

# 2014 Interim Result

Six months to 31 December 2013

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Managing volatility in the  
electricity market

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CHIEF EXECUTIVE OFFICER

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# Disclaimer



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“Genesis Energy responded well in a period marked by challenging retail electricity and gas markets and volatile wholesale electricity prices”

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Albert Brantley  
Chief Executive



# Highlights of the last six months

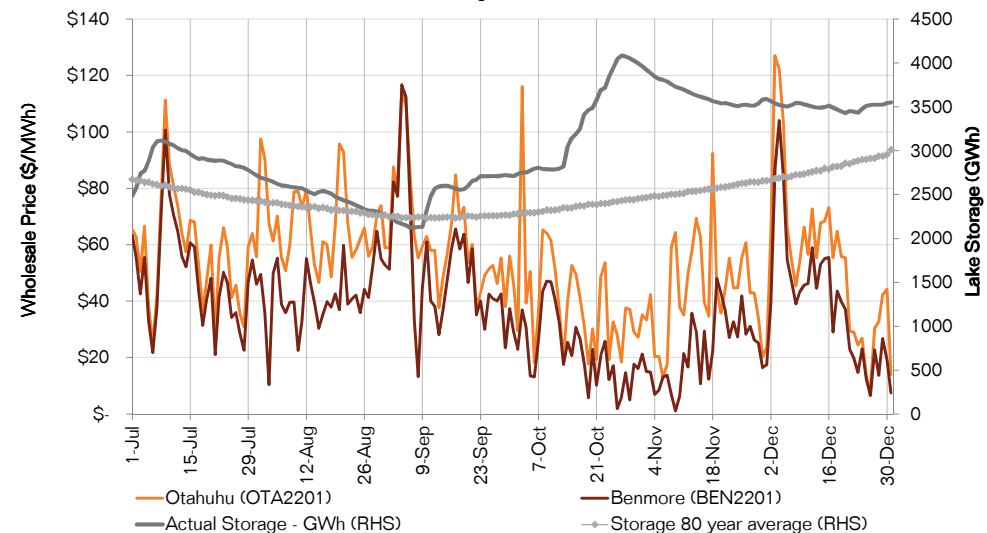
- Retail electricity and gas markets remained competitive
- Wholesale electricity prices continued to be volatile and consumer demand was lower
- Increase in electricity sales volumes
- Increase in gas retail sales volumes
- EBITDAF is consistent with range of previous six month periods
- Increase in Customer Experience and Kupe EBITDAF versus H1 2013
- Re-profiling of the coal supply contracts to match thermal generation
- Preparation for the second season of work on the Tekapo Canal
- Interim dividend of \$64m declared



## Market Conditions in H1 2014

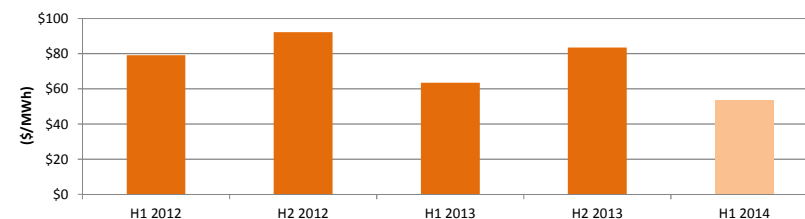
- In the last six month period significant rainfall events pushed national hydro storage as high as 68% above long run averages (18% above at period end)
- Demand has also been reduced, impacted by above average temperatures, and with strong hydrology, wholesale electricity prices have been low, particularly in Q2
- Compared to previous periods, H1 2014 average wholesale price at Huntly node was 16% lower vs H1 2013 and 33% lower vs H1 2012

Daily Average Wholesale Reference Point Prices and Lake Storage - Jul-Dec 2013



Source: COMIT/Genesis Energy

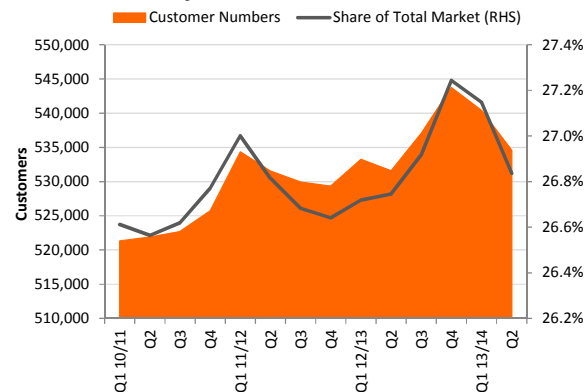
Average Wholesale Electricity Price at Huntly Node



