QUARTERLY REPORT

Period Ending
30 September 2016

1. PERFORMANCE OVERVIEW

1.1 FINANCIAL PERFORMANCE

The financial information for the year to date has been compared to the State Budget Forecast (SBF) approved as at July 2016.

$ Millions	Actual YTD	SBF YTD	+ / -
Revenue	830.1	767.6	62.5
Direct costs	(641.5)	(615.3)	(26.1)
Gross profit	**188.7**	**152.3**	**36.4**
Other income	0.9	0.1	0.8
Operating costs	(104.2)	(101.0)	(3.1)
Doubtful debts expense	1.0	(2.4)	3.4
EBITDA	**86.4**	**48.9**	**37.4**
Depreciation and amortisation	(41.8)	(44.1)	2.3
EBIT	**44.5**	**4.8**	**39.8**
Net finance cost	(5.1)	(4.7)	(0.4)
Share of profit (joint ventures)	0.2	1.0	(0.8)
Reported NPBT	**39.6**	**1.1**	**38.5**

The September 2016 YTD reported net profit before tax of $39.6 million is $38.5 million above budget. The key reasons for the favourable variance to budget are:

1. Overall favourable revenue variance of $62.5 million, the combined result of:

   a. Favourable electricity revenue (higher $69.6 million or 9.6 per cent), the combination of the;

      i. Favourable impact of higher than forecast retail sales volume (higher 155.2 GWh or 6.5 per cent), contributing an additional $58.4 million in revenue. Additional sales volume is the result of increased customer consumption over a significantly colder winter period than expected; and

      ii. Higher than budget WEM sales (higher 91.5 GWh or 56.0 per cent), contributing an additional $7.3 million in revenue.

   b. Unfavourable gas revenue (lower $7.1 million or 15.5 per cent) due to unfavourable sales prices impacting both retail (lower $0.8/TJ or 11.6 per cent) and wholesale (lower $1.7/TJ or 27.0 per cent) gas sales. Lower prices have reduced total gas revenue by $7.4 million;

   c. Lower than expected wholesale gas sales volume (lower 903.0 TJ or 30.0 per cent) due to lower than expected consumption by Horizon Power. This is offset by higher retail sales volume (higher 931.7 TJ or 22.7 per cent) due to additional non-SWIS sales;

2. Overall unfavourable variance in direct costs of $26.1 million, the combined result of:

    a. Higher electricity purchases ($15.9 million) and network costs ($23.1 million) associated with higher retail sales volumes; and

    b. Lower than budget gas trading costs ($12.9 million) due primarily to the favourable impact of the delayed Gorgon gas supply contract.

3. Operating costs ($3.1 million adverse variance) temporary overrun is attributable to the timing (versus budget) of plant maintenance work.

4. Doubtful debts ($3.4 million favourable to budget) temporarily favourable due to the seasonal nature of trade debtor balances.

5. Depreciation and amortisation charges ($2.3 million positive variance) are largely in line with expectations with favourable performance attributable to the timing of capitalisation of work in progress and commencement of associated amortisation charges.

6. Net finance costs ($0.4 million adverse to budget) are largely in line with expectation.

7. Contribution from joint ventures ($0.8 million) is largely in line with expectation. Synergy's interest in the Mumbida wind farm project is currently for sale. No profit from these operations has been accounted for in the current financial year.

2. CORPORATE DASHBOARD

Corporate Performance Indicators	Actual	Target	Var.
Reportable Injury Frequency Rate (#) (Rolling 12 month)	3.0	1.9	unfavourable
Compliance (Regulatory)	No Regulatory breaches recorded		
Compliance (Environmental)	No Environmental breaches recorded		
EBITDA ($M)	86.4	48.9	76.4%
Net Promoter Score - Combined (#)	68.1	64.0	4.1

SEGMENT REPORT FOR PERIOD ENDED 30 SEPTEMBER 2016

Segment reporting for the Electricity Generation and Retail Corporation (EGRC) is required under Part 2 of *The Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013* (the Regulations).

The Regulations also require that the quarterly report under Section 106 of the *Electricity Corporations Act 2005* include a separate statement of financial performance for each EGRC business unit for the quarter to which the report relates. This report is required to be submitted within 30 days of the quarter end.

For management purposes, EGRC is organised into business units based on its functions and activities, and has four reportable operating segments as follows:

- Generation Business Unit (GBU), which manages operations involving the construction or operation of generating works (as defined in the Electricity Industry Act 2004 section 3), and the operations of the subsidiary, Vinalco.
- Wholesale Business Unit (WBU), which oversees all operations involving the wholesale acquisition or supply of electricity (including pricing in respect of such acquisition or supply), or the acquisition or supply of wholesale products (including pricing in respect of such acquisition or supply).
- Retail Business Unit (RBU), which manages operations involving the pricing, sale and marketing of electricity to customers served by the South West interconnected system.
- Corporate Shared Services (CSS), which is responsible for operations relating to the following activities: corporate planning and strategy; organisational development; accounting, financial and legal matters; human resources; information technology support; regulatory and compliance matters; communications; billing; record keeping, and any other operations (excluding generation operations, wholesale operations and retail operations) undertaken in connection with two or more business units.

Segment Report for the period ended 30 September 2016

Financial Year 2016	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Consolidated $'000
External customers	25,809	63,810	740,712	-	-	830,330
Inter-segment	137,853	381,568	-	-	(519,616)	(196)
Total revenue	**163,662**	**445,377**	**740,712**	-	**(519,616)**	**830,135**
Cost of sales	(100,992)	(325,750)	(734,383)	-	519,655	(641,470)
Operating costs	(64,049)	(1,453)	(17,245)	(23,545)	2,111	(104,181)
Doubtful debts	-	-	967	-	-	967
Other income	2,944	0	7	101	(2,150)	902
	(162,097)	(327,202)	(750,654)	(23,444)	519,616	(743,782)
EBITDA	**1,564**	**118,175**	**(9,942)**	**(23,444)**	**0**	**86,353**
Depreciation and amortisation	(37,008)	(50)	(2,625)	(2,542)	419	(41,807)
Segment profit / (loss)	**(35,444)**	**118,125**	**(12,568)**	**(25,987)**	**419**	**44,546**
Unallocated items:						
Finance income						2,777
Finance expense						(7,886)
Net finance costs						(5,109)
Share of profit of joint ventures						176
Net profit before tax						**39,614**
Tax expense @30% (provisional)						(11,884)
Profit for the year from continuing operations						**27,730**

Inter-segment revenues are eliminated upon consolidation and reflected in the eliminations column.

Formal transfer pricing arrangements exist between:

- GBU and WBU: whereby GBU is compensated for both; maintaining and making available a fleet of plant, as well as the efficient utilisation of that plant; and
- WBU and RBU: whereby WBU sells energy to RBU on an arms-length basis.

No formal transfer pricing arrangements currently exist between CSS and other business units.