HORIZON POWER

Quarterly Performance Report

For the period October – December 2013

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 2013. For statistics prepared on a rolling 12-month basis, data prior to 1 July 2013 is used.

Business Highlights

- First firing of the first of the four South Hedland generators
- Horizon Power has undertaken the first round of employee retrenchment following its strategic review. At the end of December 82 employees left the organisation with further redundancies scheduled for March and June.
- The South Hedland and Wedgefield components of the Pilbara Underground Power Project (PUPP) were completed on 17 December. A total of 1,531 residential and business customers are now connected to the new underground network.
- No Horizon Power employee Lost Time Injuries for 24 months.
- Zero reportable spills.

Financial Performance

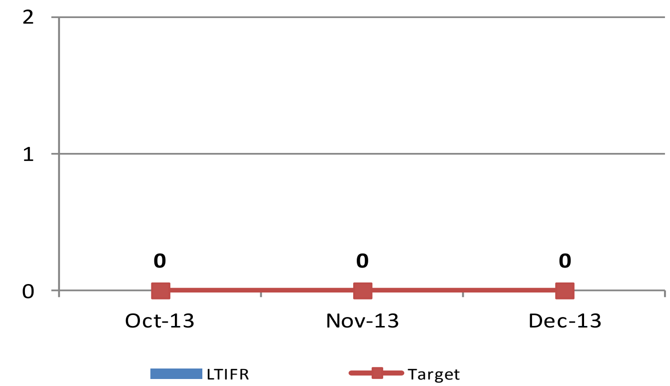
- Horizon Power reported a year to date Net Profit After Tax of $24.0M, compared to budget (State Budget Forecast) of $11.1M. Income recorded a net shortfall of -$8.4M driven mainly by a decrease in electricity sales volume resulting from lower economic activity than forecasted. This shortfall was offset by similar volume driven underspends in energy purchases (+$15.5M). Labour, Materials and Overheads recorded a net overspend of -$2.7M, made up of redundancy costs of -$6.9M, higher operating materials and overheads of -$2.6M, which were offset by a positive variance of +$6.8M on recharges to capex. Timing differences in capitalisation resulted in lower depreciation and amortisation (+$6.9M) and interest showed a favourable variance of +$7.1M, due to more favourable interest rate on loans than budgeted.
- Capital expenditure to date is $104.5M against a budget of $150.4M. The variance of -$45.9M is mainly attributable to Hedland Power Precinct Project (-$20.8 due to delays caused by force majeure events, including tropical cyclone Christine), PUPP (-$9.8) and Asset Management Plan (-$7.3M). Actual capex is forecast to draw level with budget in the second half of the year.
- Total debt of $1.1Bn (including finance leases) contributed to a gearing ratio of 77%, slightly higher compared to September 2013 (75%).

Stakeholder Service

- Horizon Power provided responses to 22 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included Amendments to the Land Administration Act 1997 and Interfacing Acts, Solar Panels in Carnarvon, Electricity Metering/Billing and Growing Customer Debt , Royalties for Regions in Gascoyne Junction, Tariff Equalisation Contribution Review and the State Budget Forecast.

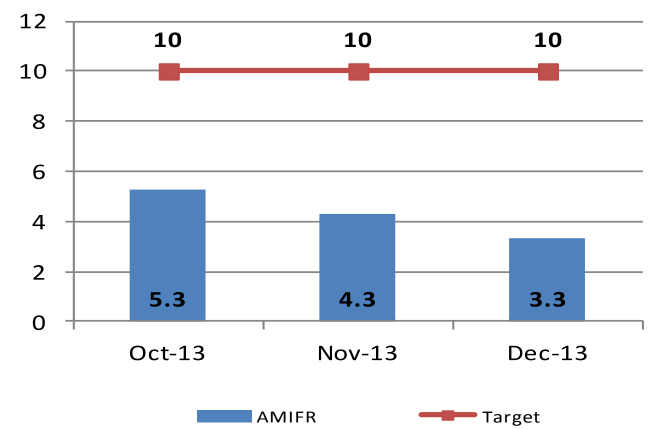
Safety, Health & Environment

Lost Time Injuries Frequency Rate
(12 month rolling average)



- There were no Horizon Power employee lost time injuries recorded for the period.