## Good volume growth, customers steady

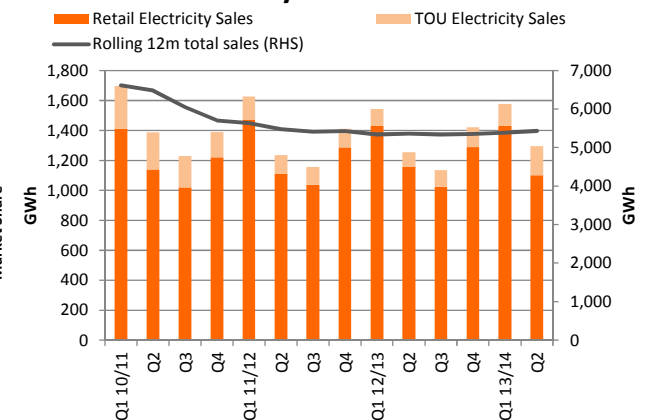
- H1 2014 customers increased vs H1 2013, although there has been some reductions lately
- Competition has increased in last six months
  - 534,597\* electricity customers (+1% yoy)
  - 115,613\* gas customers (+4% yoy)
  - 10,739 LPG customers (+29% yoy)
- Total electricity volumes are up 3% yoy to 2,875 GWh
- Driven by new TOU customers more than offsetting lower retail volumes

**Electricity Customers & Market Share**

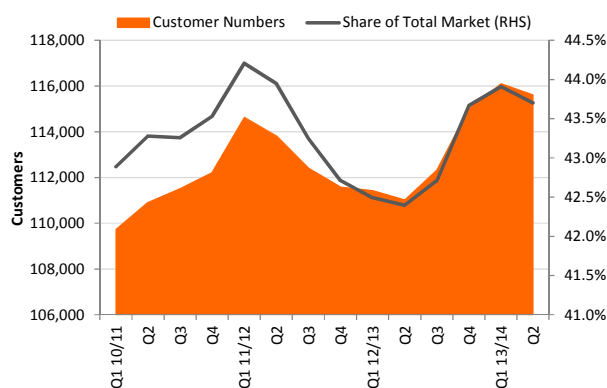


Source: Electricity Authority - active customer connections

**Electricity Sales Volumes**

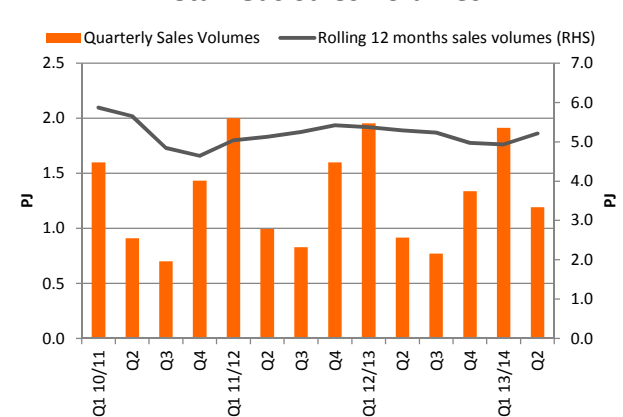


**Natural Gas Customers & Market Share**



Source: Gas Industry Company - active customer connections

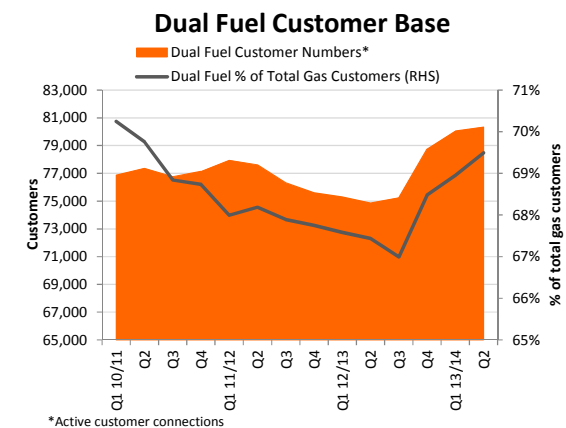
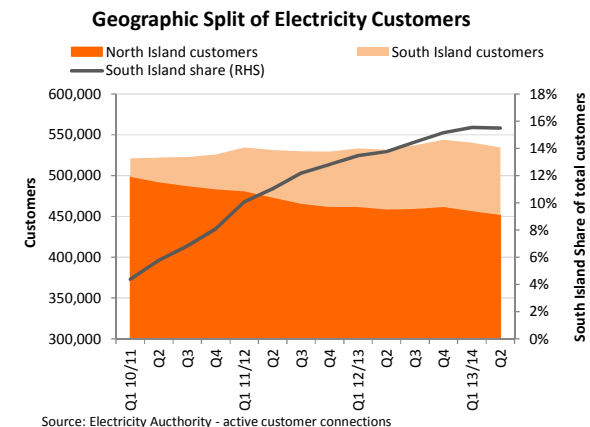
**Retail Gas Sales Volumes**



