HORIZON POWER
energy for life

Quarterly Performance Report

For the period January – March 2019

Performance overview

This performance report covers the three month period commencing 1 January 2019 and ending 31 March 2019. For statistics prepared on a rolling 12-month basis, data from 1 April 2018 onwards was used.

Business highlights

- Horizon Power welcomed its new CEO, Stephanie Unwin into the business on 18 March.
- Over the weekend of 23 and 24 March, Topical Cyclone Veronica crossed the coast between Port Hedland and Karratha bringing destructive winds and widespread flooding to the Pilbara region. When recovery efforts began, teams assessed the damage to infrastructure and reinstated power to approximately 40 customers in Karratha, 16 in Point Samson, 2 in Roebourne, and 20 customers on the Dampier airport feeder. The undergrounding of our network through the Pilbara Underground Power Project greatly reduced the number of customers who lost power and the damage to the network. When Cyclone Christine hit the Pilbara coast in December 2013, approximately 7,000 customers lost power in in Karratha where the overhead network was still in place.
- In March, Horizon Power launched the second stage of the Onslow microgrid project. The key highlight was the launch of the Onslow Renewable Energy Pilot, which aims to generate 50% of Onslow's electricity from renewable energy sources. Around 40 local business representatives attended the event, which provided a brief overview of Horizon Power's energy strategy in Onslow.
- Throughout the quarter Horizon Power progressed with the installation of its Distributed Energy Resources Management System (DERMS) platform. The period saw the completion of several activities relating to the Factory Acceptance Testing (FAT) of the integrated control system. Whilst this is a challenging, complex and leading edge technology project, that will take longer than originally planned to deliver, the deployment of the DERMS is expected to 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.
- In preparation for NWIS regulatory reform, a dedicated NWIS Project team was established under the General Manager Commercial Services and Finance. This project team will plan, transition, and navigate the new landscape to meet the compliance obligations of the NWIS regulatory reform.

Financial performance

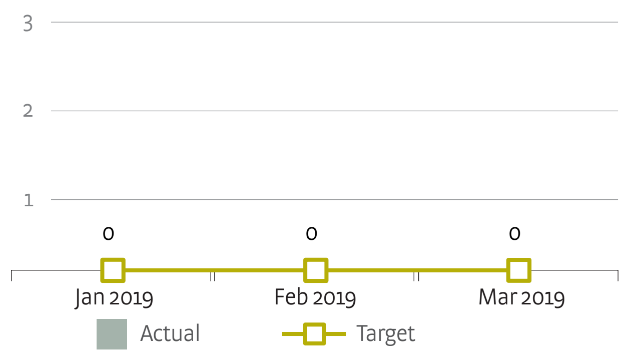
- Horizon Power reported a year to date Net Profit After Tax (NPAT) of $22.2 M compared to a budget (Mid Year Review) of $21.0 M. This favourable variance of $1.2 M is made up of lower cost of goods sold of $0.4 M (lower gas and fuel purchases and generation O&M), lower depreciation $2.6 M, lower income tax of $1.9 M (research and development tax savings from financial year 2017/18) and offset by lower income of $2.1 M (mainly lower customer and developer contributions) and higher operating expenses of $1.6 M (higher maintenance costs driven by increased vegetation maintenance activities).
- Year to date capital expenditure amounted to $50.3 M against a budget of $67.5 M. The variance of $17.2 M is mainly due to timing differences compared to the budget profile.

Stakeholder service

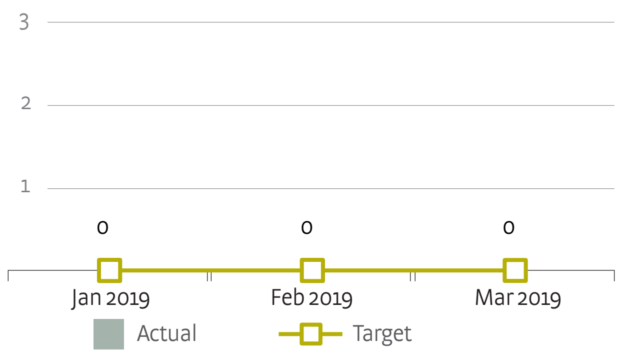
- During the quarter, Horizon Power provided responses to 15 Ministerials and 11 Parliamentary Questions.

Safety, Health & Environment

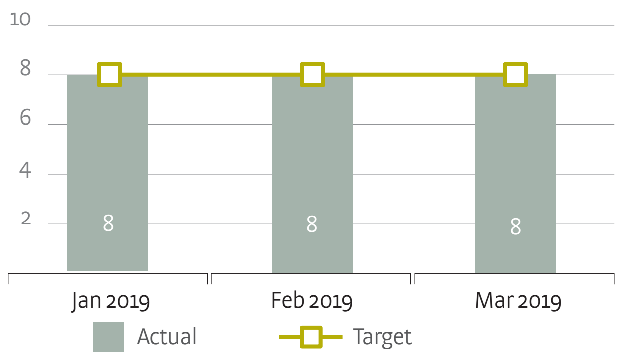
Lost Time Injuries Frequency Rate *12 month rolling average*