All Medical Injuries Frequency Rate
(12 month rolling average)

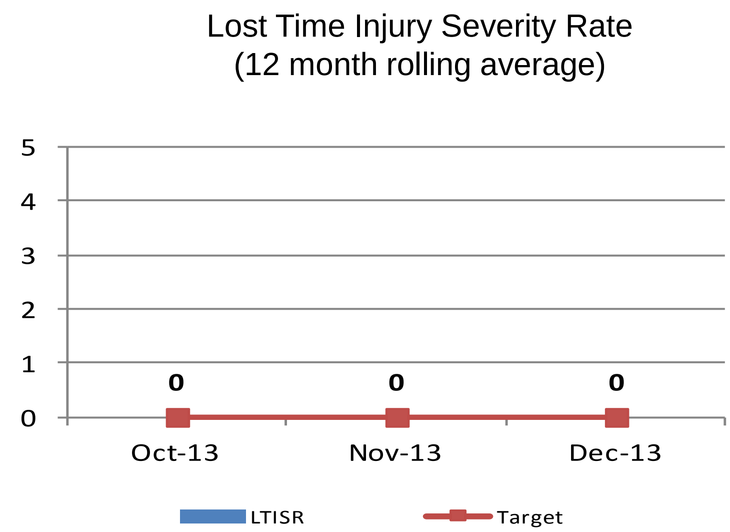


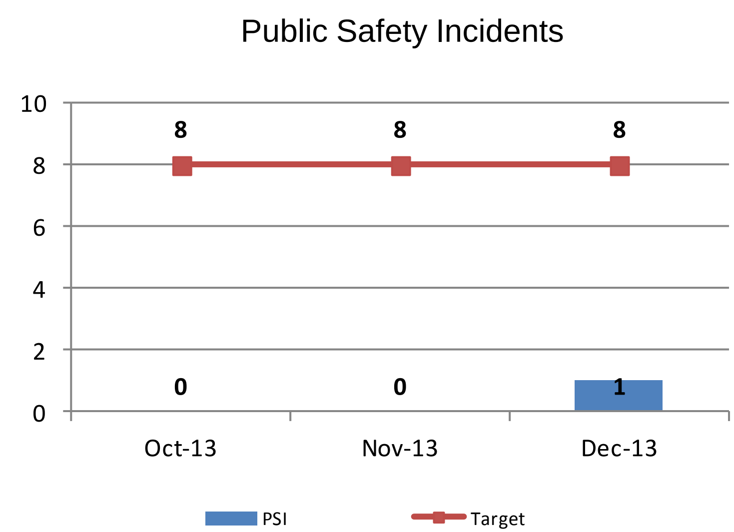
Safety, Health & Environment

- There was no Horizon Power employee lost time injury severity rate recorded for the period.

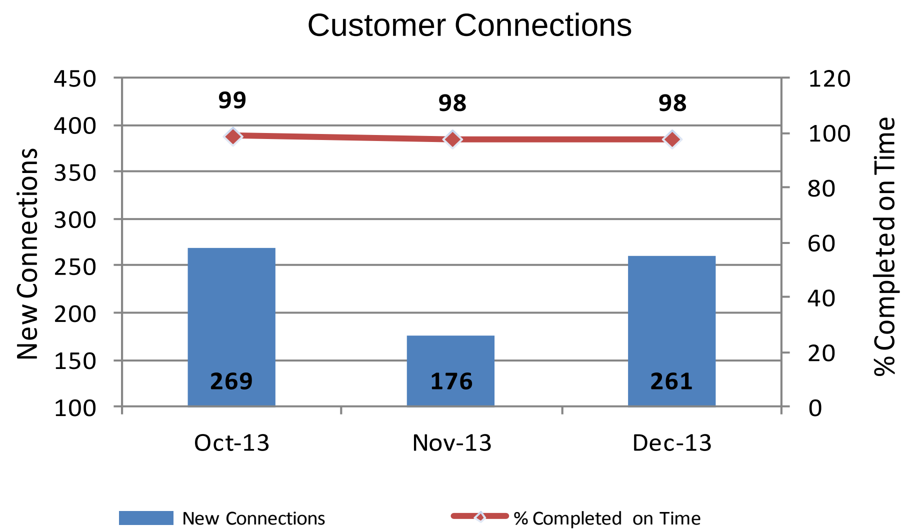
- There was 1 public safety incident for the quarter.

- The Greenhouse Gas Intensity is unchanged from the previous quarter. It is currently 0.54 CO_2e/kWh which is within the targeted level of 0.65.

