

# Quarterly Performance Report

*For the period October – December 2016*

## Performance overview

This performance report covers the three month period ending 31 December 2016. For statistics prepared on a rolling 12-month basis, data prior to 1 January 2016 is used.

### Business Highlights

- The Advance Meter Infrastructure project was awarded with the Best Value AMI Project Award at the Australian Utility Innovators Awards.
- The Pilbara Underground Power Project is tracking three months ahead on current works schedule and expected to deliver savings by the end of financial year 2018. The Shire of Ashburton officially endorsed the delivery of works in Onslow.
- Horizon Power & ASU Salaried Employees Enterprise Agreement 2017 was approved by a majority of 86% of employees
- Downer EDI was awarded the contract to construct a new modular power station for Onslow.

### Financial Performance

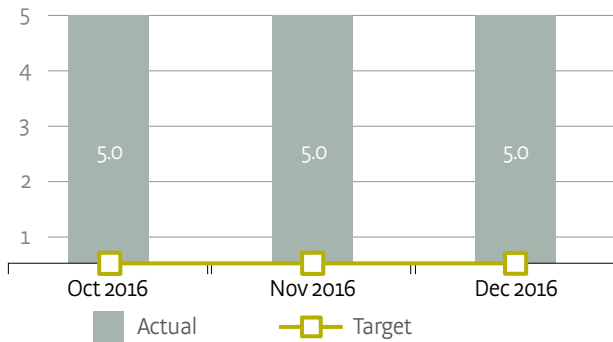
- Horizon Power reported a year to date Net Profit After Tax (NPAT) of \$19.1M resulting in a favourable variance of +\$13.6M compared to the budgeted (State Budget Forecast) profit of \$5.5M. The favourable variance was mainly driven by lower energy purchases (+\$11.8) - mainly from lower gas purchase prices, lower depreciation (+\$3.2M), lower interest costs (+\$2.3M), lower operating expenses (+\$1.1M) and higher total income (+\$1.0M). This favourable variance was offset by a higher tax expenses (-\$5.8M).
- Compared to the Mid Year Review budget, the actual NPAT recorded a favourable variance of +\$5.3M. The main drivers behind the favourable variance are lower cost of goods sold (+\$6.6M) - resulting mainly from lower prices for gas purchases - and lower operating expenses (+\$3.4M), offset by lower income (-\$3.0M) and higher tax (-\$2.3M).
- The Strategic Review Subsidy reduction delivered as at December 2016 is \$91.7M which is 92% of the \$100M target. Work continues on the project to deliver the remaining savings. Key successes include the Advanced Meter Infrastructure project, the Revenue Leakage project, the Rationalisation of Properties Facilities Fleet, Remote Towns project and the NWIS Generation Optimisation (spinning reserve).
- Year to date capital expenditure amounted to \$57.3M against a budget of \$55.1M. The variance of \$2.2M is mainly due to timing differences.
- A final dividend of \$16.4M was paid in December 2016. Total dividend paid for the financial Year 2015/16 amounted to \$23.8M against a budget of \$9.9M.

### Stakeholder service

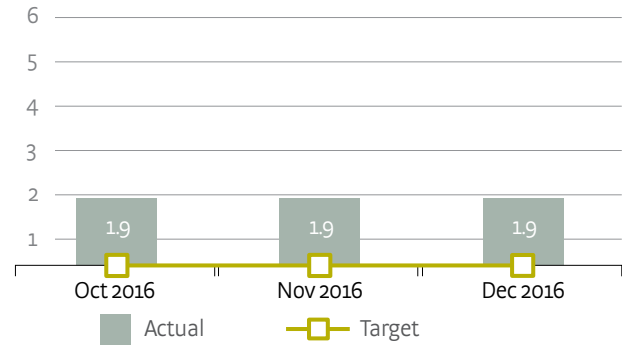
- Horizon Power provided responses to 8 Ministerials or requests for further information from the Minister or Public Utilities Office.
- Ministerials included topics such as; Quarterly Performance Report, employee travel report, Cabinet Referrals, Electricity Compliance Reporting, power outage/ supply enquiries and customer funded works enquiries.

