

Quarterly Performance Report

For the period October – December 2015

Performance overview

This performance report covers the three month period ending 31 December 2015. For statistics prepared on a rolling 12-month basis, data prior to 1 July 2015 is used.

Financial performance

- Horizon Power reported a half year Net Profit After Tax (NPAT) of \$16.5M, which is at par to the budgeted (State Budget Forecast) profit of \$16.4M. Total Income recorded however a negative variance of -\$11.6M, driven mainly by lower electricity sales (-\$8.3M) and lower revenue from developer and customer contributions (-\$4.2M). This shortfall in income was offset by lower energy purchases (+\$6.8M) due to lower volumes, lower overheads (+\$5.4M) and interest (+\$2.3M). Depreciation and amortisation were higher than budget (\$41.1M v \$39.5M) due partly to accelerated depreciation on old meters being replaced under the Advanced Metering Infrastructure project.
- As at December 2015, the Actual NPAT recorded a positive variance of +\$5.7M when compared to the Mid Year Review (MYR), mainly due to actual electricity sales being higher (+\$5.9M) than the revised electricity sales expectations included in the MYR.
- As at December 2015, Horizon Power has achieved +\$4.9M of efficiency dividend and is tracking well to achieve the annual target of \$8.8M.
- The Subsidy reduction (cumulative) target for the year has been achieved (\$79.8M v \$79.6M) as at December 2015. Current initiatives total \$99.0M (realised \$79.8 M, in progress \$19.2 M).
- Year to date capital expenditure amounted to \$58.0M against a budget of \$74.0M. The variance of -\$16.0M is mainly due to lower Customer Funded Works (-\$8.9M) and delays to the forecasted start of the Murchison Radio Observatory Power Station (-\$5.9M) phase IV works.
- Total debt of \$1.1Bn (including finance leases) contributed to a gearing ratio of 74% in line with past trends.
- A dividend of \$24.7M, based on the full year profit for the year 2014/15 was paid in December 2015.

Business highlights

- The Advanced Metering Infrastructure project is progressing very well, with 23,051 or 49% of meters replaced by 31 December 2015.
- With the completion of the 220kv Transmission line, the Hedland Power Precinct project has been completed and under budget despite the collapse of its main contractor the Forge Group.
- The Pilbara Underground Power Project is making great progress in Karratha with works in the Light Industrial Area, CBD and Bulgarra West completed.
- Horizon Power is very proud of the dedicated and professional response to the devastating Esperance bushfires with power restored to all of the 500 customers who had been affected in just one week.

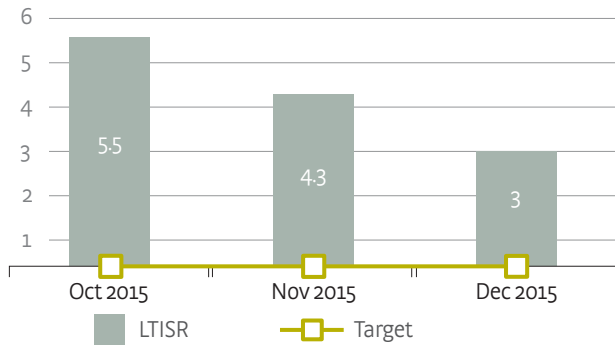
Stakeholder service

- Horizon Power provided responses to 11 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; queries regarding solar energy, Quarterly Performance Report, employee travel and consultant reports, Mid-Year Review, Annual Report and Standing Committee hearings, Network and Reliability of Supply Audit Report, Pilbara Electricity Infrastructure Project and Rottneest Island utilities services.

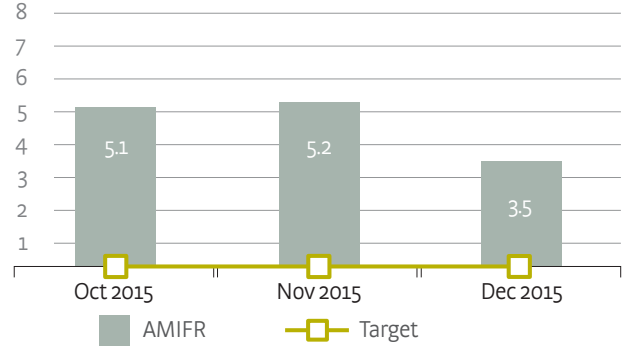
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Safety, health and the environment

