Quarterly Performance Report

For the period July - September 2014

Performance overview

This performance report covers the three month period ending 30 September 2014. For statistics prepared on a rolling 12-month basis, data prior to 1 July 2014 is used.

Financial performance

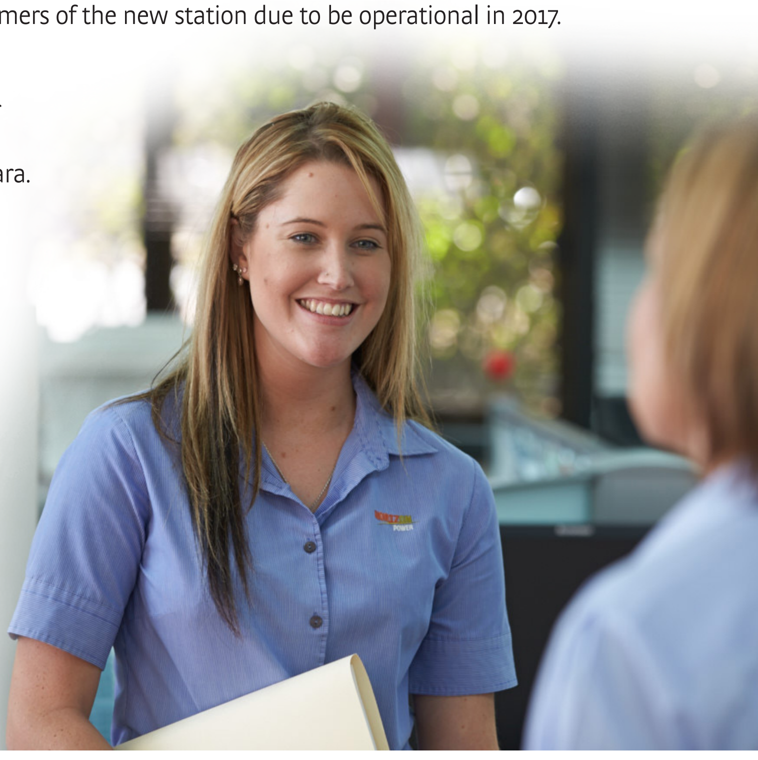
- Horizon Power reported a year to date Net Profit After Tax of $4.4M, compared to budget (State Budget Forecast) of $3.8M. Income recorded a net shortfall of -$6.1M driven mainly by a decrease in electricity sales volumes (-2.5%) resulting from lower economic activity than forecasted. This shortfall was offset by underspends in energy purchases (+$6.3M). Timing differences in capitalisation resulted in lower depreciation and amortisation (+$0.3M) and interest showed a favourable variance of +$0.9M, due to favourable interest rate on loans than budgeted.
- Capital expenditure to date is $17.3M against a budget of $20.6M. The variance of -$3.3M is mainly driven by delay in the start of the Onslow Network project, phasing in of the Asset Management Programme (-$1.2M) and Murchison Radio Observatory project (-$2.9M) and offset by accelerated spend on the Wedgefield third transformer.
- Total debt of $1Bn (including finance leases) contributed to a gearing ratio of 73%, which is steady with June 2014 (73%).

Business highlights

- As part of Horizon Power's long-term power solution for the Pilbara, the business signed a power purchase agreement in July with Canadian-based energy company TransAlta Energy for the delivery of a $570 million, 150 MW power station in South Hedland. Horizon Power and Fortescue Metals Group are the foundation customers of the new station due to be operational in 2017.
- Mungullah Power Station is now operational since 1 July 2014.
- As part of the Hedland Precinct Power Station Project, the first of four turbines has been synchronised with the North West Interconnected System grid and has begun exporting power to customers in the Pilbara.
- No Horizon Power employee Lost Time Injuries for 4 months.

Stakeholder service

- Horizon Power provided responses to 27 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; Asset Investment Program efficiency measures, queries regarding solar energy capacity, carbon price repeal and electricity tariff increases, billing queries, connection and power supply issues, underground power project implementation, information regarding employee travel and consultants reports.