## Safety, health and the environment

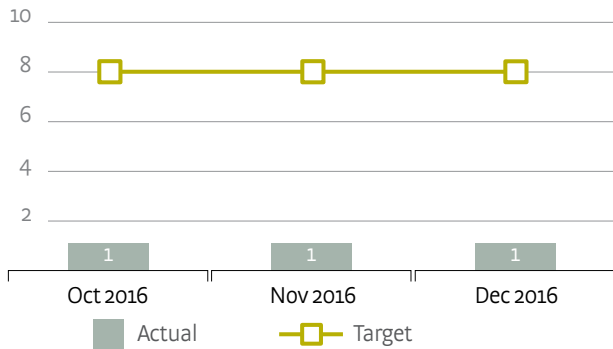
**Lost Time Injury Severity Rate** 12 month rolling average



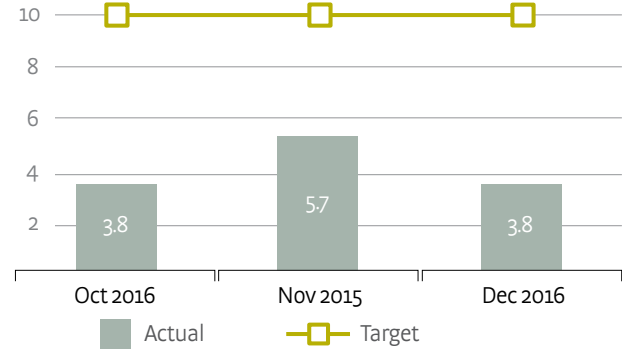
**Lost Time Injuries Frequency Rate** 12 month rolling average



**Public Safety Incidents**



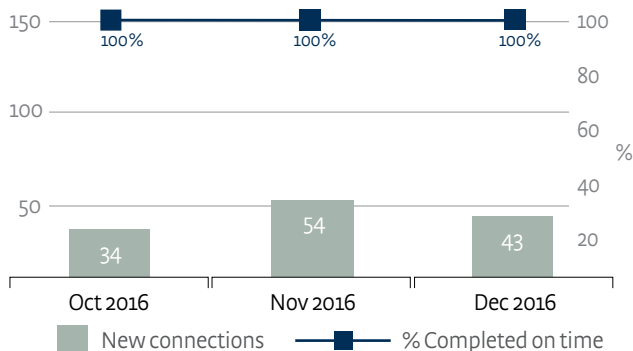
**All Medical Injuries Frequency Rate** 12 month rolling average



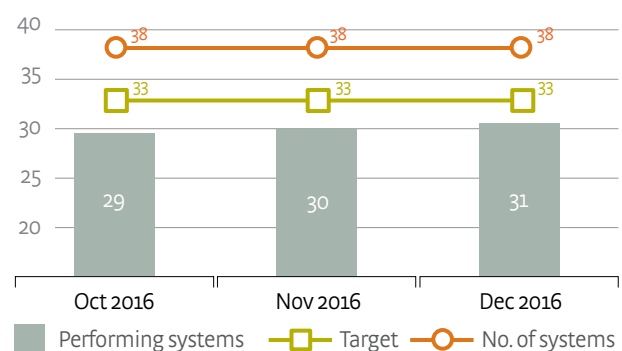
- Lost Time Injury Rates were stable at 1.9 as Horizon Power records five consecutive months without employee lost time injury. All Medical Injury Frequency Rates in December on par with end of previous quarter.
- The lost time severity rate for the quarter was 5.0 remaining stable from the previous quarter.
- There were no public safety incidents for the quarter ended on 31 December 2016.
- There was one reportable fuel spill at Carnarvon.
- The Unassisted Pole Failure rate was 1.52 compared to a target of <1.00.

## Customer service and electricity delivery

**Customer Connections**



**Performing Systems** out of 38 systems



- 100% of new customer connections were completed on time.
- There were 131 new connections during the quarter.