\*Based on customer connections and excludes vacants

## Changing Customer Mix

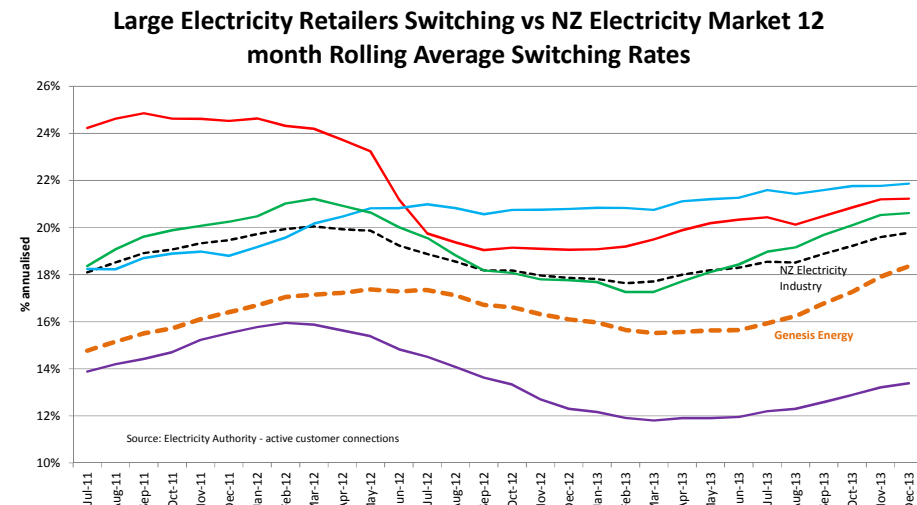
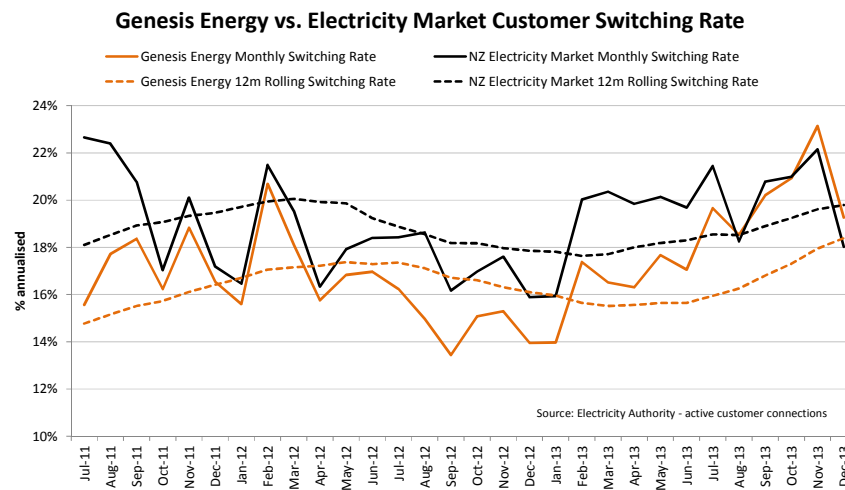
- Characteristics of Genesis Energy's customer base continue to evolve
  - Growing South Island customer base
  - Growing dual fuel customers
- South Island customer increases driven by Tekapo acquisition in 2011
  - Now 82,829 customers, or 16% of total electricity customers
- Dual fuel customers now total 80,342, or 70% of total gas customers
  - Utilises gas supply from Kupe and increases retention rates of both electricity and gas customers





## Better Than Market Switching Rates

- Focus has continued to be on value by leveraging scale of customer numbers to reduce cost to serve, concentrating on reducing switching rates and increasing retention rates
- Despite having the largest numbers of electricity and gas customers, switching rates are 1.4% points lower than the average of the market on a 12 month rolling basis
- Competition and switching rates in the electricity market (and for Genesis Energy) have recently increased

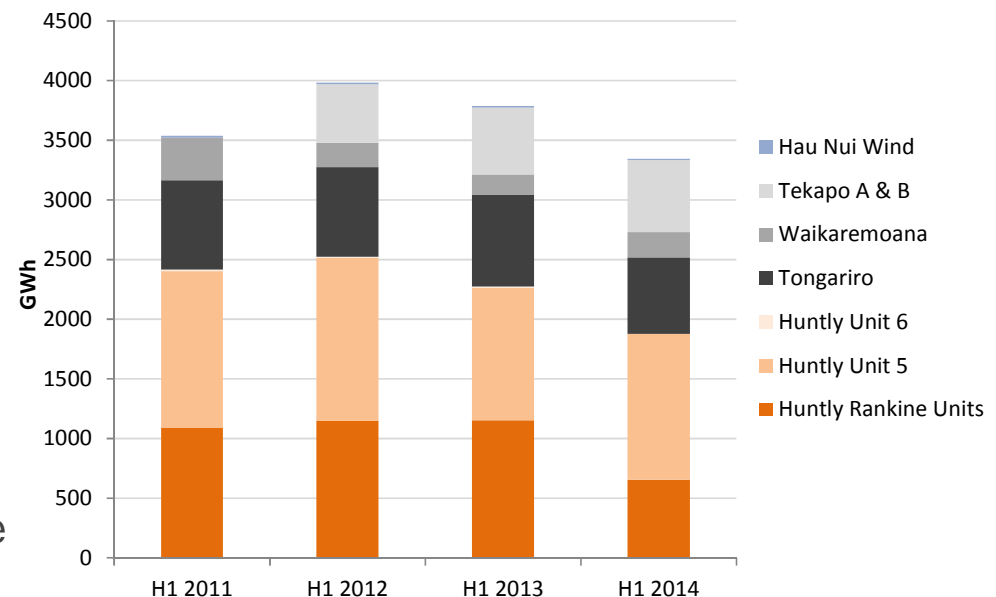




# Generation Performance

- Total generation down 12% to 3,344GWh (3,786GWh in H1 2013)
- Thermal generation down 17% to 1,875GWh (2,273GWh in H1 2013)
- Renewable generation down 3% to 1,468GWh (1,513GWh in H1 2013)
- Key drivers of lower generation:
  - Lower wholesale electricity prices
  - Reduced demand
  - Reflects strategy of buying from the market when prices are low

