HORIZON POWER
energy for life

Quarterly Performance Report

For the period January – March 2015

Performance overview

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

Financial performance

- Horizon Power reported a year to date Net Profit After Tax of $32.7M, compared to budget (State Budget Forecast) of $24.5M. Income recorded a net shortfall of -$13.5M driven mainly by lower discreet load revenue than forecast. This shortfall was offset by underspends in energy purchases (+$24.1M) driven by savings in fixed charges (+$13.6M) and carbon tax (+$13.4M). The capitalisation of PUPP Phase 1, along with Wedgefield Third Transformer, resulted in higher depreciation and amortisation (-$1.7M). Interest showed a favourable variance of +$3.6M due to favourable interest rate on loans than budgeted, with income tax unfavourable by -$2.0M resulting from a higher net profit compared to budget.
- Capital expenditure to date is $56.6M against a budget of $80.6M. The variance of -$24M is driven by a combination of the Hedland Power Precinct Project (-$11.4M), the Asset Management Programme (-$8.9M) and the MidWest Conventional Generation (-$2.4M), offset by Customer funded works (+$5.7M). Following retimes done in March, $12M has been retimed for the Hedland Power Precinct Project.
- Total debt of $1.1Bn (including finance leases) contributed to a gearing ratio of 75%, a slight decrease from December 2014 (77%), driven by lower long term debt and an improved equity position following a profitable quarter.

Business highlights

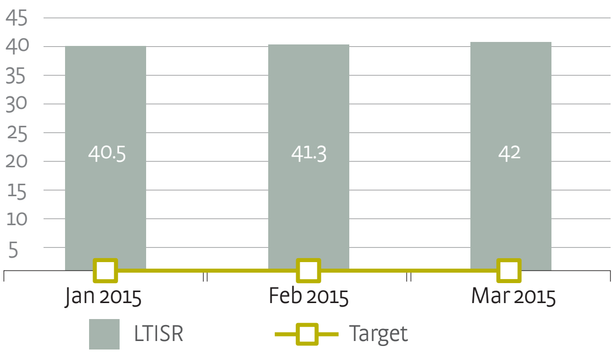
- Commendation from the Economic Regulation Authority for effective management of Horizon Power assets and continued delivery of the required levels of service to our customers.
- Deployment schedule finalised for the Advanced Meter roll out. Works to install the new communication network to support these meters will commence in April.
- Relocation of Horizon Power Control Centre from Karratha to Bentley with construction of the new centre underway.
- “Take 5” Risk assessment tool finalised in March. In addition, the inaugural meeting of the Umbrella Safety and Health Committee also occurred in March.

Stakeholder service

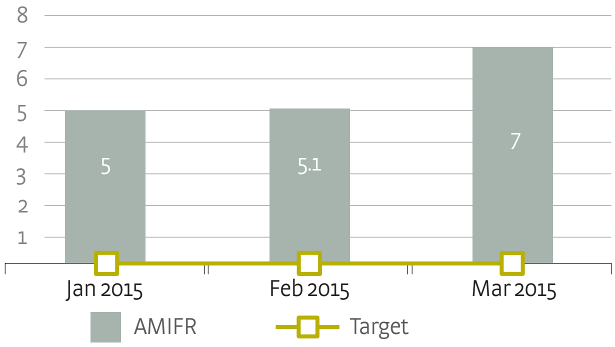
- Horizon Power provided responses to 9 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; Asset Investment Program (AIP) efficiency update, 2015/16 budget process, budget paper 2 speech notes, queries regarding solar energy capacity, connection and power supply issues, tariff / cost of power enquiries, quarterly performance report, information regarding employee travel and consultants reports.

