Quarterly Performance Report

For the period October – December 2017

Performance overview

This performance report covers the three month period ending 30 December 2017. For statistics prepared on a rolling 12-month basis, data prior to 1 January 2017 are used.

Business Highlights

- In December 2017, Horizon Power officially launched *MyPower* - an innovative new pricing plan to customers in two of its biggest towns – Broome and Port Hedland. The plans provide a simple new way of charging for electricity and make use of the free Horizon Power app that provides real-time information to customers giving them more choice and control over their power bills and the ability to save money.
- The Power Ahead research pilot (the precursor to *MyPower*) has earned Horizon Power the Best Customer Engagement Project award from the Australian Utility Innovators Awards, which celebrate successful innovators for their contribution to a sustainable utility sector.
- December 2017 also saw the launch of cutting-edge *Smart Sun* pilot to Broome Customers, which involves the installation of household energy packages to help customers reduce their power bills and have greater control over their energy usage. The pilot is a joint venture between Horizon Power and LandCorp.
- Horizon Power in-house legal team has been named among the 100 most influential and innovative across Australia and New Zealand by The Legal 500 Powerlist for Teams.
- Horizon Power named as one of Australia's top three most innovative electricity companies in *Deloitte's Innovation in Electricity Networks report for Energy Network Australia*. We also secured a place in the *Australian Financial Review's 50 Most innovative Companies* in 2017 for The Fault Call Analyser, an inventive piece of technology developed internally to remotely detect and investigate issues with power supply.
- Horizon Power's Remote Community Utilities Worker program was recognised at the *AIM WA WestBusiness* Pinnacle Awards, for demonstrating leadership and commitment to excellence in human resource management.

Financial Performance

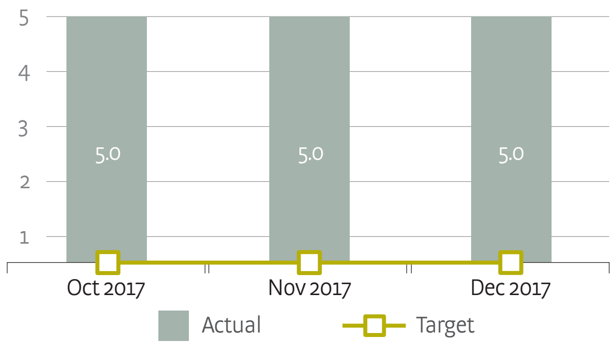
- Horizon Power reported a year to date Net Profit After Tax (NPAT) of $31.8M resulting in a favourable variance of +$9.2M compared to the budgeted (State Budget Forecast) profit of $22.6M. The favourable variance was primarily driven by higher Miscellaneous Revenue (+$5.6M), including liquidated damages from TransAlta for delays in the commissioning of the South Hedland Power Station, higher customer and developer contributions (+$6.1M), lower operating costs (+$2.2M) and interest savings ($+0.5M). These favourable variances were offset by lower electricity sales (-$2.0M) and community service obligation (-$1.3M), higher depreciation (-$0.9M) and income tax (-$1.8M).
- Compared to the Mid Year Review budget, the actual NPAT recorded a favourable variance of +$15.7M. The main drivers behind the favourable variance were higher electricity sales (+$6.3M) and customer and developer contributions (+$6.1M) and miscellaneous revenue (+$3.7M) and operating costs (+$5.3M) - offset by higher depreciation (-$0.7M) and higher tax (-$4.5M) and community service obligation (-$1.3M).
- Year to date capital expenditure amounted to $65.9M against a budget of $101.6M. The variance of -$35.3M is predominantly due to timing differences on the Onslow Distribution Energy Resource project (-$19.4M), Pilbara Power Project (-$5.1M) and NWIS Energy Asset Management Plan (-$5.2M). At this stage, it is expected that these projects will be on schedule by the end of the year.

Stakeholder service

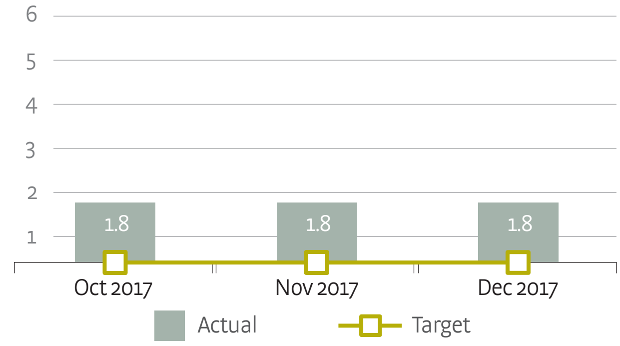
- During the quarter, Horizon Power provided responses to 10 Ministerials or requests for further information from the Minister or Public Utilities Office.

