Quarterly Performance Report

For the period October – December 2014

This report has had matters deleted from it under section 109 of the Electricity Corporations Act 2005 (WA)

Performance Overview

This performance report covers the three month period ending 31 December 2014. For statistics prepared on a rolling 12-month basis, data prior to 1 October 2014 is used.

Business Highlights

- The Hedland Precinct Power Station has been fully commissioned and operational since November 2014.
- “Take 5” Risk assessment tool was introduced to Port Hedland and Karratha in November with roll out to the other regions taking place in early 2015.
- System grid and has begun exporting power to customers in the Pilbara.
- No Horizon Power employee Lost Time Injuries for 7 months.

Financial Performance

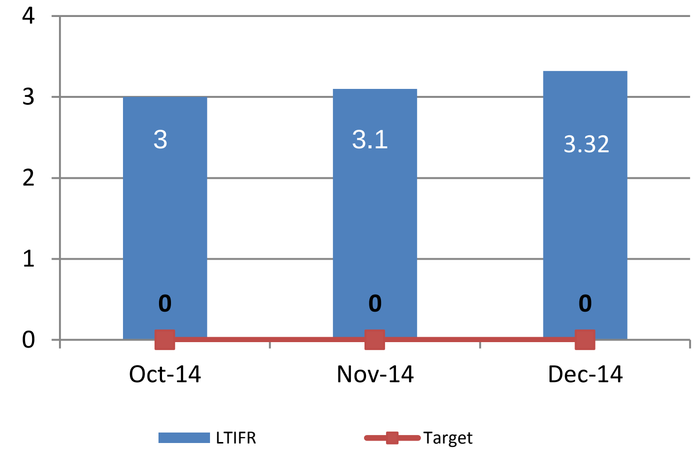
- Horizon Power reported a year to date Net Profit After Tax of $3.5M, compared to budget (State Budget Forecast) of $7.9M. Income recorded a net shortfall of -$18.9M driven mainly by a decrease in electricity sales volumes (-2%) resulting from lower economic activity than forecasted. This shortfall was offset by underspends in energy purchases (+$13.5M). Timing differences in capitalisation resulted in lower depreciation and amortisation (+$0.9M) and interest showed a favourable variance of +$2.4M, due to favourable interest rate on loans than budgeted.
- Capital expenditure to date is $40.1M against a budget of $36.4M. The variance of +$3.7M is mainly driven by delay in the start of the Onslow Network project (-$3.2M) and the Asset Management Programme (-$3.8M), offset by accelerated spend on the Wedgefield third transformer (+$2.9M), HPPP (+$1.8M) and Customer funded works (+$5.8M).
- Total debt of $1Bn (including finance leases) contributed to a gearing ratio of 77%, a slight increase from September 2014 (73%), driven by additional loan drawdowns following the dividend payment of $53M at the end of December.

Stakeholder Service

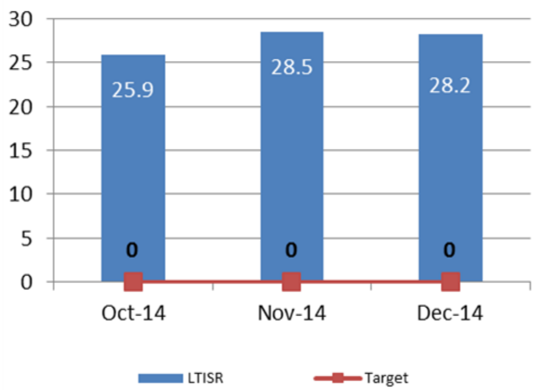
- Horizon Power provided responses to 27 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; Asset Investment Program efficiency measures, queries regarding solar energy capacity, carbon price repeal and electricity tariff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

- There were no Horizon Power employee lost time injuries recorded for the period.
- The lost time injury severity rate for the quarter was 27.5 due to lower hours worked as a result of reduced headcount, which directly impacts this rate.
- The Greenhouse Gas Intensity increased from 0.56 at the end of September 14 to 0.58 CO2e/kWh, which is well within the targeted level of 0.65.