## Financial performance - actual versus SBF

Net Profit After Tax for year to date December 2016 was higher the State Budget Forecast, with variances broken down as follows:

### Profit and Loss Summary (in \$millions)

	Period Ended Dec 2016		
	ACTUAL	SDP	VAR
Income	238.5	244.6	(6.1)
Fuel and electricity purchases	(79.1)	(90.9)	11.8
Operating labour, overheads & materials	(57.8)	(66.1)	8.3
<b>EBITDA</b>	<b>101.6</b>	<b>87.6</b>	<b>14.0</b>
Finance Lease adjustment			
Depreciation and amortisation	(39.3)	(42.4)	(3.1)
<b>EBIT</b>	<b>62.3</b>	<b>45.2</b>	<b>(17.1)</b>
Interest	(35.0)	(37.3)	2.3
Income tax	(8.2)	(2.4)	(5.8)
<b>Net profit after tax</b>	<b>19.1</b>	<b>5.5</b>	<b>13.6</b>

#### 1. Income

An unfavourable variance of -\$6.1M in income primarily due to the following:

- (I) Electricity sales recorded a shortfall of -\$8.7M (actual \$128.9M v budget \$137.6M) mainly due to lower volume and budgeted L4 tariff not gazetted.
- (II) Miscellaneous revenue were higher +\$1.7 due to higher than expected wheeling revenue and unbudgeted foreign currency hedging gains.

#### 2. Fuel and electricity purchases

A favourable variance of +\$11.8M was mainly driven by lower gas purchases due to lower gas prices and lower sales volume.

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

Operating expenditure is tracking under budget primarily driven by lower overheads due to cost management, savings across various items of operating expenses and the timing of project expenses.

#### 4. Depreciation

Depreciation is lower than budget mainly due to timing differences arising from budget profiling of capital expenditure.

#### 5. Interest and income tax

The positive variance of +\$2.3M in interest is due to lower debt than budgeted. The unfavourable variance in tax (-\$5.8M) is resulting from higher earnings than budgeted.

## Financial performance - actual versus MYR

Net Profit After Tax for year to date December 2016 was higher the Mid year Review, with variances broken down as follows:-

### Profit and Loss Summary (in \$millions)

	Period Ended December 2016		
	ACT	MYR	VAR
Income	238.5	241.5	(3.0)
Fuel and electricity purchases	(79.1)	(85.6)	6.5
Operating labour, overheads & materials	(57.8)	(61.2)	3.4
<b>EBITDA</b>	<b>101.6</b>	<b>94.7</b>	<b>6.9</b>
Finance Lease Adjustment			
Depreciation and amortisation	(39.3)	(39.4)	0.1
<b>EBIT</b>	<b>62.3</b>	<b>55.3</b>	<b>7.0</b>
Interest	(35.0)	(35.6)	0.6
Income tax	(8.2)	(5.9)	(2.3)
<b>Net profit after tax</b>	<b>19.1</b>	<b>13.8</b>	<b>5.3</b>

#### 1. Income

An unfavourable variance of -\$3.0M in income primarily due to the following:

Electricity sales recorded a shortfall of -\$3.3M (actual \$128.9M v budget \$132.3M) mainly due to lower volume in residential tariff volumes and partially offset by increases in consumption by industrial customers.

#### 2. Fuel and electricity purchases

A positive variance of +\$6.5M was mainly driven by lower gas purchases due to lower gas prices.

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

Operating expenditure is tracking under budget primarily driven by lower overheads due to cost management, savings and timing of expenditure.

#### 4. Interest

Lower interest cost due to lower debt draw down and lower interest rate than budgeted.

#### 5. Interest and income tax

Higher tax expense is due to higher profit compared to budget.

