HORIZON POWER
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Quarterly Performance Report

For the period January – March 2018

Performance overview

This performance report covers the three month period ending 31 March 2018. For statistics prepared on a rolling 12-month basis, data prior to 1 April 2017 are used.

Business highlights

- Our new solar product pilot was launched on 21 March 2018 offering a range of premium solar panels, inverters and batteries to residential and small business customers in the city of Karratha. Horizon Power Solar provides customers with a wider range of choices and greater control over their energy costs, and strengthens our brand positioning around trust, innovation and safety. The pilot will enable us to explore how renewable energy technologies can be integrated into our regional power systems in a way that benefits all of our customers for the long term, whether they have solar or not.
- The vacation student program received the first group of students. The training program helped the student engineers from UWA, Curtin University and Murdoch University with their professional development, whilst providing Horizon Power with fresh perspective and innovative ideas.
- The Carnarvon DER photovoltaic (PV) trials kicked-off in January 2018. Data gathered from participants' systems will enable us to better understand the relationship between the weather, its impact on renewable energy production and customer power usage, and how distributed energy resource (DER) systems can be used to optimise network operation. The aim of helping us to develop a model for increasing distributed energy targets and enabling more of our customers to take advantage of renewable energy.

Financial performance

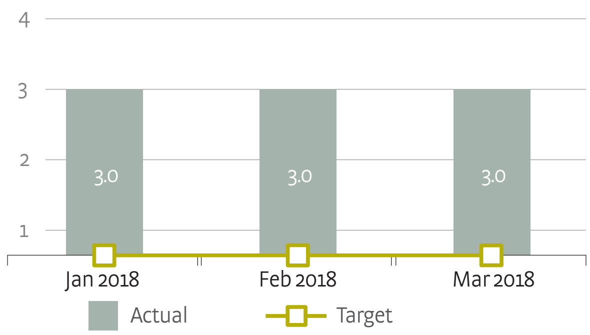
- Whilst Horizon Power is expected to meet and slightly exceed its full year Mid Year Review budgeted Net Profit After Tax (Forecast $109.9M v MYR Budget $104.7M), the year to date NPAT is showing an unfavourable variance of -$71.7M when compared to the (Actual $40.5M v State Budget Forecast $112.2M), primarily due to the timing difference in the recognition of revenue ($74.2M after-tax) from the Onslow DER project.
- Compared to the Mid Year Review budget, the Year-to-date actual NPAT recorded an unfavourable variance of -$62.6M. The main drivers behind the unfavourable variance is due to the delay in revenue recognition for Onslow DER project ($74.2M after-tax) and offset by miscellaneous revenue positive variance of +$5.7M.
  It should again be noted that the delay in revenue recognition is a timing issue only and the year-end forecasted profit position will be met.
- Year to date capital expenditure amounted to $85.7M against a budget of $130.7M. The variance of -$45.0M is predominantly due to timing differences on the Onslow DER project (-$22.7M), Pilbara Power Project (-$5.1M) and NWIS Energy Asset Management Plan (-$5.7M). Horizon Power expects to complete the major projects: Pilbara Undergrounding Power Project, Roy Hill Power Supply and Onslow DER Power Station (Stage 1) by the end of June 2018.

Stakeholder service

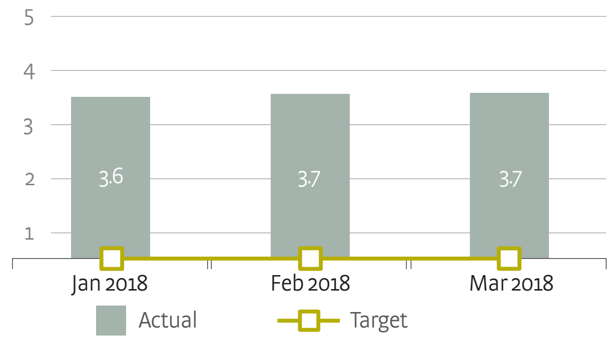
- During the quarter, Horizon Power provided responses to five Ministerials or requests for further information from the Minister or Public Utilities Office.

