Genesis Energy Limited (GNE): Resetting the foundations for a more customer-centric future

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<th>Half Year ended 31 December 2016</th>
<th>Change year on year</th>
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<tbody>
<tr>
<td>EBITDAF¹</td>
<td>$155.7 million</td>
<td>Down 11.3% from $175.5 million</td>
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<tr>
<td>Net Profit</td>
<td>$37.4 million</td>
<td>Up 4.2% from $35.9 million</td>
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<td>Earnings per share</td>
<td>3.74 cents</td>
<td>Up 4.2% from 3.59 cps</td>
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<tr>
<td>Dividend per share</td>
<td>8.2 cents</td>
<td>Consistent</td>
</tr>
<tr>
<td>Free cash flow ii</td>
<td>$94.7 million</td>
<td>Down 17.1% from $114.2 million</td>
</tr>
<tr>
<td>Stay in business capital iii expenditure</td>
<td>$16.8 million</td>
<td>Up 7.0% on $15.7 million</td>
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Genesis Energy today released its half year results for the six months ended 31 December 2016 after a period dominated by wet and warm conditions.

In the first half of financial year 2017, Genesis Energy delivered EBITDAF of $155.7 million in line with guidance given in November. However it was down 11% on the same period last year, predominately due to the flow through of low oil prices on wholesale revenues. Despite this, underlying operations were stable, supported by lower costs, increased retail margins and growth in LPG customers. One-off restructuring costs in the first half have reset the business for a more customer-centric future.

Net profit after tax was up 4.2% on the prior comparable period as a result of changes in fair value instruments; free cash flow was consistent with a lower EBITDAF and net debt was down 2% on the same period last year.

Genesis Energy Chairman Dame Jenny Shipley said the Board, having taken into account the current trading environment, have struck the interim dividend of 8.2 cents per share, the same level as the prior comparable period. The dividend will be paid on 13 April 2017, with a record date of 30 March 2017.

“The Company’s transformation continues to accelerate and the business performed well against a backdrop of unfavourable market conditions, which have been well-signaled to the market,” Dame Jenny said.

Chief Executive Marc England and his Executive team held an Investor Day in November to reset the vision and strategy for the business, focusing on ‘Optimising’ the business to improve short term returns, “Innovating’ for medium term growth and ‘Investing’ for long term value creation.

Marc said progress had been made against all three strategic themes with “greater efficiency in the generation business having already led to lower operating costs; new innovations, such as bulk LPG delivery systems, were being rolled out to customers and a decision to invest further into Kupe to enable longer term value creation had been actioned.”

Higher margins in both mass market and time-of-use markets offset a decline in electricity sales due to warmer weather and reduced retail consumption. LPG sales increased 22% as Genesis Energy continues to accelerate its growth in this market which is supported by its integrated fuel position from the Kupe field through to customers’ homes and businesses.
The wholesale market result included significant cost savings across generation to partially offset adverse market conditions from suppressed spot electricity prices, combined with lower oil and methanol prices. Kupe increased production by 11% on the prior year but was impacted by ongoing oil price impacts.

Building an innovation pipeline

With traditional energy retail markets in New Zealand dominated by price led competition, Genesis Energy is activating its strategy to compete through product innovation in energy management services across four product categories – Electricity, Piped Gas, Bottled Gas and Distributed Energy. As part of this effort, today Genesis Energy is announcing a collaboration with customers and other industry partners to design game-changing digital tools that re-imagine how they use energy.

In the first phase of a planned three-year program, ‘The Local Energy Project’ will make use of Genesis Energy’s own digital lab that, through scaled agile methodologies, is accelerating the development of new products that will improve customers’ engagement and experience with energy. The Lab is creating new energy monitoring tools, integrated new technologies such as solar and batteries, home heating and hot water.

“By working and learning with our customers, we are ensuring the innovation around new energy technologies is relevant to consumers and puts them in control of what they spend their money on,” Marc said.

Full Year Guidance

EBITDAF guidance for the full year ended 30 June 2017 has been updated to a range of $320 million and $330 million including the part year contribution of the additional 15% interest in Kupe.

Further information on the Company’s operations and finance can be found in the Investor Presentation of the Full Year Results at nzx.com/markets/NZX/securities/GNE and www.genesisenergy.co.nz/presentations.

ENDS

For media enquiries, please contact:
Richard Gordon
Public Affairs Manager
Genesis Energy
P: 09 951 9280
M: 021 681 305

For investor relations enquiries, please contact:
Wendy Jenkins
Group Manager Corporate Finance and Investor Relations
Genesis Energy
P: 09 951 9355
M: 027 471 2377

About Genesis Energy

Genesis Energy (NZX: GNE) is a diversified New Zealand energy company. It sells electricity, reticulated natural gas and LPG through its retail brands of Genesis Energy and Energy Online. It is New Zealand’s largest energy retailer with around 645,000 customer accounts. The Company generates electricity from a diverse portfolio of thermal and renewable generation assets located in different parts of the country. Genesis Energy also has a 46% interest in the Kupe Joint Venture, which owns the Kupe Oil and Gas Field offshore of Taranaki, New Zealand. Genesis Energy had revenue of $NZ2bn during the 12 months ended 30 June 2016. More information can be found at www.genesisenergy.co.nz
Earnings before net finance expense, income tax, depreciation, depletion, amortisation, impairment, fair value changes and other gains and losses

Free Cash Flow is EBITDAF, less finance expense; taxes paid and stay in business capital expenditure.

Stay in business capital expenditure is the capital expenditure required to maintain ongoing asset management and life-cycle maintenance of the Company’s asset portfolio.