**Genesis Energy Generation Profile**



# Huntly Power Stations

- Huntly Power Station generation output showed divergent trends:
  - Coal-fired generation down 61% to 414 GWh
  - Gas-fired generation up 21% to 1,462 GWh
- This reflected preference for generating from gas over coal, given the need to balance the Company's gas position
- Second Rankine unit put into storage in December 2013, and options on decommissioning first stored Rankine unit are being developed
- Coal stockpile down 1% to 994 kilotonnes
- Exited imported coal contract and re-profiled coal contract with Solid Energy to achieve better balance of coal deliveries with anticipated coal burn



## Renewable Generation

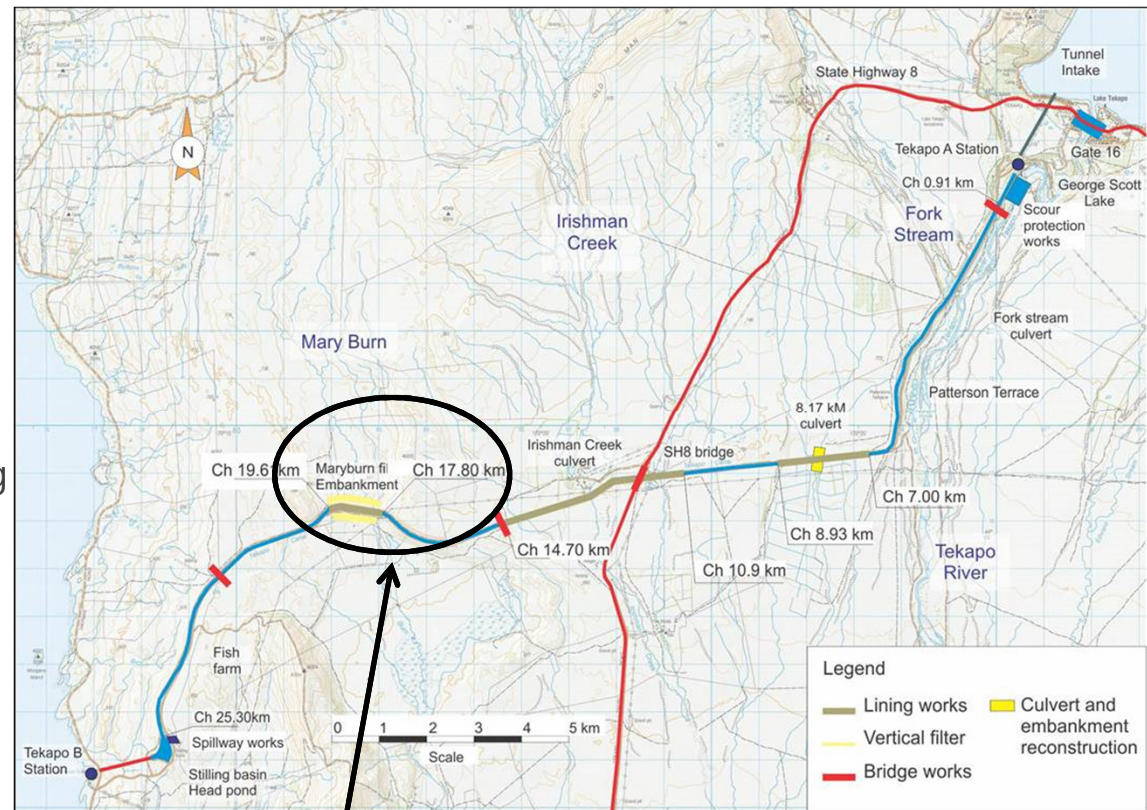
- Generation of renewable fleet was different by geography
- Tekapo A and B up 7% to 601 GWh
  - Run power stations harder in lead up to canal works and to utilise above average hydro levels
- Waikaremoana generation up 22% to 212 GWh
  - Utilised above average hydro storage levels and benefited from some East Coast grid separation
- Tongariro generation down 16% to 643 GWh
  - Preference for other hydro generation given localised conditions
- Hau Nui up 6% to 12 GWh





## Tekapo Canal Remediation

- Second season of work on 1,800m section of canal called Maryburn Fill began on 7 January 2014
- Work scheduled to take 10 weeks, brought forward due to high lake levels
- Stability of canal structure is being reinforced, and this section of the canal is being lined with protective, watertight PVC material