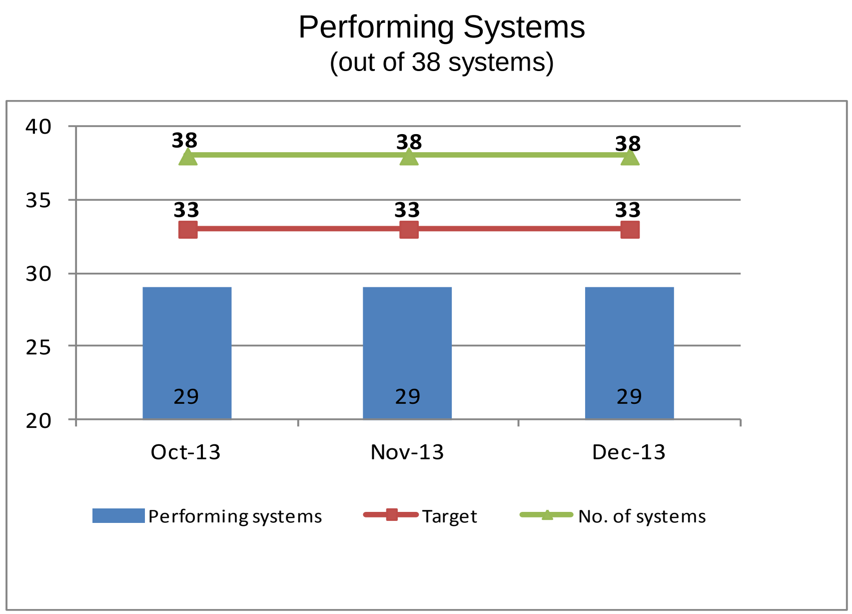




Customer Service & Electricity Delivery



- Customer connections completed on time have remained stable over the period.



Financial Performance – Actual v/s SDP

Profit & Loss Summary (in $M)

	YTD December 2013		
	ACTUAL	SDP	VAR
Income	274.9	283.3	-8.4
Fuel and Electricity Purchases	91.9	107.4	15.5
Operating Labour, Overheads & Materials	80.6	77.9	-2.7
EBITDA	**102.4**	**98.0**	**4.4**
Depreciation & Amortisation	30.7	37.6	6.9
EBIT	**71.7**	**60.4**	**11.3**
Interest	37.4	44.5	7.1
Income Tax	10.3	4.8	-5.5
Net Profit After Tax	**24.0**	**11.1**	**12.9**

The Net Profit After Tax for year to date December 2013 shows a positive variance of +$12.9M broken down as follows:-

1. Income
A negative variance of -$8.4M in income primarily due to the following:

(I) Electricity sales recorded a shortfall of -$13.5M (actual $128.8M v budget $142.3M) arising mainly in NWIS ($-8.0M) and the Kimberley (-$3.1M) and driven by lower economic activity than forecast.

(II) Developer and Customer Contributions reported a positive variance of $6.6M mainly due to unbudgeted gifted assets from Gap Ridge and Bayulu.

(III) Unfavourable variance of -$6.1M from CSO and TEF is due to (i) an adjustment of -$2.9M for over-accrued CSO last year, (ii) lower CSO of -$1.0M attributable to lower year to date volume and (iii) lower TEF of -$2.2M.

(IV) Miscellaneous Revenue recorded a favourable variance of $4.6M mainly relating to unbudgeted revenue from works undertaken for Osprey Workers Village ($1.7M) and higher non energy and connection fees.

2. Fuel and Electricity Purchases
The positive variance of +$15.5M was mainly driven by lower volumes.

3. Operating Labour, Overheads and Materials.
The negative variance of -$2.7M is mainly due to higher labour costs (-$6.8M i.e. redundancy costs) and operating materials and overheads (-$2.7M – driven mainly by consultancy from strategic review), which were offset by higher recharge to capex (+$6.8M).

4. Depreciation and Amortisation.
The positive variance of +$6.9M is mainly due to timing differences and budget assumptions in respect of the capitalisation of some projects (e.g. Aboriginal Remote Communities and Town Reserves and Regularisation Phase III). The MYR has been adjusted to reflect the impact of retimes and carryovers on capitalisation.

