

The Treasury

Solid Energy Information Release

March 2013

Release Document

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

Solid Energy Ltd: Briefing for Business Planning Meeting

To	Minister for State Owned Enterprises	Priority	Urgent
cc	Minister of Finance Associate Minister of Finance		
Date	8 June 2009	Deadline	9 June 2009

Discussion Points

- **Financial Performance** – Solid Energy’s business plan has been heavily impacted by large falls in international coal prices. The Board responded quickly to the ongoing price volatility, focusing on cost savings, firming up export orders, and delaying some capital expenditure. Despite a large reduction in forecast financial performance from last year, return on equity over the three year plan period ranges from 10% to 24% - well above the cost of capital. However, the CEO will be keen to explain how uncertain the short-term outlook is.
- **Officials** do not have significant concerns over Solid Energy’s financial forecasts, but Solid Energy’s capital structure and dividend forecasts remain extremely soft and at odds with the expectations set out in your letter of 28 May 2009.
- **Gearing** – Solid Energy has a history of very low gearing, with the rehabilitation liability the only long-term ‘debt’. Our view is that rehabilitation should not be factored into this calculation as the timing of ‘repayment work’ is at Solid Energy’s discretion (and for the most part many years in the distance) and there is no interest cost as associated with bank debt. Gearing, which is currently well below 10%, is forecast to peak at 27% (excluding rehabilitation) during the plan period. Officials believe the expectation should be given to Solid Energy to considerably lift its current and forecast gearing targets through the payment of a special dividend(s).
- **Dividend Policy** – last year, Solid Energy increased its dividend policy to 50% of NPAT, but this has been ignored in the business plan. It has consistently paid low or no dividends due to expected future capital expenditure. Officials believe that Solid Energy is capable of adhering to its dividend policy targets, and should do so as a priority, rather than making meagre, irregular returns to the shareholder.
- **Commercial Valuation** - Solid Energy has again been granted an extension (to 31 August 2009) to complete its commercial valuation. Last year’s valuation used a discounted cash flow approach, but included several major projects that have not commenced or been approved by the Board (eg new mines and underground gasification), giving an extremely optimistic valuation of \$3.0 billion.

Chris Jones
Manager - Energy, Land &
Environment, CCMAU
[1]

Hon Simon Power
Minister for State Owned Enterprises

Generic comments

- Primary purpose of meeting is to seek feedback on my letter of 28 May 2009.
- Shareholding ministers demand improved financial performance from SOEs – in doing so, we are merely asserting the legitimate right of any majority shareholder.
- In order to contribute to this outcome, we have communicated expectations concerning: higher gearing & dividend yield, more robust commercial valuations and improved levels of SCI disclosure.

Summary Tables of Financial Performance

Return on equity (%)	2008/09	2009/10	2010/11	2011/12
2008/09 SCI	49%	41%	26%	
2009/10 draft SCI	33%	24%	10%	20%
% change	-33%	-41%	-62%	

NPAT (\$m)	2008/09	2009/10	2010/11	2011/12
2008/09 SCI	\$205	\$210	\$167	
2009/10 draft SCI	\$131	\$26	\$51	\$118
% change	-36%	-87%	-69%	

Dividend (\$m)	2008/09	2009/10	2010/11	2011/12
2008/09 SCI	\$100	\$130	\$110	
2009/10 draft SCI	\$25	\$0	\$0	\$60
% change	-75%	-100%	-100%	

Gearing ratio ¹ (%) (excluding/including rehabilitation liability)	2008/09	2009/10	2010/11	2011/12
2008/09 SCI	20/35	24/35	26/35	
2009/10 draft SCI		27/38	24/35	25/35
% change		13%/9%	-8%/0%	

¹ Gearing Ratio = Interest-bearing liabilities less cash divided by interest-bearing liabilities less cash plus shareholders' funds