Safety, health and the environment

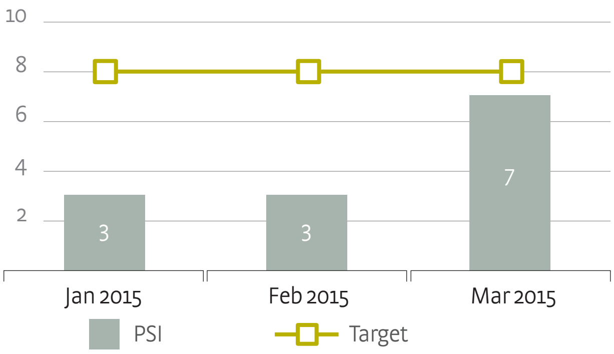
Lost Time Injury Severity Rate *12 month rolling average*



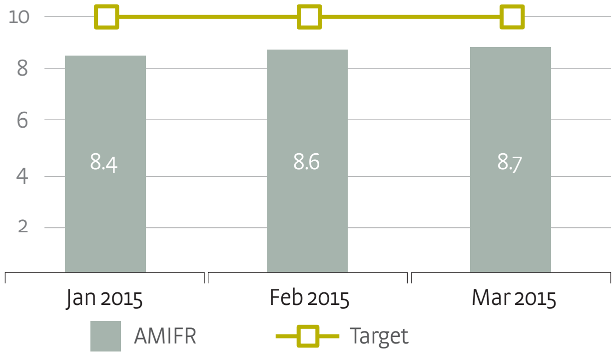
Lost Time Injuries Frequency Rate *12 month rolling average*



Public Safety Incidents



All Medical Injuries Frequency Rate *12 month rolling average*

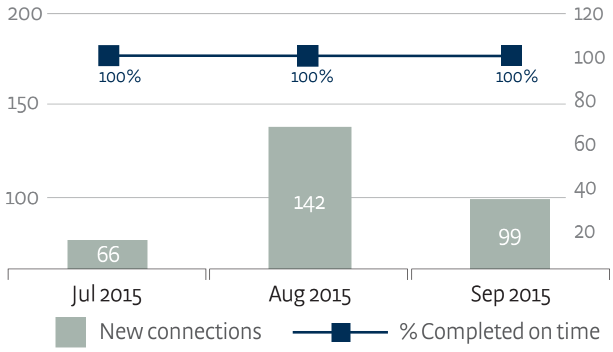


Commentary

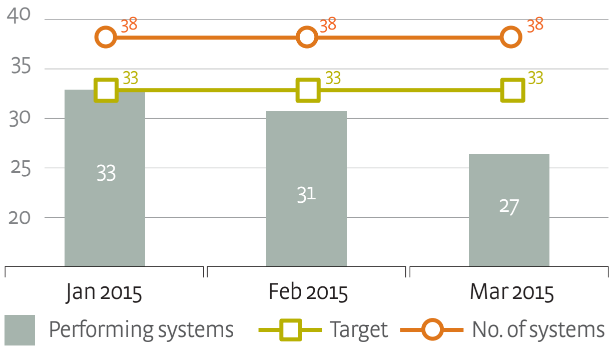
- There was 1 Horizon Power employee lost time injury recorded for the period, increasing the rate to 7.0 in March 2015
- The lost time injury severity rate for the quarter was 41.3 compared to 27.5 for December 2014 due to lower hours worked as a result of reduced headcount and 1 lost time injury resulting in considerable time away from duties
- The Greenhouse Gas Intensity decreased from 0.58 at the end of December 14 to 0.57 CO2e/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 consistent over the period with 100%. New connections spiked during February 2015 with 142.

Financial performance - actual versus SDP

The Net Profit After Tax for year to date March 2015 shows a positive variance of +$8.2M broken down as follows:

Profit and Loss Summary (in $millions)

	FY 2014/15		
	ACT	SDP	VAR
Income	395.5	409.0	(13.5)
Fuel and electricity purchases	149.4	173.5	24.1
Operating labour, overheads & materials	91.8	89.4	(2.4)
EBITDA	**154.3**	**146.1**	**8.2**
Depreciation and amortisation	53.3	51.7	(1.7)
EBIT	**101.0**	**94.4**	**6.6**
Interest	55.8	59.4	3.6
Income tax	12.5	10.5	(2.0)
Net profit after tax	**32.7**	**24.5**	**8.2**

1. **Income**

   A negative variance of -$13.5M in income primarily due to the following:

   (I) Electricity sales recorded a shortfall of -$31.8M (actual $225.3M v budget $257.1M) arising mainly in the NWIS driven by lower demand than forecast.