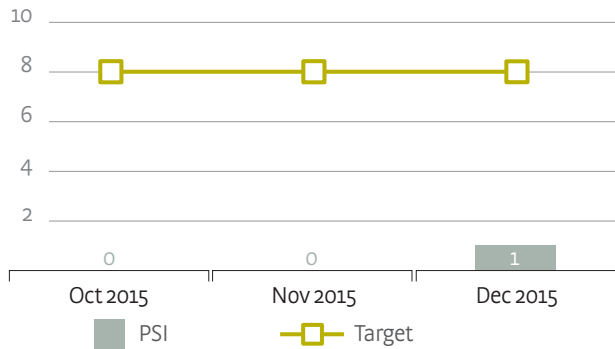
Lost Time Injury Severity Rate 12 month rolling average



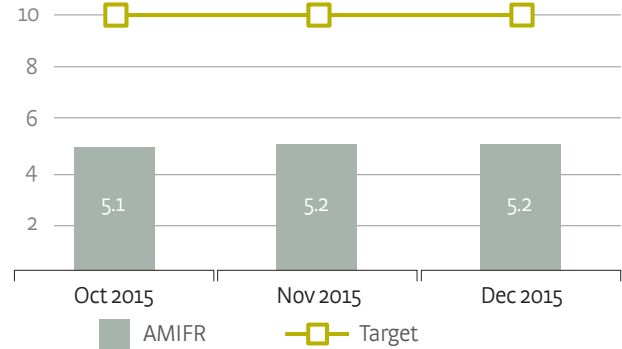
Lost Time Injuries Frequency Rate 12 month rolling average



Public Safety Incidents



All Medical Injuries Frequency Rate 12 month rolling average

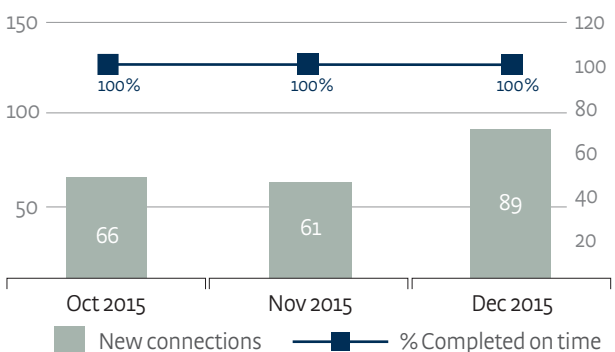


- There was no Horizon Power employee lost time injury recorded for the period, which led to a decrease in the 12 month rolling average rate from 5.1 to 3.5 in December 2015.
- The lost time severity rate for the quarter was 4.3, a slight improvement compared to 4.4 for quarter ended September 2015.
- There was 1 public safety incident during the quarter, clashing conductors in the vicinity of a pole which caused a grass fire.
- There were zero reportable spills for the quarter.
- The Unassisted Pole Failure rate* was at 1.61 compared to a target of 1.00. There were 1 pole failure located in Esperance.

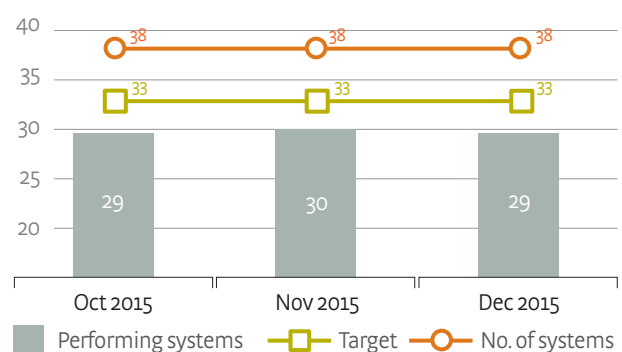
* based on a 3 year rolling average per 10,000 poles

Customer service and electricity delivery

Customer Connections



Performing Systems out of 38 systems



- 100% of new customer connections were completed on time.
- There were 216 new connections during the quarter.

Financial performance - actual versus SDP

The Actual Net Profit After Tax for year to date December 2015 was at par with the State Budget Forecast, with offsetting variances broken down as follows:-

Profit and Loss Summary (in \$millions)

	Half Year Ended Dec 2015		
	ACT	MYR	VAR
Income	240.5	252.1	(11.6)
Fuel and electricity purchases	(85.0)	(91.8)	6.8
Operating labour, overheads & materials	(54.9)	(58.9)	4.0
EBITDA	100.6	101.4	(0.8)
Finance Lease adjustment			-
Depreciation and amortisation	(41.1)	(39.5)	(1.6)
EBIT	59.5	61.9	(2.4)
Interest	(36.2)	(38.5)	2.3
Income tax	(6.8)	(7.0)	0.2
Net profit after tax	16.5	16.4	0.1

1. Income

A negative variance of -\$11.6M in income primarily due to the following:

- (I) Electricity sales recorded a shortfall of -\$8.3M (actual \$143.1M v budget \$151.4M) mainly due to overall budgeted expectations being too optimistic. The sales budget was subsequently adjusted in the MYR to reflect a new demand and energy forecast.
- (II) Developer and Customer Contributions reported a negative variance of -\$4.2M due mainly to fall in the receipt of gifted assets.
- (III) Unfavourable variance of -\$1.4M from CSO mainly attributable to Aboriginal Remote Communities (lower sales volumes).
- (IV) Miscellaneous Revenue recorded a favourable variance of \$2.2M, mainly unbudgeted non-energy revenue.