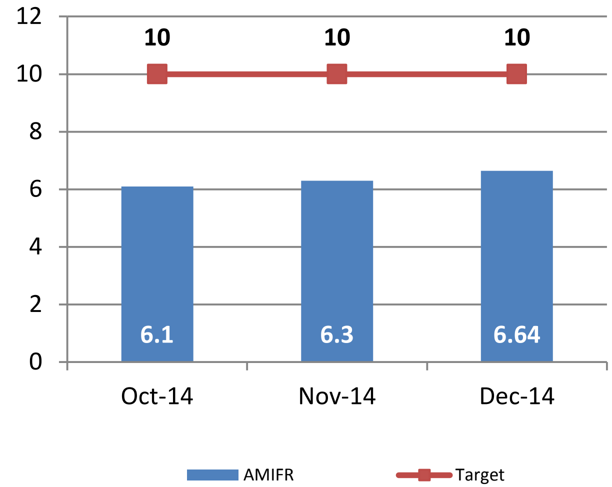
Lost Time Injuries Frequency Rate
(12 month rolling average)



Lost Time Injury Severity Rate
(12 month rolling average)



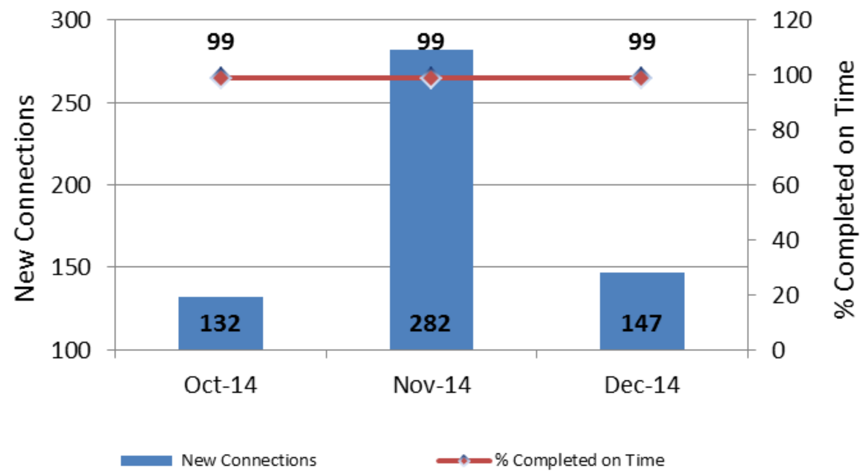
All Medical Injuries Frequency Rate
(12 month rolling average)



CS10: 3631466

Customer Service & Electricity Delivery

Customer Connections



- Customer connections completed on time have remained relatively stable over the period with 99%. New connections increased during the month of November 2014.

Financial Performance – Actual v/s SDP

Profit & Loss Summary (in $M)	FY 2014/15		
	ACTUAL	SDP	VAR
Income	238.7	257.5	-18.9
Fuel and Electricity Purchases	99.6	113.1	13.5
Operating Labour, Overheads & Materials	63.4	59.8	(3.6)
EBITDA	**75.7**	**84.6**	**-8.9**
Depreciation & Amortisation	32.9	33.8	0.9
EBIT	**42.8**	**50.8**	**-8.0**
Interest	37.1	39.5	2.4
Income Tax	2.1	3.4	1.3
Net Profit After Tax	**3.5**	**7.9**	**-4.4**

The Net Profit After Tax for year to date December 2014 shows a negative variance of -8M broken down as follows:-

1. Income

A negative variance of -$18.9M 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 +$13.5M was mainly driven by savings in fixed charges and carbon tax.

3. Operating Labour, Overheads and Materials.

The negative variance of -$3.6M 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 +$0.9M is mainly due to timing differences in respect to capitalisation.

5. Interest and Income Tax

The positive variance of +$2.4M is due to lower debt than budgeted with favourable variance in tax ($1.3M) resulting from higher earnings than budgeted.

Financial Performance – Actual v/s MYR

Profit & Loss Summary (in $M)	FY 2014/15		
	ACTUAL	MYR	VAR
Income	238.7	241.5	-2.8
Fuel and Electricity Purchases	99.6	106.2	6.6
Operating Labour, Overheads & Materials	63.4	70.3	6.8
EBITDA	**75.7**	**65.0**	**10.6**
Depreciation & Amortisation	32.9	30.3	(2.6)
EBIT	**42.8**	**34.8**	**8.0**
Interest	37.1	37.8	0.7
Income Tax	2.1	-0.9	-3.0
Net Profit After Tax	**3.5**	**-2.1**	**5.7**

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

1. Income

A negative variance of -$2.8M in income primarily due to the following:

(I) Electricity sales recorded a shortfall of -$4.3M (actual $140M v budget $144.3M) arising mainly in NIS (-$2.7M, of which Gascoyne M/W accounted for -$1.8) and mostly driven by lower economic activity than forecast.

(II) Developer and Customer Contributions reported a negative variance of -$3.9M 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)	32.26	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 (%)	7.04% (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