Safety, health and the environment

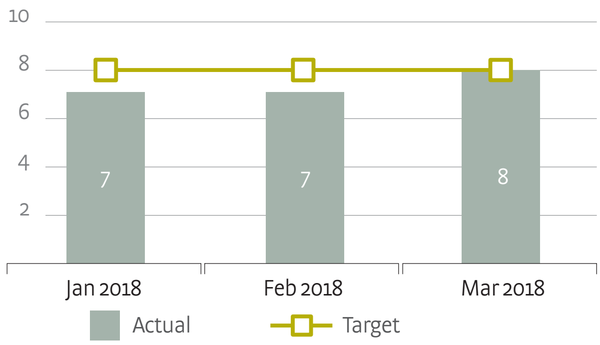
Lost Time Injury Severity Rate *12 month rolling average*



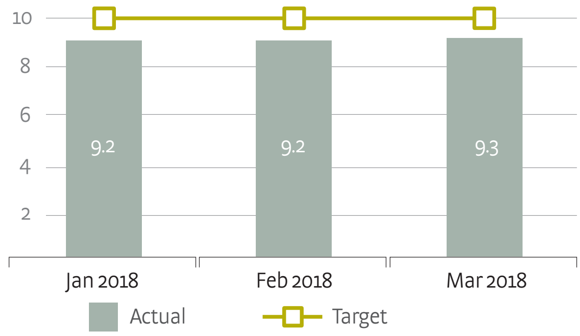
Lost Time Injuries Frequency Rate *12 month rolling average*



Public Safety Incidents *Financial year to date*



Total Recordable Injury Frequency Rate *12 month rolling average*

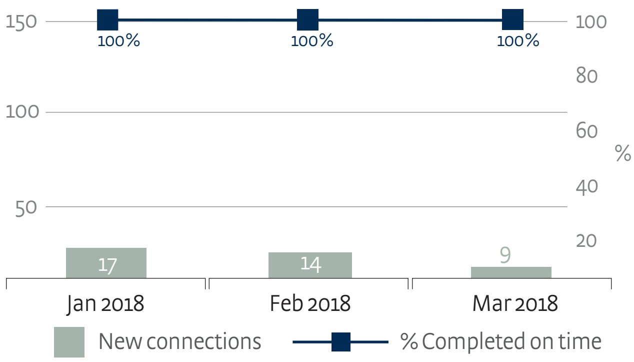


- The Lost Time Injury Rates increased from 1.8 to 3.7 due to a lost time injury where a worker received a crush injury. The same incident caused the Total Recordable Injury Frequency Rate to increase from 8 to 9.2.
- The lost time severity rate for the quarter was 3.0 a reduction from 5.0 of the previous quarter.
- There were three Public Safety Incidents over the quarter ended on 31 March 2018. The incidents were: one electric shock, one vegetation fire and a burnt meter.
- There was no reportable fuel spill during the quarter.
- The Unassisted Pole Failure rate* was 0.75 at the end of March 2018 and within the target of 1.00.

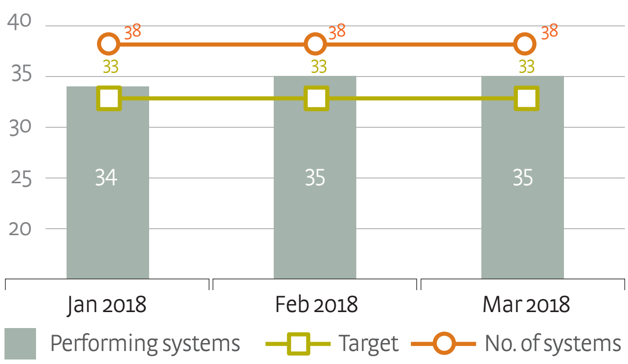
  * based on a 3 year rolling average per 10,000 poles

Customer service and electricity delivery

Customer Connections



Performing Systems *out of 38 systems*



- 100% of new customer connections were completed on time.
- There were 40 new connections during the quarter.

