

The Treasury

Solid Energy Information Release

March 2013

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information, or who is the subject of the information
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [6] 9(2)(j) - to protect the commercial position of the person who supplied the information, or who is the subject of the information; to enable the Crown to carry out commercial activities without disadvantage or prejudice; and to enable the Crown to negotiate without disadvantage or prejudice
- [7] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [8] Information is out of scope or not relevant.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(f)(iv).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

SOE Half-year Reports for the Six Months to 31 December 2008

Purpose and Background

1. The purpose of this report (and related attachments) is to:
 - enable the half-year reports for state-owned enterprises (SOEs) with a 30 June balance date to be tabled in the House of Representatives
 - summarise and comment on the performance of SOEs for the six-month period to 31 December 2008.
2. The State-Owned Enterprises Act 1986 (SOE Act) requires SOEs to deliver their half-year reports to shareholding Ministers within two months of the end of the first half of each financial year. The responsible Minister must then table each half-year report in the House of Representatives within 12 sitting days of receipt, which would be 2 April 2008. However, we recommend that the tabling date be 13 March 2009, with the exception of New Zealand Post Ltd (which is to be tabled on 12 March 2009, at the company's request).
3. The following SOEs have submitted their interim reports for the 2008/09 financial year within the required timeframe, and we consider that the content of each report complies with legislative requirements:

• Airways Corporation of New Zealand Ltd	• Meridian Energy Ltd
• Animal Control Products Ltd	• Meteorological Service of New Zealand Ltd
• ECNZ Ltd	• Mighty River Power Ltd
• Genesis Power Ltd	• New Zealand Post Ltd
• KiwiRail Group	• Quotable Value Ltd
• Kordia Group Ltd	• Solid Energy New Zealand Ltd
• Landcorp Farming Ltd	• Timberlands West Coast Ltd
• Learning Media Ltd	• Transpower New Zealand Ltd
4. Attachment 1 provides a summary of the financial performance of all SOEs, including those above and AsureQuality Ltd (the only SOE with a balance date of 30 September). We propose publishing a variation of Attachment 1 on the CCMAU website in subsequent reporting periods (quarterly, interim and full-year) once we have had an opportunity to refine our performance metrics. We look forward to discussing this proposal with you in due course.

Consultation

5. The tabling of half-year reports is a routine matter; therefore, no other government agencies were consulted in the preparation of this report.

Recommendations

6. We recommend that you:
- a **note** that all SOE half-year reports were submitted within statutory deadlines and comply with relevant legislation
 - b **note** that half-year reports must be tabled no later than 12 sitting days after receipt, which in this case is 2 April 2009
 - c **agree** to table half-year reports on 13 March 2009, with the exception of New Zealand Post Ltd (which is to be tabled on 12 March 2009)

[8]

- g **agree** to release a press statement on 13 March 2009, which summarises SOE performance for the six months ended 31 December 2008 (which we would be happy to assist in drafting for you).

(agree / disagree)

Minister for State Owned Enterprises

Chris Jones
Manager - Energy, Land & Environment
CCMAU

Hon Simon Power
Minister for State Owned Enterprises

Hon Anne Tolley
Minister of Education

Hon David Carter
Minister of Agriculture

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Company analysis

This section analyses the financial performance of the SOE portfolio in the six months ended 31 December 2008, by company.

Profitability

Table 2. EBITDAF, by company

\$ million	Six months to December 2008	Six months to December 2007	Variance (%)
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Solid Energy	185.4	10.7	1635.3
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Source: SOE half-year reports to 31 December 2008; AsureQuality quarterly reports

Table 3. NPAT, by company

\$ million	Six months to December 2008	Six months to December 2007	Variance (%)
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Solid Energy	78.4	-2.8	2,881.4
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Source: SOE half-year reports to 31 December 2008; AsureQuality quarterly reports

*Financial management***Table 4. Gearing¹³, by company**

%	Six months to December 2008	Six months to December 2007	Variance (%)
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Solid Energy	0.0	8.4	-100
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Source: SOE half-year reports to 31 December 2008; AsureQuality quarterly reports

¹³ Gearing: calculated as gross debt, divided by gross debt plus equity.

*Shareholder return***Table 5. Adjusted return on equity (annualised), by company**

% [8]	Six months to December 2008	Six months to December 2007	Variance (%)
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Solid Energy	52.3	-1.6	3,317.0
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Source: SOE half-year reports to 31 December 2008; AsureQuality quarterly reports

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Solid Energy

Although revenue and NPAT for the period reached recorded levels of \$516 million and \$78.4 million respectively, due to record high coal prices, deferred export shipments in December had an adverse impact on interim results. Included in the net profit result, are recognised losses of \$20.1 million on financial instruments; mostly on foreign exchange contracts, due to the rapid depreciation of the New Zealand dollar.

For much of the period, export volumes sold at record high coal prices. However, the speed and impact of the global economic downturn on international steel manufacturers has seen deferred coal shipments and requests for price relief since November. Profit was also impacted by below-budget production at the Spring Creek (due to difficult geological conditions) and Rotowaro (due to wet weather) mines. On the positive side, a new five-year contract with New Zealand Steel has secured the long-term future of the Huntly East underground mine.

Solid Energy has reacted quickly to revise its operating plans due to falling international demand. Production at Stockton will decline by 20% in July, while the Ohai mine is expected to close in June. A complete review of operations and expenses over the next three to five years has been undertaken. Solid Energy believes it is strongly placed heading into what it forecasts to be a difficult 18 months.

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¹⁵ Transpower is incurring significant reserve charges as there is only one pole across the Cook Strait. When there were two poles in operation the other pole effectively acted as a backup and Transpower's reserve charges were minimal. A new pole is due to be commissioned in 2012/13. Transpower is seeking a ruling from the Commerce Commission to allow these costs to be treated as pass-through costs.