5. Interest.
The positive variance of +$7.1M is due to lower interest rate than budgeted (SDP). The budgeted interest rate was revised in the Mid-Year Review.

Financial Performance – Actual v/s MYR

Profit & Loss Summary (in $M)

	YTD December 2013		
	ACTUAL	MYR	VAR
Income	274.9	298.1	-23.2
Fuel and Electricity Purchases	91.9	102.3	10.4
Operating Labour, Overheads & Materials	80.6	77.9	-2.7
EBITDA	**102.4**	**117.9**	**-15.5**
Depreciation & Amortisation	30.7	31.7	1.0
EBIT	**71.7**	**86.2**	**-14.5**
Interest	37.4	38.1	0.7
Income Tax	10.3	14.4	4.1
Net Profit After Tax	**24.0**	**33.7**	**-9.7**

The Net Profit After Tax for year to date December 2013 shows a negative variance of $9.7M broken down as follows:-

1. Income
A negative variance of -$23.2M in income primarily due to the following:

(I) Electricity sales recorded a shortfall of -$12.9M (actual $128.8M v budget $141.7M) broken down into NWIS (-$8.0M) and NIS (-$4.9M) and driven by lower economic activity than forecasted.

(II) Developer and Customer Contributions reported a negative variance of -$13.1M mainly due to timing differences in relation to contributions for PUPP project which is expected to be realised in the second half of the year.

(III) Unfavourable variance of -$2.5M from CSO due mainly to adjustment for revenue over-accrued last year.

(IV) Miscellaneous Revenue recorded a favourable variance of +$5.3M mainly relating to unbudgeted revenue from works undertaken for Osprey Workers Village ($1.7M) and higher non energy and connection fees.

2. Fuel and Electricity Purchases
The positive variance of +$10.4M was mainly driven by lower volumes.

3. Operating Labour, Overheads and Materials.
The negative variance of -$2.7M is mainly due to higher labour costs (-$6.8M i.e. redundancy costs) and operating materials and overheads (-$2.7M – driven mainly by consultancy from strategic review), which were offset by higher recharge to capex (+$6.8M).

4. Depreciation and Amortisation.
The positive variance of +$1.0M is mainly due to timing variances in capitalisation compared to the budget profile.

5. Interest.
Interest recorded a relatively small positive variance of +$0.7M compared to the MYR.

Other Performance Measures

KPIs	Actual	Target	Commentary
Business Value			
Unit Cost to Supply (cents / kWh)	37.0	33.9	The Unit Cost to Supply (cents/kWh) due mainly to the impact of fixed costs on lower volume supplied.
Operating unit Costs (cents / kWh)	17.3	14.2	The Unit Operating Costs (cents/kWh) is higher than target due mainly to the impact of fixed costs on lower volume supplied.
Return on Assets (%)	9.32% (annualised)	7.60%	Higher return resulting from higher Earnings Before Tax and Interest than budgeted.
Community			
Customer Satisfaction (Annual) (Survey rating %)	76%	70%	Actual % based on survey carried out in May 2013.
Regularised Communities			
Number of Remote and Indigenous Communities regularised.	3	4	The three regularised communities are Looma, Mowanjum and Bayulu.

Efficiency Dividend Performance

Efficiency Dividend Targeted Areas	FY 2014 Efficiency Dividend target	FY 2014 Forecast
Materials, Service, Fleet and Property	6.9	11.5
Advertising	1.3	1.3
Consultants	1.3	0.0
Contractors	3.3	0.0
Sum Efficiency Dividend	**12.8**	**12.8**

Horizon Power's combined efficiency dividend target for 2013/14 equates to $12.8M consisting of the five per cent efficiency dividend ($7.2M) and the GTE efficiency dividend of $5.6M.

The targeted savings displayed in the above table have been identified and committed in Horizon Power's budget for 2013/14.

Horizon Power is on track to deliver on these targets for 2013/14 and additional savings identified through its strategic review process. The breakup of the costs savings has altered mainly due to the following reasons:

- Savings on materials is higher due to contractors consuming their own resources and booking the cost to contractors. This explains part of the increase in materials and the reduction in contractors; and
- Following on from the Strategic Review work that Horizon Power has recently undertaken, there has been an increase in consulting spend offset but decreases in a number of other areas. As far as the efficiency target is concerned this has been moved to Materials.

Horizon Power will meet the efficiency dividend target for FY 2014 and is expected to exceed it following work around the strategic review.