Quarterly Performance Report

For the period October – December 2018

Performance overview

This performance report covers the three month period commencing 1 October 2018 and ending 31 December 2018. For statistics prepared on a rolling 12-month basis, data from to 1 January 2018 is used.

Business highlights

- The Board of Directors has announced the appointment of Horizon Power's new CEO, Stephanie Unwin. The new CEO will start on 18 March 2019. In the meantime, Mike Houlahan will continue to be the Acting CEO.
- Horizon Power awarded the contract for the installation and support of its DERMS (Distributed Energy Resources Management System) platform to PXiSE Energy Solutions, an American technology company. The deployment of the DERMS will allow Horizon Power to efficiently manage and orchestrate various distributed energy resources while maintaining the highest safety, reliability and stability standards of its microgrid networks. The initial deployment and implementation will be in Onslow, Carnarvon and Esperance.
- Under its Solar Incentives Scheme, which aims at reducing energy costs to remote communities, Horizon Power successfully commissioned the installation of solar panels on community buildings in Djarindjin and Lombadina. Earlier in the quarter, the Warmun Community signed up to the Scheme. Similarly, under the Centralised Solar Program, Horizon Power expects up to 4.3 megawatts of solar to be installed in remote communities to deliver between 35% to 50% solar penetration. The solar program and incentive represent the first phase towards a DER future.
- Creation of the new Micro Power Systems (MPS) asset class for serving remote electricity customers has commenced with substantial asset and customer services integration underway. This project involves the development of a utility-grade MPS product in collaboration with our WA-based delivery partner CPS National. Customer agreements have now been obtained for a deployment of 15 next generation MPS units and this will enable the decommissioning and removal of approximately 54 km of aging network. This is likely to be a world-first demonstration of a utility reducing its own 'poles and wires' infrastructure in a manner that reduces long-run costs and improves service quality for remote customers.

Financial performance

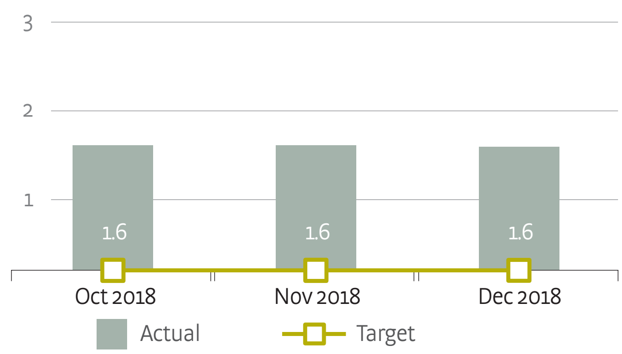
- Horizon Power reported a year to date Net Profit After Tax (NPAT) of $11.6 M compared to a budget (Mid year Review) of $12.1 M. The unfavourable variance of -$0.5 M is driven by lower income of -$3.2 M (mainly lower customer and developer contributions); higher operating expenses of -$2.8 M (higher maintenance costs due to cyclonic and bushfire conditions); lower cost of goods sold of +$1.4 M (lower gas and fuel purchases and generation O&M), lower depreciation +$1.7 M and lower income tax of +$2.5 M (research and development tax savings from financial year 2017/18).
- Year to date capital expenditure amounted to $43.7 M against a budget of $40.5 M. The variance of -$3.2 M is mainly due to timing differences compared to the budget profile.

Stakeholder service

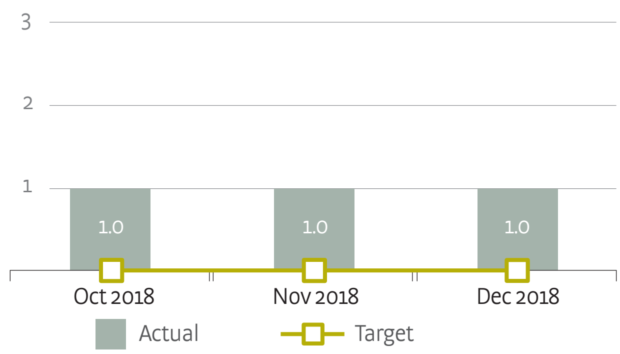
- During the quarter, Horizon Power provided responses to 12 Ministerials and a number of requests for further information from the Minister along with 13 Parliamentary Questions.

Safety, Health & Environment

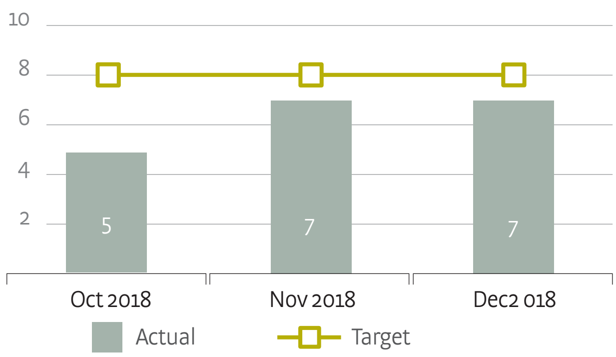
Lost Time Injuries Frequency Rate *12 month rolling average*



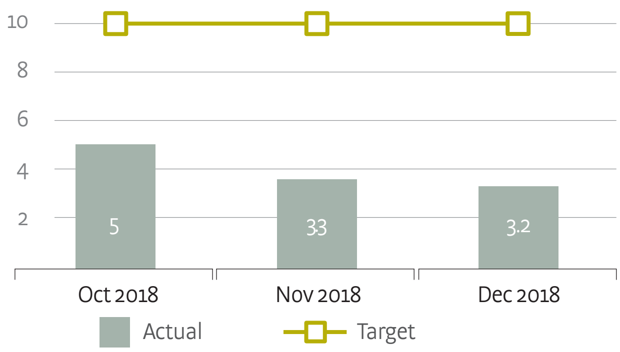
Lost Time Injury Severity Rate *12 month rolling average*