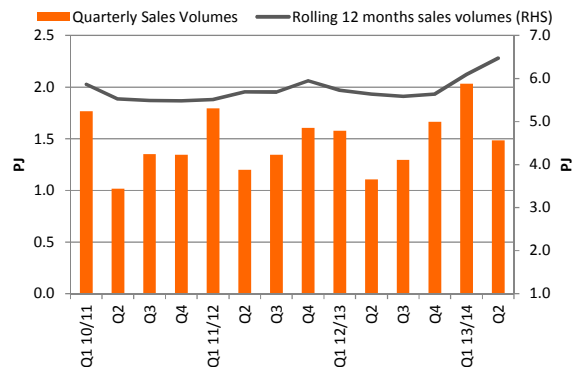


Stage 2 of Tekapo Canal works

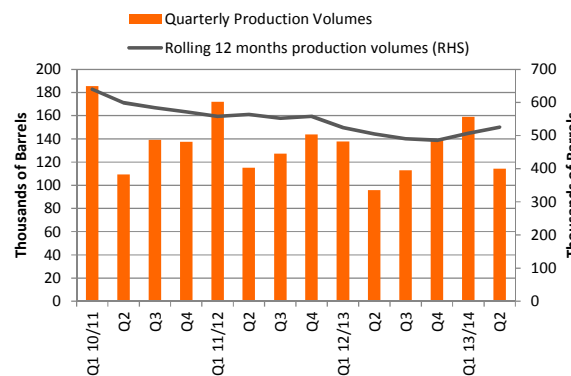
## Kupe Continued to Deliver

- Continued to be a consistent source of operating earnings
- Genesis Energy's share of gas sales up 31% to 3.5PJ, oil production up 17% to 273kbbbl, and oil sales up 17% to 255kbbbl
  - Mainly reflects growth versus a period (H1 2013) where there was a planned Kupe production outage to coincide with the Huntly Unit 5 turbine inspection
- 12 month rolling volumes show return to early 2013 run rates

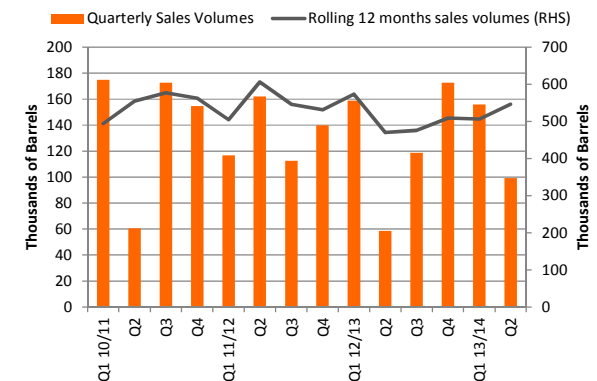
**Kupe Gas Sales Volumes**



**Kupe Oil Production Volumes**



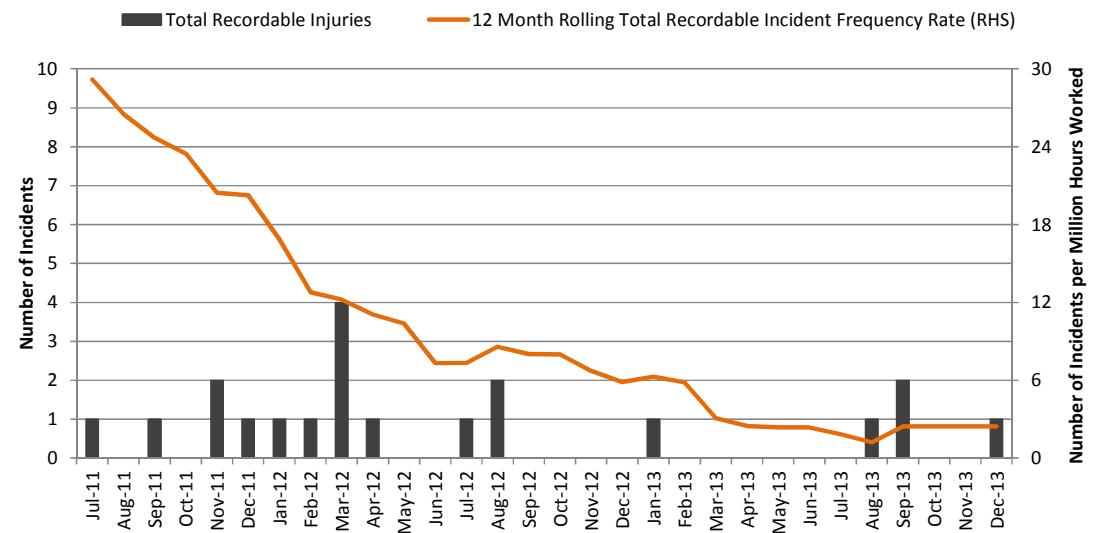
**Kupe Oil Sales Volumes**



## People, Health and Safety

- The Company remains committed to a zero harm work environment
- TRIFR\* of 2.43 was 59% lower than previous year
- Near miss reporting remains at elevated levels
- Employee training continues as a major initiative

**Genesis Energy Safety Statistics**



TRIFR is measured by number of incidents per million man hours worked

\*Total Recordable Injury Frequency Rate



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“In a challenging and competitive market EBITDAF has remained in a similar range to the previous six month period”

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Andrew Donaldson  
Chief Financial Officer