Safety, health and the environment

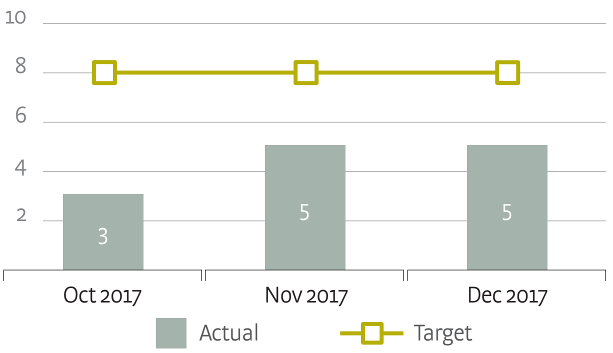
Lost Time Injury Severity Rate *12 month rolling average*



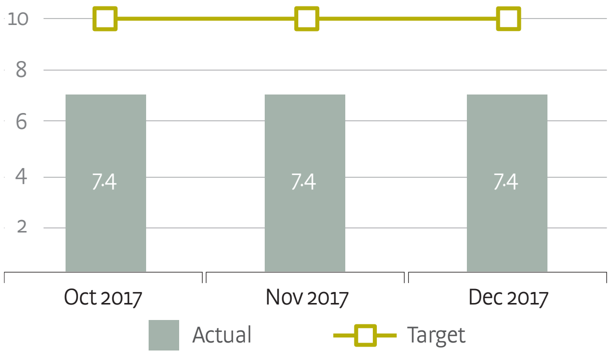
Lost Time Injuries Frequency Rate *12 month rolling average*



Public Safety Incidents *financial year to date*



Total Recordable Injury Frequency Rate *12 month rolling average*

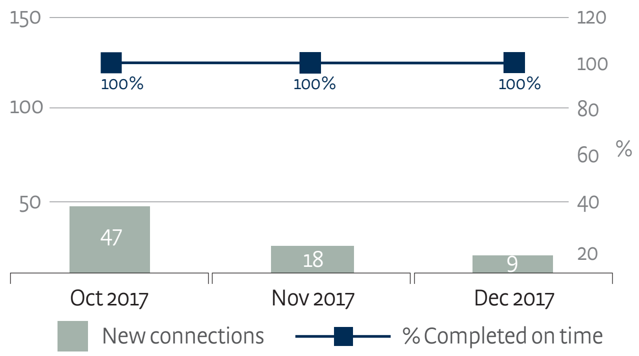


- Both the Lost Time Injury Rates and the Total Recordable Injury Frequency Rate were stable over the quarter at 1.8 and 7.4 respectively. There has been no Employee Lost Time Injury for 8 months.
- The lost time severity rate for the quarter was 5.0 remaining stable from the previous quarter.
- There were four Public Safety Incidents over the quarter ended on 31 December 2017. The new incidents relate to two vegetation fires and to two unsafe connections issues.
- There was no reportable fuel spill during the quarter.
- The Unassisted Pole Failure rate* was 1.09 at the end of December 2017 compared to a target of 1.00

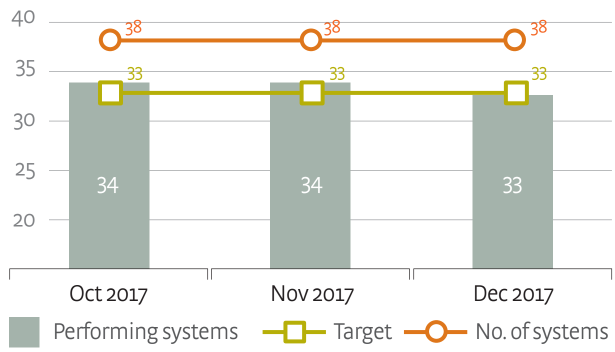
** based on a 3 year rolling average per 10,000 poles*

Customer service and electricity delivery

Customer Connections



Performing Systems



- 100% of new customer connections were completed on time.
- There were 74 new connections during the quarter.