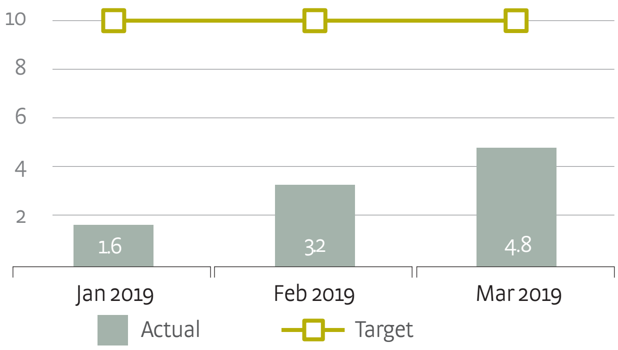
Lost Time Injury Severity Rate *12 month rolling average*



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



Total Recordable Injury Frequency Rate *12 mth rolling average*



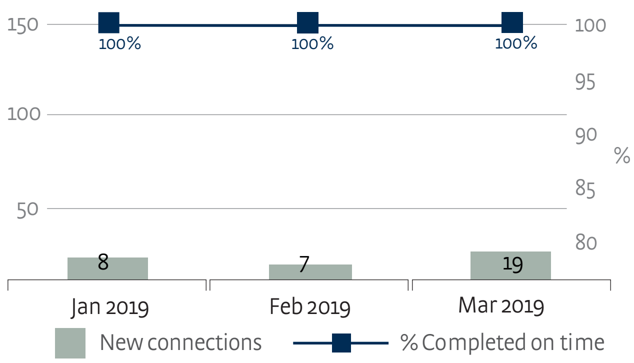
- The lost time severity rate for the quarter was 0.
- 1 Notifiable Incident was reported in January, increasing the total YTD incidents reported to 8. This was in relation to a consumer's installation becoming unsafe because of an error in connecting a meter to the installation.
- The Unassisted Pole Failure rate* was 0.82 by the end of the quarter and within the target of 1.00.

**3 Year rolling average per 10,000 poles*

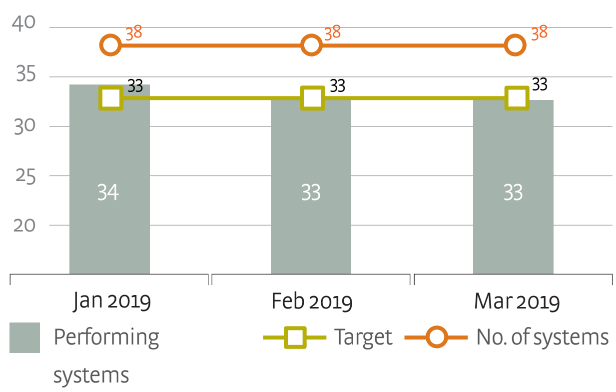
- 14 months employee Lost Time Injury free at the end of March 2019.

Customer Service & Electricity Delivery

Customer Connections



Performing Systems *out of 38 systems*



- 100% of new customer connections were completed on time during the quarter.
- There were 34 new connections during the quarter

Financial Performance – Actual v/s MYR

Horizon Power reported a year to date Net Profit After Tax (NPAT) of $22.2 M compared to budget (Mid year Review) of $21.0 M, a favourable variance of $1.2 M. The performance against the Profit and Loss components are as follows:

Profit and Loss Summary (in $ M)

	Period Ended March 2019		
	ACTUAL	MYR	VAR
Income	408.0	410.1	(2.1)
Cost of Goods Sold	175.6	176.0	0.4
Operating Labour, Overheads & Materials	89.2	87.6	(1.6)
EBITDA	**143.2**	**146.5**	**(3.3)**
Depreciation and Amortisation	65.1	67.7	2.6
EBIT	**78.1**	**78.8**	**(0.7)**
Interest	48.7	48.7	(0.0)
Income Tax	7.2	9.1	1.9
Net Profit After Tax	**22.2**	**21.0**	**1.2**

1. **Income**

   A net unfavourable variance of $2.1 M in income made up of movements in the following income categories:

   (I) Unfavourable variance with Customer and Developer contributions of $7.5 M - from Microgrid operations $4.0 M and Pilbara Grid Operations $3.5 M.

   (II) Favourable variance with Higher Miscellaneous Revenue $1.9 M, mainly due to a contribution from Onslow Salt of $2.7 M, higher gas revenue of $0.4 M, offset by an unrealised diesel hedging loss of $1.2 M from the previous year.

   (III) Favourable variance in Electricity Sales of $3.5 M, attributable increased volumes from contract sales in the NWIS.

2. **Cost of Goods Sold**

   A marginal favourable variance of $ 0.4 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 $1.6 M is mainly driven by increased vegetation maintenance activities and one-off impact of redundancies following the merging of the Advanced Microgrid Division into other divisions.

4. **Depreciation**

   The positive variance of $2.6 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 $48.7 M is in line with the budgeted amount.
   The favourable variance in tax of $1.9 M is mainly due to an adjustment for research and development tax Incentives from the 2017/18 financial year.

Other Performance Measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents/kWh)*	34.8	34.8	Whilst the actual YTD cents/KWh aligns to the YTD target
Return on Assets (%)**	5.9%	6.6%	Return on Assets based on an annualised forecast EBIT, which is forecast to be 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.*