## Profit and Loss

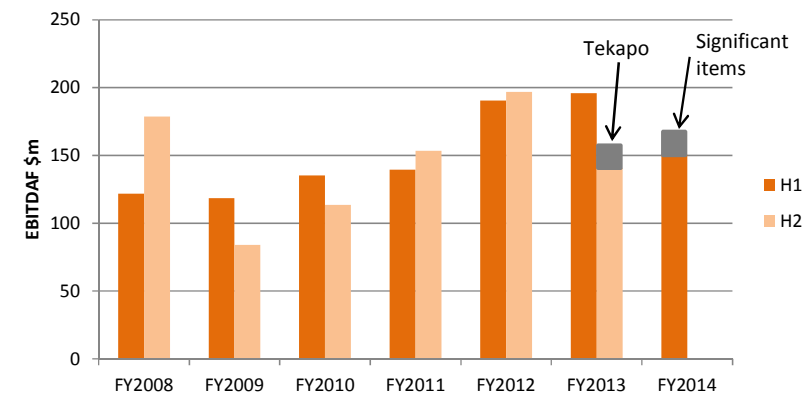
- Revenues 6% lower due to lower wholesale electricity and lower generation
- EBITDAF down 23% to \$151m
  - Lower revenues not fully offset by lower operating expenses (including impact of fuel commitments)
  - Impact of some significant items
- Six monthly profile still consistent - note market conditions remain challenging over last two periods
- Higher DDA due to higher production at Kupe and asset revaluation at 30 June 2013
- Interest lower due to a reduction in Capital Bonds coupon offset by higher average debt levels
- NPAT decreased by \$51m to \$20m from \$71m in H1 2013 due to lower EBITDAF, higher DDA, and negative swing in fair value changes

Profit and Loss	H1 2014 \$m	H1 2013 \$m	Change \$m	Change %
<b>Revenue</b>	<b>973.1</b>	<b>1,031.3</b>	-58.2	-6%
Total operating expenses <sup>(1)</sup>	822.5	835.4	-12.8	-2%
<b>EBITDAF<sup>(2)</sup></b>	<b>150.5</b>	<b>195.9</b>	-45.4	-23%
Depreciation depletion & amortisation	81.2	67.0	14.2	21%
Impairment	3.6	0.7	3.0	447%
Fair value change (gains)/losses	2.6	-10.1	12.8	-126%
Other gains/(losses)	0.3	1.7	-1.4	-85%
<b>Earnings before interest and tax</b>	<b>62.8</b>	<b>136.7</b>	-73.9	-54%
Interest	34.1	38.0	-3.9	-10%
Tax	9.0	27.9	-19.0	-68%
<b>Net profit after tax</b>	<b>19.7</b>	<b>70.8</b>	-51.0	-72%
Shareholder's equity	1,909.6	1,877.3	32.3	2%

<sup>(1)</sup> Includes cost of electricity purchases

<sup>(2)</sup> Earnings before net finance expense, income tax, depreciation, depletion, amortisation, impairment, fair value changes and other gains and losses

### Genesis Energy 6 Monthly EBITDAF



## Significant items

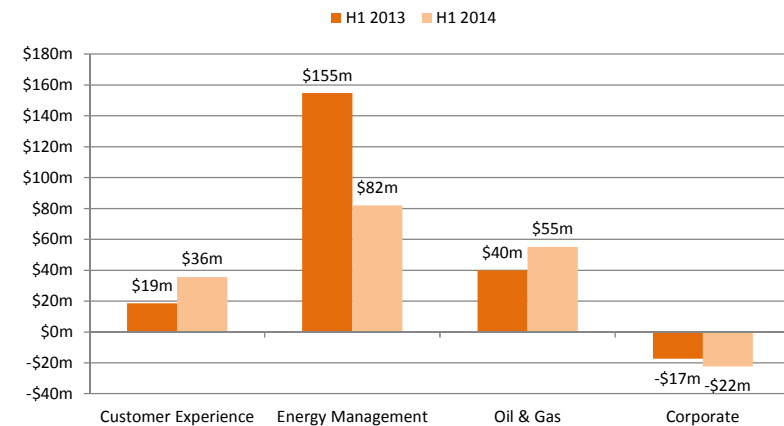
- Recently Genesis Energy announced it had terminated a contract to import coal from its offshore supplier
- As a result contracts for the transportation of coal to the Huntly West mine and storage at the Port of Tauranga have been reviewed
- Consequently Genesis Energy has reported a non-recurring expense of \$19.1m in H1 2014 (\$nil in H1 2013) which incorporates:
  - The termination fee for exiting the offshore coal contract
  - A provision for onerous contracts associated with the storage and transportation of coal
- In H1 2014 there were also \$2.4m of costs associated with the potential IPO

Significant Items	H1 2014 \$m	H1 2013 \$m	Change \$m
Coal contract termination fee plus provision for onerous contracts	19.1	0.0	19.1
Offer costs	2.4	0.1	2.3
<b>Total Significant Items</b>	<b>21.5</b>	<b>0.1</b>	<b>21.4</b>