Financial performance - actual versus SBF

Net Profit After Tax for year to date December 2017 was higher than the State Budget Forecast, with variances broken down as follows:

Profit and Loss Summary (in $millions)

	Period Ended Dec 2017		
	ACTUAL	SBF	VAR
Income	281.7	273.3	8.4
Cost of Goods Sold	107.3	108.1	0.8
Operating Labour, Overheads & Materials	54.5	56.7	2.2
EBITDA	**119.9**	**108.5**	**11.4**
Depreciation and amortisation	44.1	43.2	-0.9
EBIT	**75.8**	**65.3**	**10.5**
Interest	32.6	33.1	0.5
Income tax	11.4	9.6	-1.8
Net profit after tax	**31.8**	**22.6**	**9.2**

1. Income

A favourable variance of +$8.4M in income primarily due to the following:

(I) Miscellaneous revenue recorded a positive variance of +$5.6M mainly due to unbudgeted liquidated damages of $5.3M for delayed commissioning of the South Hedland Power Station.

(II) Customer and developer contributions were higher by +$6.1M due to timing differences in revenue recognition as higher number of projects were completed earlier than budgeted.

(III) Electricity sales were slightly lower than SBF by -$2.0M.

(IV) Community Service Obligation was lower by -$1.3M mainly due to lower Tariff Adjustment Payment.

2. Cost of Goods Sold

A favourable variance of +$0.8M was mainly driven by lower Generation O&M costs.

3. Operating Labour, Overheads and Materials

Operating expenditure is tracking under budget due to savings across various items of operating expenses.

4. Depreciation

Negative variance in Depreciation is mainly due to timing difference between actual and budgeted capitalisation profile.

5. Interest and income tax

The positive variance of +$0.5M in interest is due to earlier repayment of debts than budgeted out of proceeds from TransAlta. The unfavourable variance in tax (-$1.8M) is the result of higher profit than budgeted.

Financial performance - actual versus MYR

Net Profit After Tax for year to date December 2017 was higher than the Mid Year Review, with variances broken down as follows:

Profit and Loss Summary (in $millions)

	Period Ended December 2017		
	ACT	MYR	VAR
Income	281.7	266.9	14.8
Cost of Goods Sold	107.3	107.8	0.5
Operating labour, overheads & materials	54.5	59.8	5.3
EBITDA	**119.9**	**99.3**	**20.6**
Depreciation and amortisation	44.1	43.4	-0.7
EBIT	**75.8**	**55.9**	**19.9**
Interest	32.6	32.9	0.3
Income tax	11.4	6.9	-4.5
Net profit after tax	**31.8**	**16.1**	**15.7**

1. **Income**

A favourable variance of +$14.8M in income primarily due to the following:

(I) Electricity sales recorded a positive variance of +$6.3M (actual $137.4M v budget $130.9M) mainly due to higher sales from FMG (+$3.7M) and customers in Broome and Kununurra ($1.9M).

(II) Customer and developer contributions were higher by +$6.1M due to timing differences in revenue recognition as higher number of projects were closed earlier than budgeted.

(III) Miscellaneous revenue recorded a positive variance of +$3.7M mainly due to unbudgeted liquidated damages of $5.3M for delayed commissioning of the South Hedland Power Station, offset by lower network revenue.

(IV) Community Service Obligation was lower by -$1.3M mainly due to lower Tariff Adjustment Payment.

2. **Cost of Goods Sold**

A favourable variance of +$0.5M was mainly driven by lower Generation O&M costs.

3. **Operating Labour, Overheads and Materials**

Operating expenditure is tracking under budget due to savings across various items of operating expenses.

4. **Depreciation**

Negative variance in Depreciation is mainly due to timing difference between actual and the MYR capitalisation profile.

5. **Interest and income tax**

The positive variance of +$0.3M in interest is due to earlier repayment of debts than budgeted out of proceeds from TransAlta. The unfavourable variance in tax (-$4.5M) is the result of higher profit than budgeted.

Other performance measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents / kWh)*	36.9	32.7	Whilst the actual YTD cents/KWh is higher than the annual target, this aligns to expectations due to seasonality in sales volume. The actual is lower than the YTD budgeted cents/KWh of 37.8 by 0.9 and is due to lower operating costs and cost of goods sold.
Return on Assets (%)**	13.8%	12.3%	Higher Return on Asset due to higher Earnings Before Interest and Tax than budgeted.
Community			
Customer Satisfaction (Annual) (Survey rating %)	77%	≥70%	Customer satisfaction based on the Annual Survey of June 2017. An increase of 4% from 2016.

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

** *Return on Asset = Annualised EBIT / Average Total Assets for the period.*