Public Safety Incidents *2018/19 Financial year to date*



Total Recordable Injury Frequency Rate *12 mth rolling average*



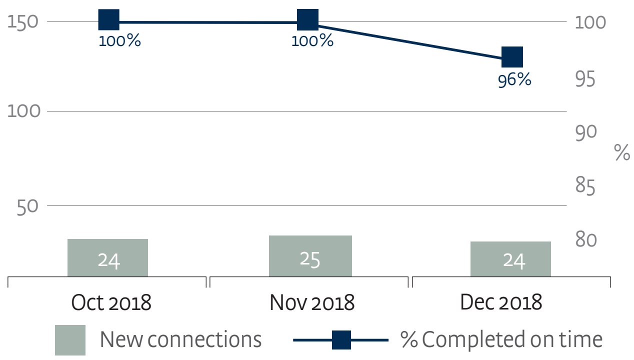
- The lost time severity rate for the quarter was 1.0; the same rate as the previous quarter.
- The number of Public Safety Incidents increased by two from the previous quarter.
  The new incidents were:
  - One earth cable pulled down by harvester causing fire,
  - Overheated meter neutral termination due to loose connection.

- The Lost Time Injury Rate is 1.6.
- 11 months employee lost time injury free.
- There were no reportable fuel spills during the quarter.
- The Unassisted Pole Failure rate* was 0.76 by the end of the quarter and within the target of 1.00

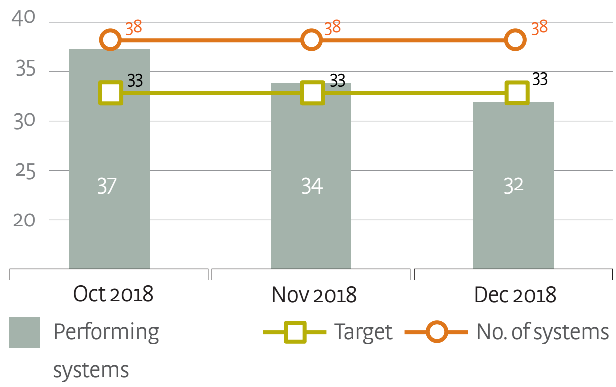
* 3 Year rolling average per 10,000 poles

Customer Service & Electricity Delivery

Customer Connections



Performing Systems *out of 38 systems*



- On average 98.7% of new customer connections were completed on time during the quarter.
- There were 73 new connections during the quarter.

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Financial Performance – Actual v/s MYR

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

Profit and Loss Summary (in $ M)

	Period Ended December 2018		
	ACTUAL	MYR	VAR
Income	262.8	266.0	(3.2)
Cost of Goods Sold	112.7	114.1	1.4
Operating Labour, Overheads & Materials	59.5	56.7	(2.8)
EBITDA	**90.6**	**95.2**	**(4.6)**
Depreciation and Amortisation	43.9	45.6	1.7
EBIT	**46.7**	**49.6**	**(2.9)**
Interest	32.4	32.3	(0.1)
Income Tax	2.7	5.2	2.5
Net Profit After Tax	**11.6**	**12.1**	**(0.5)**

1. Income

A net unfavourable variance of -$3.2M in income primarily due to the following:

(I) Lower Customer and Developer contributions of -$4.8 M from Microgrid operations (-$2.2 M) and Pilbara Grid Operations (-$2.6 M).

(II) Higher Miscellaneous Revenue +$1.1 M, mainly due to a contribution from Onslow Salt (+$2.7 M), higher gas revenue of +$0.4 M and offset by reversal of the unrealised diesel hedging gain of $1.5 M from the previous year.

(III) Electricity Sales were slightly higher (+$0.6 M) than budget, which was reset through the MYR process.

2. Cost of Goods Sold

An favourable variance of +$1.4 M mainly driven by lower gas and fuel purchases in the Microgrids Division together with lower generation operations and maintenance.

3. Operating Labour, Overheads and Materials

The unfavourable variance of -$2.8 M is due to higher materials and services of -$1.5 M, mainly driven by increased activities in the maintenance program in line with cyclonic and bushfire conditions and under-recovery of overheads of -$ 0.8 M

4. Depreciation

The positive variance of +$1.7 M in depreciation is mainly due to a lower level of asset capitalisation compared to budget.

5. Interest and Income Tax

The actual interest of $32.4 M is mostly in line with the budgeted amount. The favourable variance in tax of +$2.5 M is mainly due to an adjustment for research and development tax Incentives from the financial year 2017/18.

Other Performance Measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents/kWh)*	36.6	35.1	Whilst the actual YTD cents/KWh is higher than the annual target, it aligns to expectations due to seasonal impact and lower throughput in the colder months. Cost to supply is expected to realign closer to the annual target during the remainder of the year due to higher volumes during the summer months.
Return on Assets (%)**	6.1%	6.6%	Return on Assets based on an annualised forecast EBIT, which is forecast to be slightly lower than budgeted.
Community			
Customer Satisfaction (Annual) (Survey rating %)	80%	≥70%	Customer satisfaction based on the Annual Survey of June 2018. An increase of 3% from 2017.

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

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