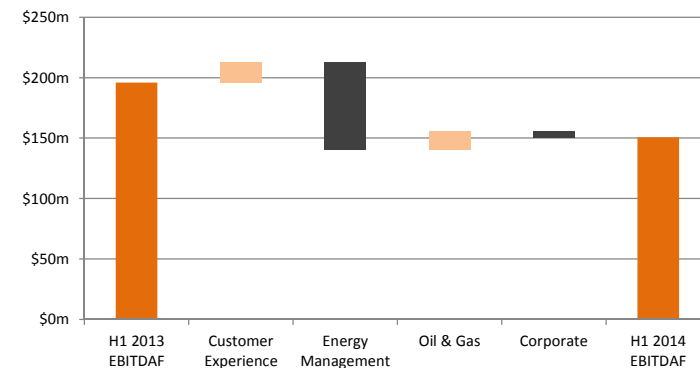
## EBITDAF Performance

- Customer Experience EBITDAF increased in H1 2014 due to increased electricity and gas sales volumes
- Lower Energy Management EBITDAF reflects:
  - Lower wholesale electricity prices
  - Reduced generation output
  - Costs associated with exit of imported coal contract
- Oil and Gas EBITDAF benefited from higher yoy volumes
- Corporate costs were higher due to potential IPO related costs

**EBITDAF comparisons H1 2014 vs H1 2013**



**EBITDAF movement from H1 2013 to H1 2014**

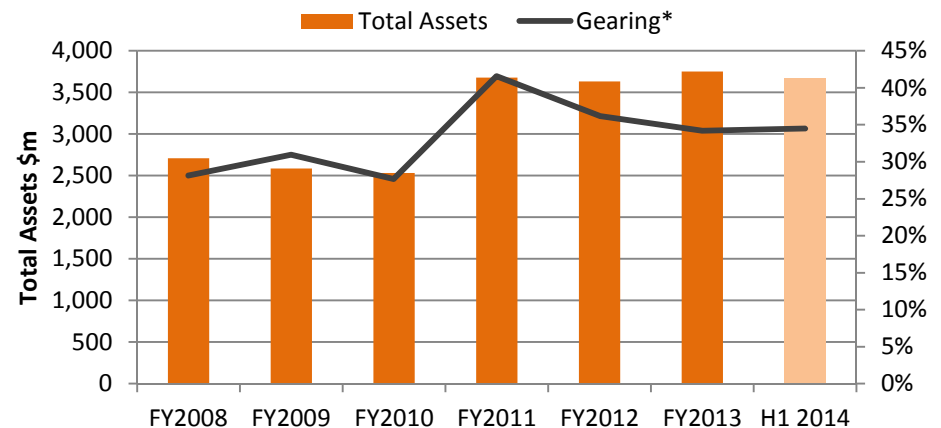


## Balance Sheet

- Net debt is 4% lower than 30 June 2013 at \$958m despite reduced operating earnings and after payment of final dividend
- Company has de-leveraged significantly since Tekapo Power scheme was acquired in June 2011
- Gearing is flat at 34.5%, in line with the planned capital structure, and is sustainable
- Standard and Poor's recently reconfirmed its BBB+ credit rating of Genesis Energy

Balance Sheet as at	31-Dec-13 \$m	30-Jun-13 \$m	Change \$m	Change %
Total current assets	345.5	393.5	-48.0	-12%
Total non-current assets	3,322.0	3,357.8	-35.7	-1%
<b>Total assets</b>	<b>3,667.5</b>	<b>3,751.2</b>	<b>-83.7</b>	<b>-2%</b>
Total current liabilities	362.6	667.6	-305.0	-46%
Total non-current liabilities	1,395.3	1,133.9	261.4	23%
Total equity	1,909.6	1,949.7	-40.1	-2%
<b>Total equity and liabilities</b>	<b>3,667.5</b>	<b>3,751.2</b>	<b>-83.7</b>	<b>-2%</b>
<b>Net debt</b>	<b>958.3</b>	<b>1,002.2</b>	<b>-43.9</b>	<b>-4%</b>
<b>Gearing*</b>	<b>34.5%</b>	<b>34.5%</b>	<b>0.1%</b>	<b>0%</b>

## Total Assets and Gearing

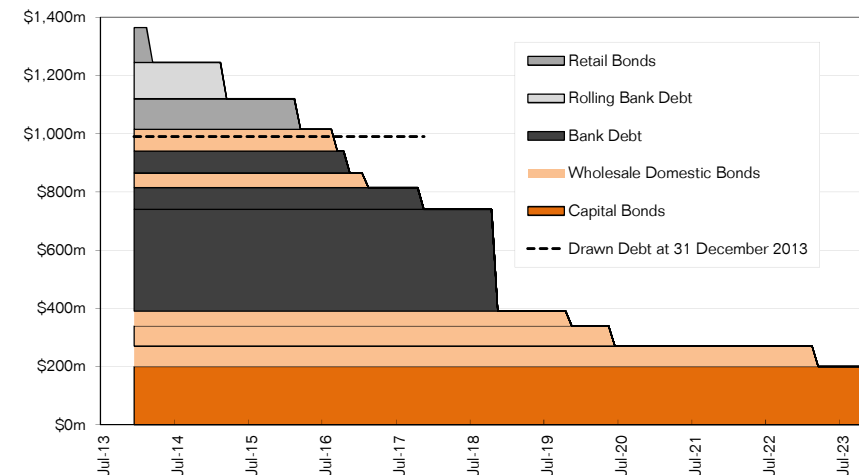


\*Gearing = Debt/(Debt + Equity) in line with the Company's banking covenants and credit assessment