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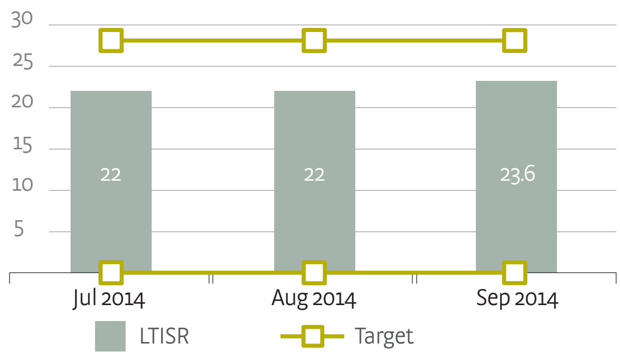
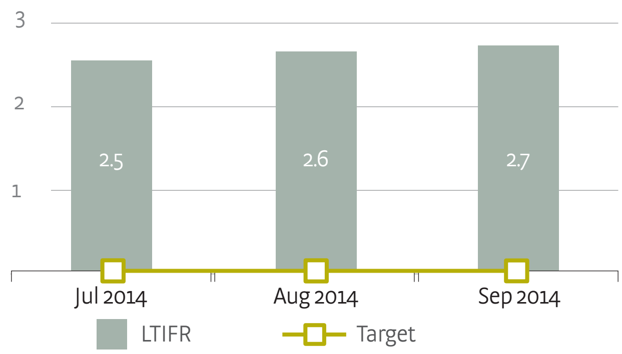
Safety, health and the environment

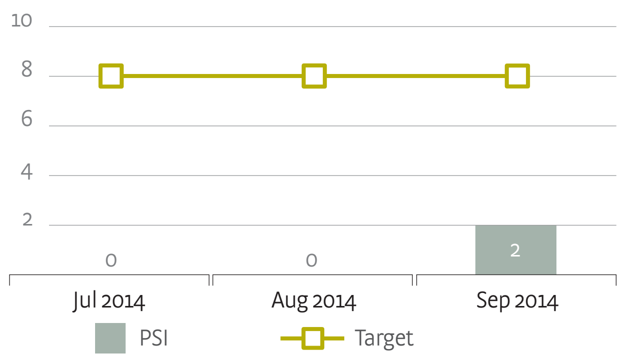
Lost Time Injury Severity Rate *12 month rolling average*



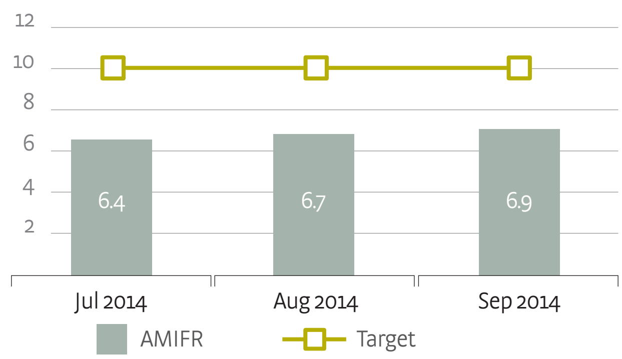
Lost Time Injuries Frequency Rate *12 month rolling average*