2. Fuel and electricity purchases

A positive variance of +\$6.8M was mainly driven by lower sales volumes compared to budget.

3. Operating labour, overheads and materials

Operating expenditure was tracking under budget primarily driven by lower overheads due to cost management and savings.

4. Depreciation

Actual depreciation is higher mainly due to accelerated depreciation (-\$1.3M) on meters being replaced under the Advanced Metering Infrastructure project.

5. Interest and income tax

The positive variance of +\$2.3M in interest is due to lower debt than budgeted. The favourable variance in tax (+\$0.2M) is resulting from lower earnings than budgeted.

Financial performance - actual versus MYR

The Net Profit After Tax for year to date December 2015 shows a positive variance of +\$5.7M broken down as follows:-

Profit and Loss Summary (in \$millions)

	Half Year Ended Dec 2015		
	ACT	MYR	VAR
Income	240.5	235.3	5.2
Fuel and electricity purchases	(85.0)	(83.7)	(1.3)
Operating labour, overheads & materials	(54.8)	(61)	6.2
EBITDA	100.6	90.5	10.1
Finance Lease adjustment			-
Depreciation and amortisation	(41.1)	(38.3)	(2.8)
EBIT	59.6	52.3	7.3
Interest	(36.2)	(36.8)	0.6
Income tax	(6.8)	(4.7)	(2.1)
Net profit after tax	16.6	10.9	5.7

1. Income

A positive variance of \$5.2M in income primarily due to the following:

- (I) Sales of electricity YTD is higher than forecast (+\$7.9M), due to one-off contract demand increases and economic impact exceeding expectation within the 2015/16 MYR forecast. Actual volume was higher by 7%.
- (II) Developer and Customer Contributions reported a negative variance of -\$4.2M due mainly to budgeted revenue from gifted asset being over-estimated.
- (III) Unfavourable variance of -\$1.0M from CSO mainly attributable to Aboriginal Remote Communities (lower sales volumes).
- (IV) Miscellaneous Revenue recorded a favourable variance of \$2.5M.

2. Fuel and electricity purchases

A negative variance of +\$1.3M was mainly driven by higher sales volumes (+7%) compared to MYR budget.

3. Operating labour, overheads and materials

Operating Expenditure is tracking under budget primarily driven by lower overheads cost (+\$3.4M), materials and Services (+\$1.3M) and Labour (+\$1.4M) due to savings and cost management.

4. Depreciation and amortisation.

Actual depreciation is higher mainly due to accelerated depreciation (-\$1.3M) on meters being replaced under the Advanced Metering Infrastructure project.

5. Interest and income tax

The positive variance of +\$0.6M in interest is due to lower debt than budgeted. The unfavourable variance in tax (-\$2.1M) is resulting from higher earnings than budgeted.

Other performance measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents/kWh)*	29.6	32.4	The lower cost to supply reflects the decrease in: (i) cost of goods sold due to fixed charges being lower in the NWIS generation contract and reduction in Non Interconnected System (NIS) due to lower variable cost from reduced temporary generation, and (ii) lower operating expenditure.
Return on Assets (%)	7.44% (annualised)	7.08%	Higher return resulting from higher Earnings Before Tax and Interest than budgeted.
Subsidy reduction \$M (cumulative)	79.8	79.6	2015/16 initiatives underway and annual target achieved.
Community			
Customer Satisfaction (Annual) (Survey rating %)	87%	>70%	Actual % based on survey carried out in June 2015.
No. of Customer Bills on Time (Unbilled accounts)	44	<40	The value is the number of unbilled accounts > 90 days at the end of December. The increase is due to delays in completing embedded network invoicing and meter reading delays.

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

Efficiency Dividend Performance

Efficiency Dividend Targeted Areas	2016 Q1 Realised Efficiency Dividend	FY 2016 Forecast
Sum Efficiency Dividend	\$4.9M	\$8.8M

Horizon Power's GTE efficiency dividend target for 2015/16 equates to \$8.8M. As at the end of December 2015, Horizon Power is on track to deliver with savings realised amounting to \$4.9M.

The savings are being achieved by outworking the strategic review recommendations.

The savings value is made up of reductions in

- Labor
- Contractors
- Consultants
- Materials
- Fleet
- Travel
- Information Technology