group.

2. **Fuel and electricity purchases**

   A positive variance of +$4.0M was mainly driven by savings in gas purchases due to lower gas prices and purchase volumes.

3. **Operating labour, overheads and materials**

   Operating expenditure is tracking under budget primarily driven by lower overheads due to cost management, savings and timing of expenditure.

4. **Interest**

   Lower interest cost due to lower debt draw down and lower interest rate than budgeted.

5. **Depreciation and amortisation**

   Higher depreciation due mainly to timing differences in capitalisation of assets, for example the Advanced Metering Infrastructure was capitalised earlier this year whereas the MYR budget assumes depreciation starting from July 2017.

6. **Income tax**

   Higher tax expense is due to higher profit compared to budget.

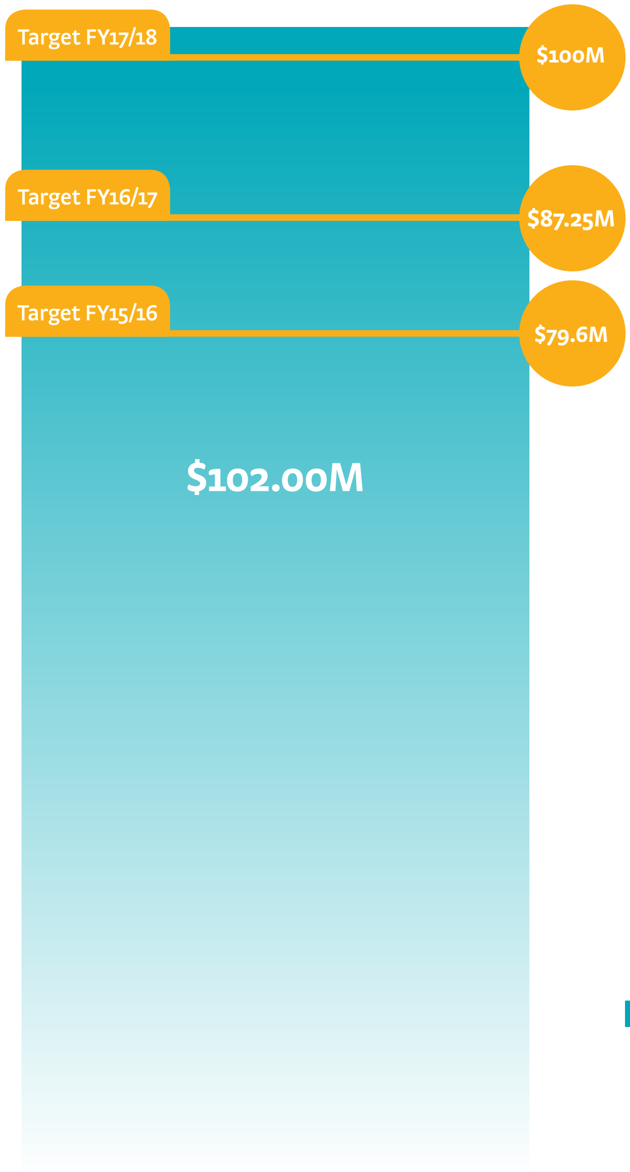
Other performance measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents/kWh)*	29.5	34.6	The lower cost to supply reflects a decrease in cost of goods sold mainly from the lower gas costs.
Return on Assets (%)**	7.6% (annualised)	6.6%	Higher Return on Asset due to higher Earnings Before Interest and Tax than budgeted.
Subsidy reduction $M (cumulative)	102.3	87.3	Realised benefits now total $102.3 M ahead of the target of $100 M set for 2017/18.
Community			
Customer Satisfaction (Annual) (Survey rating %)	73%	≥70%	YTD Customer satisfaction based on June 2016 Survey.
No. of Customer Bills on Time (Unbilled accounts >90 days)	1	<40	Unbilled numbers continue to improve following the completion of the advanced meter roll-out.

* *Being Costs of goods sold + operating expenditure divided by kWh*

** *Return on Asset = Annualised EBIT / Average Total Assets for the period.*

Strategic Review Benefits



Commentary – Strategic Review Benefits:

We are 102 per cent of our $100 M target. With the inclusion of the Roy Hill Power Supply project, Esperance Maximum Capacity Demand (MCD) Project and Gas expense optimisation measures Horizon Power projects to achieve well over our $100M target.

Our key success include;

The Advanced Meter Infrastructure project, Revenue Leakage project, the Rationalisation of Properties Facilities Fleet, Remote Towns project and the NWIS Generation Optimisation (spinning reserve).

Work currently underway includes:

The Price Reform Project, Roy Hill project and regional optimisation roadmaps. These will provide additional savings in outer years.

Realised