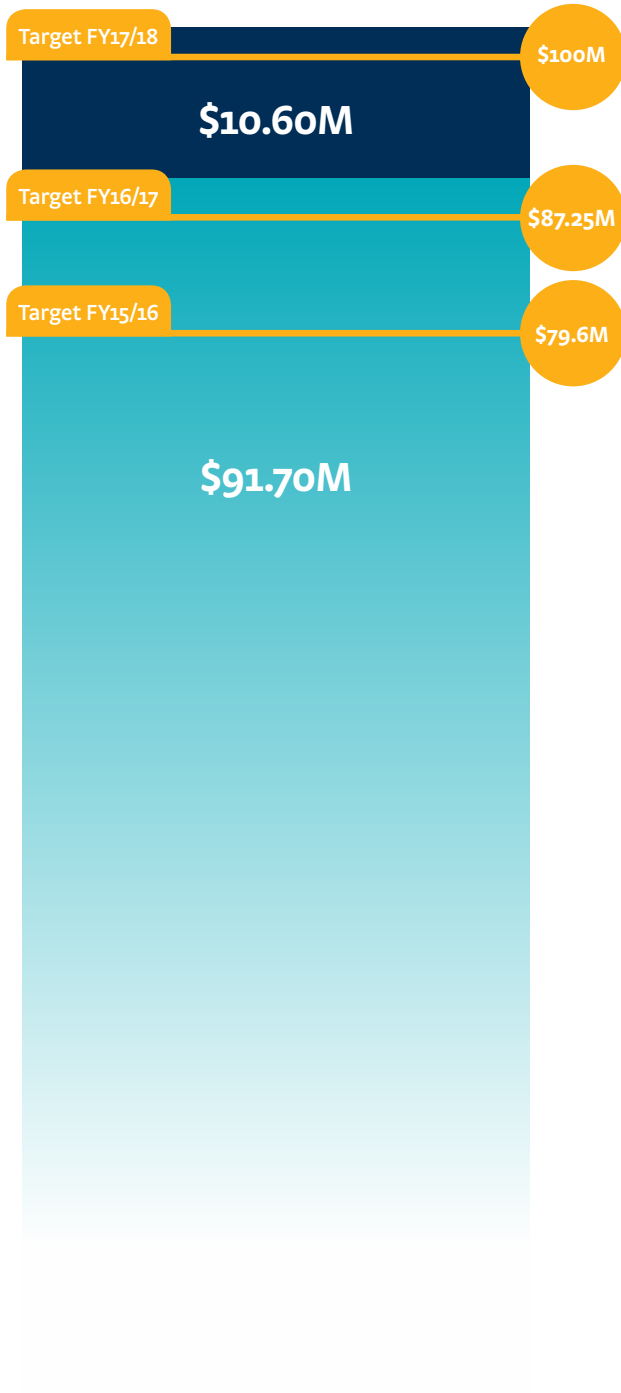
## Other performance measures

KPIs	Actual	Target	Commentary
<b>Business Value</b>			
Unit Cost to Supply (cents/kWh)*	30.6	34.6	The lower cost to supply reflects a decrease in cost of goods sold mainly from the lower gas costs.
Return on Assets (%)**	7.6% (annualised)	6.6%	Higher Return on Asset due to higher Earnings Before Interest and Tax than budgeted.
Subsidy reduction \$M (cumulative)	91.7	87.3	Realised benefits now total \$91.7 M. Significant movement of 'in progress' benefits this period set to achieve an additional \$24.5 M by June 2017. This will result in the project exceeding the \$100M target.
<b>Community</b>			
Customer Satisfaction (Annual) (Survey rating %)	73%	>70%	YTD Customer satisfaction based on June 2016 Survey.
No. of Customer Bills on Time (Unbilled accounts)	3	<40	Unbilled numbers continuing to improve following the completion of the advanced meter roll-out.

\* Costs associated with Horizon Power's customers divided by kilowatt hours sent out. Costs include costs to provide energy to customers, but specifically excludes business development, finance lease adjustments and interest expenses.

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

## Strategic Review Benefits



### Commentary – Strategic Review Benefits:

Horizon Power is 92% progressed in meeting our \$100M target and projects to achieve well over the target.

Our key successes include;

The Advanced Meter Infrastructure project, Revenue Leakage project, the Rationalisation of Properties Facilities Fleet, Remote Towns project and the NWIS Generation Optimisation (spinning reserve).

- In progress
- Realised