## Debt profile

- Recent restructuring of debt book has led to reduced finance expenses
- Capital Bonds were modified in July 2013:
  - Amount reduced from \$275m to \$200m
  - Coupon reduced from 8.50% to 6.19%
- Average effective interest rate lower in H1 2014
- At balance date Genesis Energy had available funding of \$1,365m with an average term of 7.2 years
- \$375m was undrawn at balance date

Genesis Energy Debt Profile

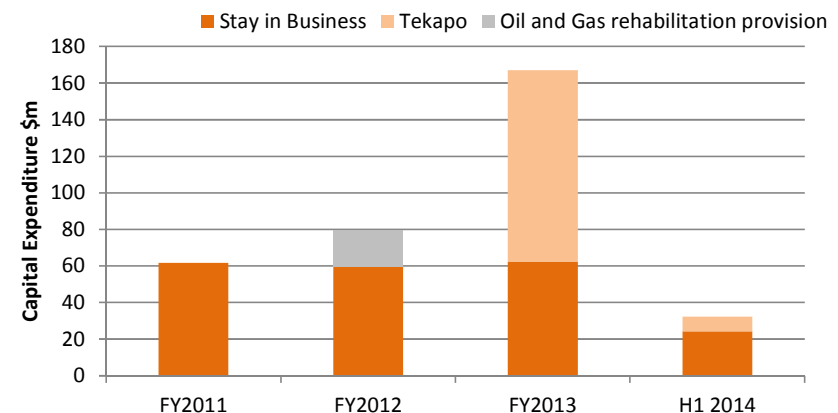


## Cashflow Statement

- Operating cashflow down 24% due to lower operating earnings
- Investing cashflow lower due to reduced capex in second season of work on Tekapo Canal Remediation
  - Approximately \$8m in H1 2014
  - Follows \$105 m spent in FY2013
  - Second season of work now under way
- Stay in business capex of approximately \$30m in H1 2014 in line with previous year's run rate of \$60m

Cashflow Statement	H1 2014 \$m	H1 2013 \$m	Change \$m	Change %
Net operating cashflow	164.6	217.9	-53.3	-24%
Net investing cashflow	-32.5	-93.2	60.7	-65%
Net financing cashflow	-106.4	-110.6	4.2	-4%
Net increase in cash and cash equivalents	25.7	14.2	11.6	82%

### Recent Capex Profile

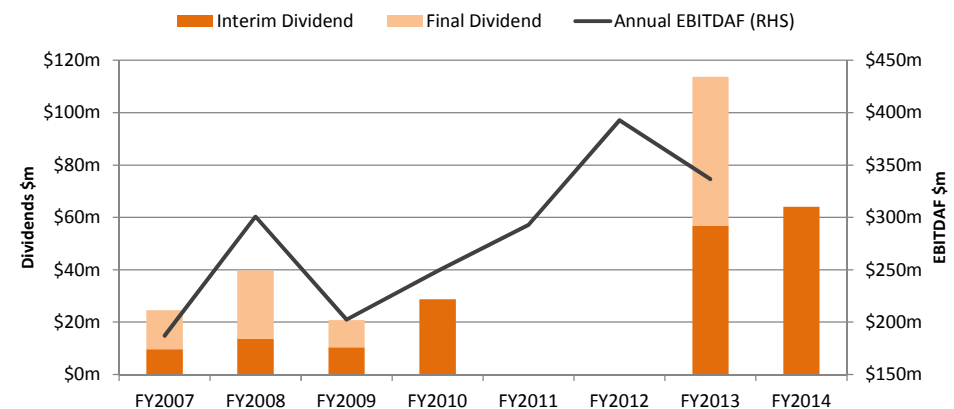


# H1 2014 Dividend Up 12%

- Interim dividend of \$64m declared
- Compares with interim dividend in 2013 of \$57m
- Represents a significant conversion of EBITDAF into Free Cash Flow\*

Company's dividend policy is to pay a dividend that provides shareholders with a consistent, reliable and attractive return, even in periods of business cycle downturn

**Genesis Energy Dividend versus EBITDAF**



\*Free Cash Flow is defined as EBITDAF less finance expense, less income tax, less stay in business capital expenditure.



# Summary

- Recent retail electricity market conditions have been challenging, the wholesale electricity price has been volatile and consumer demand has been lower
- Genesis Energy has continued to effectively manage the impact of market volatility on earnings through a diverse and integrated portfolio comprising:
  - Geographically diverse and flexible hydro assets
  - Thermal assets with flexible range
  - Balance between customer volume and generation from Unit 5 plus hydro
- In addition Kupe earnings are largely uncorrelated to electricity drivers
- This translates into Free Cash Flow that supports the payment of dividends

# Thank you