Public Safety Incidents



All Medical Injuries Frequency Rate *12 month rolling average*

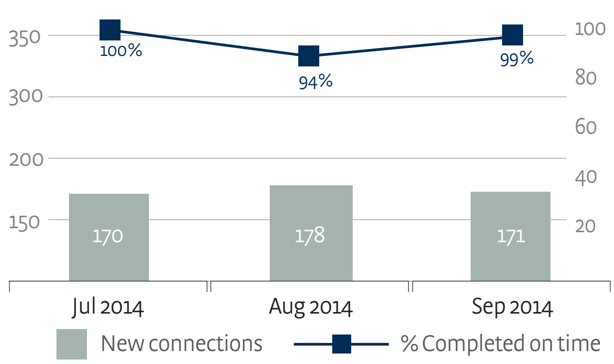


Commentary

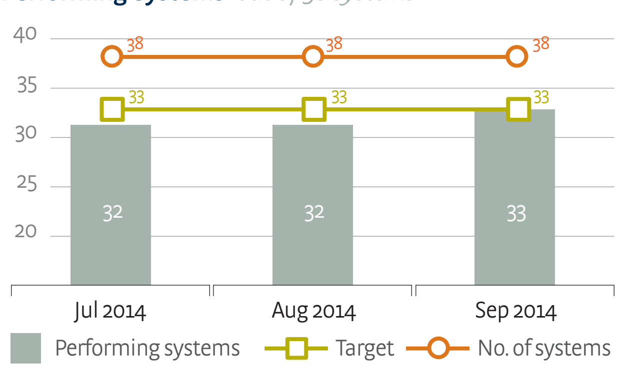
- There were no Horizon Power employee lost time injuries recorded for the period.
- The lost time injury severity rate for the quarter was 22.5 due to lower hours worked as a result of reduced headcount, which directly impacts this rate.
- The Greenhouse Gas Intensity decreased from 0.63 at the end of June 14 to 0.56 CO_2e/kWh, which is well within the targeted level of 0.65.

Customer service and electricity delivery

Customer Connections



Performing Systems *out of 38 systems*



- Customer connections completed on time have remained relatively stable over the period. August % completed on time had a slight drop due to delays in meter supply.

Financial performance - actual versus SDP

The Net Profit After Tax for year to date September 2014 shows a positive variance of +$0.6M broken down as follows:

Profit and Loss Summary (in $millions)

	Year to date September 2014		
	ACT	SDP	VAR
Income	110.5	116.6	-6.1
Fuel and electricity purchases	38.3	44.6	6.3
Operating labour, overheads & materials	30.0	30.1	0.1
EBITDA	**42.2**	**41.9**	**0.3**
Depreciation and amortisation	16.8	17.0	0.3
EBIT	**25.5**	**24.9**	**0.6**
Interest	18.6	19.5	0.9
Income tax	2.5	1.6	-0.9
Net profit after tax	**4.4**	**3.8**	**0.6**

1. **Income**

   A negative variance of -$6.1M in income primarily due to the following:

   (I) Electricity sales recorded a shortfall of -$6.1M (actual $61.9M v budget $68.0M) arising mainly in NIS (-$4.6M, of which
   the Kimberley accounted for half) and mostly driven by lower economic activity than forecast.

   (II) Developer and Customer Contributions reported a negative variance of -$2.5M mainly due to timing in relation to recognition of revenue.

   (III) Unfavourable variance of -$1.1M from CSO mainly attributable to Aboriginal Remote Communities driven by lower kWh than budgeted.

   (IV) Miscellaneous Revenue recorded a favourable variance of $4.1M mainly driven by settlement of a litigation claim ($2.4M), coupled with higher non energy and connection fees.

2. **Fuel and electricity purchases**

   The positive variance of +$6.3M was mainly driven by savings in fixed charges and carbon tax.

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

   The positive variance of $0.1M is mainly due to higher labour costs (-$0.5M) which was offset by savings in operating materials (+$0.5M) and overheads (+$0.1M).

4. **Depreciation and amortisation.**

   The positive variance of +$0.3M is mainly due to timing differences in respect to capitalisation.

5. **Interest and income tax**

   The positive variance of +$0.9M is due to lower debt than budgeted with unfavourable variance in tax (-$0.9M) resulting from higher earnings than budgeted.

Other performance measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents/kWh)	31.7	33.9	The Unit Cost to Supply (cents/kWh) is currently achieving target, mainly due to lower operating expenditure and energy purchases.
Operating unit Costs (cents/kWh)	13.9	13.6	The Unit Operating Costs (cents/kWh) is higher than target, mainly due to lower supply volumes than budgeted.
Return on Assets (%)	7.9% (annualised)	7.0%	Higher return resulting from higher Earnings Before Tax and Interest than budgeted.
Community			
Customer Satisfaction (Annual) (Survey rating %)	82%	70%	Actual % based on survey carried out in June 2014.

Efficiency Dividend Performance

Efficiency Dividend Targeted Areas	FY 2014 Q1 Efficiency Dividend Target	FY 2014 Forecast
Sum Efficiency Dividend	$3.875M	$15.5M

Horizon Power's combined efficiency dividend target for 2014/15 equates to $15.5M consisting of the five per cent efficiency dividend ($7.5M) and the GTE efficiency dividend of $8.0M.

The targeted savings displayed in the above table have been identified and committed in Horizon Power's budget for 2014/15.

Horizon Power is on track to deliver and potentially exceed on these targets for 2014/15.

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