Financial performance - Actual versus SBF

Net Profit After Tax for year to date March 2018 was lower than the State Budget Forecast, with variances broken down as follows:

Profit and Loss Summary (in $millions)

	Period Ended Mar 2018		
	ACTUAL	SBF	VAR
Income	420.5	527.3	-106.8
Cost of Goods Sold	165.9	169.9	4
Operating Labour, Overheads & Materials	85.3	84	-1.3
EBITDA	**169.3**	**273.4**	**-104.1**
Depreciation and amortisation	65.1	64	-1.1
EBIT	**104.2**	**209.4**	**-105.3**
Interest	48.6	49.1	0.5
Income tax	15.1	48.1	33
Net profit after tax	**40.5**	**112.2**	**-71.7**

	Full Year Forecast to June 2018		
	FORECAST	MYR	VAR
Forecast Net Profit After Tax	**109.9**	**104.7**	**5.2**

1. **Income**

   An unfavourable variance of -$106.8M in income primarily due to the following:

   (I) Developer & Capital contributions variance of -$101.8M mainly due to timing differences in revenue recognition of the Onslow Der project. It should be noted that the delay in revenue recognition is a timing issue only and the year end forecasted MYR profit position will be met.

   (II) Miscellaneous revenue recorded a positive variance of +$6.3M mainly due to unbudgeted liquidated damages of $5.3M.

   (III) Electricity sales variance of -$11.3M due to unrealised budgeted sales of $5M and lower sales in NIS resulting from less favourable economic conditions than forecasted.

2. **Cost of Goods Sold**

   A favourable variance of +$4M mainly driven by lower sales volume.

3. **Operating Labour, Overheads and Materials**

   Operating expenditure is tracking under budget due to savings across various items of operating expenses.

4. **Depreciation**

   Negative variance in Depreciation is mainly due to timing difference between actual and budgeted capitalisation profile.

5. **Interest and income tax**

   The positive variance of +$0.5M in interest is due to earlier repayment of debts than budgeted out of proceeds from TransAlta. The favourable variance in tax (-$33M) is due to the delay of the Onslow revenue recognition offset by higher profit than budgeted.

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Financial performance - Actual versus MYR

Net Profit After Tax for year to date March 2018 was lower than the Mid Year Review, with variances broken down as follows:

Profit and Loss Summary (in $millions)

	Period Ended March 2018		
	ACTUAL	MYR	VAR
Income	420.5	516.4	-95.9
Cost of Goods Sold	165.9	168	2.1
Operating Labour, Overheads & Materials	85.3	87.1	1.8
EBITDA	**169.3**	**261.4**	**-92.1**
Depreciation and amortisation	65.1	64.6	-0.5
EBIT	**104.2**	**196.8**	**-92.6**
Interest	48.6	49.5	0.9
Income tax	15.1	44.2	29.1
Net profit after tax	**40.5**	**103.1**	**-62.6**

	Full Year Forecast to June 2018		
	FORECAST	MYR	VAR
Forecast Net Profit After Tax	**109.9**	**104.7**	**5.2**

1. **Income**

   A negative variance of -$95.9M in income primarily due to the following:

   (I) Developer & Capital contributions variance of -$98.5M mainly due to delay on revenue recognition of the Onslow DER project. It should be noted that the delay in revenue recognition is a timing issue only and the year end forecasted profit position will be met.

   (II) Miscellaneous revenue recorded a positive variance of +$5.7M.

   (III) Electricity sales were slightly lower than MYR by -$0.8M.

2. **Cost of Goods Sold (COGS)**

   A favourable variance of +$2.1M was mainly driven lower COS in Microgrids $5.2M offset by higher cost of $3.3M in the Pilbara – driven by TransAlta Heat Rates being higher than budget heat rates.

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

   Operating expenditure is tracking under budget due to savings across various items of operating expenses.

4. **Depreciation**

   Negative variance in Depreciation is mainly due to timing difference between actual and the MYR capitalisation profile.

5. **Interest and Income Tax**

   The positive variance of +$0.9M in interest is due to earlier repayment of debts than budgeted out of proceeds from TransAlta. The favourable variance in tax ($29.1M) is due to the delay of the Onslow revenue recognition offset by the result of higher profit than budgeted.

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Other performance measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents / kWh)*	33.90	34.45	Higher costs are being driven by higher operating costs in Advanced Microgrid Design Microgrids and lower overhead recoveries.
Return on Assets (%)**	13.8%	12.3%	Higher Return on Asset due to higher Earnings Before Interest and Tax than budgeted.
Community			
Customer Satisfaction (Annual) (Survey rating %)	77%	≥70%	Customer satisfaction based on the Annual Survey of June 2017. An increase of 4% from 2016.

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

** *Return on Asset = Annualised EBIT / Average Total Assets for the period (It assumes revenue for Onslow DER project is recognised this financial year).*