   (II) Developer and Customer Contributions reported a positive variance of +$19.4M driven from the recognition of PUPP in February for $12.9M and Wedgefield Substation for $5.2M.

   (III) Unfavourable variance of -$7.7M from Customer Service Obligations (CSO) mainly attributable to Aboriginal Remote Communities (-$5.0M), driven by lower kWh than budgeted.

   (IV) Miscellaneous Revenue recorded a favourable variance of $6.6M mainly driven by settlement of a litigation claim ($2.4M), coupled with higher gas revenue and connection fees.

2. **Fuel and electricity purchases**

   The positive variance of +$24.1M was mainly driven by savings in fixed charges (+$13.6M) and carbon tax (+$13.4M).

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

   The negative variance of -$2.4M is mainly due to higher overheads (-$1.5M) and labour costs (-$1.7M) which was offset by savings in operating materials (+$0.8M).

4. **Depreciation and amortisation.**

   The negative variance of -$1.7M is mainly due to recent capitalisations of PUPP Phase 1 and Wedgefield Third Transformer.

5. **Interest and income tax**

   The positive variance of +$3.6M in interest is due to lower debt than budgeted and unfavourable variance in tax (-$2.0M) is resulting from higher earnings than budgeted.

Financial performance - actual versus MYR

The Net Profit After Tax for year to date March 2015 shows a positive variance of +$22.1M broken down as follows:

Profit and Loss Summary (in $millions)

	FY 2014/15		
	ACT	MYR	VAR
Income	395.5	382.4	13.2
Fuel and electricity purchases	149.4	160.6	11.2
Operating labour, overheads & materials	91.8	102.0	10.2
EBITDA	**154.3**	**119.8**	**34.6**
Depreciation and amortisation	53.3	48.0	(5.4)
EBIT	**101.0**	**71.8**	**29.2**
Interest	55.8	56.7	0.9
Income tax	12.5	4.5	(8.1)
Net profit after tax	**32.7**	**10.6**	**22.1**

1. **Income**

   A positive variance of +$13.2M in income primarily due to the following:

   (I) Electricity sales recorded a shortfall of -$9.1M (actual $225.3M v budget $234.4M) arising mainly in NWIS mainly driven by expected discreet loads not coming on line in the forecasted time frames coupled with economic slowdown and high vacancy rates.

   (II) Developer and Customer Contributions reported a positive variance of +$17.9M driven mainly by the recognition of PUPP Karratha Phase One for $12.9M.

   (III) Unfavourable variance of -$1.9M from CSO mainly attributable to Aboriginal Remote Communities (-$1.5M), driven by lower kWh than budgeted.

   (IV) Miscellaneous Revenue recorded a favourable variance of $6.3M mainly driven by settlement of a litigation claim ($2.4M), coupled with higher gas revenue and connection fees.

2. **Fuel and electricity purchases**

   The positive variance of +$11.2M was mainly driven by savings in fixed charges and variable costs from lower sales volumes.

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

   Favourable variance of +$10.2M, mainly driven by lower operating labour +$2.9M (+$2.1M - lower redundancy costs) and lower consultant spend (+$6.0M).

4. **Depreciation and amortisation.**

   Unfavourable variance of -$5.4M is mainly due to recent capitalisations of PUPP Phase 1 and Wedgefield Third Transformer.

5. **Interest and income tax**

   The positive variance of +$0.9M in interest is due to slightly lower debt than budgeted and unfavourable variance in tax (-$8.1M) is resulting from higher earnings than budgeted.

Other performance measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents/kWh)	29.8	30.7	The Unit Cost to Supply (cents/kWh) is currently achieving target, mainly driven by lower energy purchases.
Return on Assets (%)	7.8% (annualised)	7.0%	Higher return resulting from slightly higher Earnings Before Tax and Interest than budgeted, coupled with a slight reduction in surplus cash assets.
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 2015 Q3 Efficiency Dividend Target	FY 2015 Forecast
Sum Efficiency Dividend	$11.65M	$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