

# **The Treasury**

## **Solid Energy Information Release**

**March 2013**

### **Release Document**

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## Solid Energy NZ Ltd: Request for clarification on dividend policy and final Statement of Corporate Intent (SCI) for tabling

<b>To</b>	Minister for State Owned Enterprises	<b>Priority</b>	Semi-Urgent
<b>cc</b>	Minister of Finance Associate Minister of Finance (Hon Steven Joyce)		
<b>Date</b>	19 August 2009	<b>Deadline</b>	24 August 2009

### Purpose

This report recommends sending the attached draft letter to the Chair of Solid Energy requesting:

- further explanation for the proposed dividend policy and gearing targets as outlined in the latest draft 2009 SCI
- that the Board forwards 60 copies of the final SCI for tabling in the House of Representatives, once it has given due consideration to the issues noted.

### Background

On 18 August 2009, you met with Solid Energy's Chair (John Palmer) to discuss the recently completed capital structure review, and resulting changes in dividend policy and gearing targets.

Following the capital structure review, Solid Energy has increased its gearing targets from around 25% to 35% and acknowledged that mine rehabilitation costs should not be included in this calculation, as they do not have the same characteristics as bank debt.

Solid Energy's dividend policy is now based on maintaining a 35% gearing ratio, rather than returning a percentage of profits<sup>1</sup>.

### Request for further comment on targets

Prior to your recent meeting with the Chair, officials noted concerns that Solid Energy's dividend policy should retain a link to profits and that its gearing could be increased further, to 40%, in line with the findings of the capital structure review completed by PricewaterhouseCoopers.

While the Chair commented on these issues (noting capital plans, and large exposures to international coal prices and exchange rates), you requested that the Board give further consideration to these matters. You also noted shareholding Ministers' expectation that the Solid Energy Board continue to give active consideration to returning excess capital to the Crown, in the form of dividends.

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<sup>1</sup> Last year's dividend policy was 50% of net profit after tax, subject to a number of caveats, including a 35% gearing ratio target (inclusive of rehabilitation liabilities).

The attached draft letter therefore requests that the Board:

- explains why the dividend policy has removed any link to profit or operating cash flow, as is the preference of shareholding Ministers
- outlines when the Board expects to be able to lift its gearing target from 35% to 40%, as suggested by the PricewaterhouseCoopers' capital review
- confirms that Solid Energy is assessing options for freeing up cash from the business, and that where operating or investing cash requirements change, additional dividends will be a prime consideration for the Board.

The letter closes by asking the Board to submit its final SCI for tabling in the House of Representatives, once it has considered and responded to these issues.

### **Recommendation**

We recommend that you **sign** the attached draft letter to the Chair of Solid Energy.

### **Consultation**

The Treasury has been consulted on this report, and agrees with its content.

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

Hon Simon Power  
**Minister for State Owned Enterprises**

John Palmer  
Chair  
Solid Energy New Zealand Ltd  
PO Box 1303  
CHRISTCHURCH 8140

Dear Mr Palmer

**2009-12 Statement of Corporate Intent (SCI)**

As discussed at our meeting on 18 August 2009, Solid Energy has now completed its capital structure review and updated its draft 2009-12 SCI.

At the meeting, I asked the Board to give further consideration to several issues related to capital structure, given shareholding Ministers' expectation for a larger and more consistent dividend stream from SOEs.

I would therefore like the Board to:

- explain why the dividend policy has removed any link to profit or operating cash flow, as is the preference of shareholding Ministers
- outline when you expect Solid Energy to be able to lift its gearing target from 35% to 40% (consistent with the conclusions of the PricewaterhouseCoopers' capital review)
- confirm that it is actively considering options for freeing up cash from the business, and that where operating or investing cash requirements change, additional dividends will be a prime consideration for the Board.

Once the Board has given due consideration to these issues and provided a written response, please forward 60 copies of the final SCI to my office (c/o Emily Richards) by 31 August 2009, for tabling in the House of Representatives.

Ministers appreciate the efforts of the Board, management and staff of Solid Energy over the past year, and wish you all the best for the year ahead.

Yours sincerely

Hon Simon Power  
**Minister for State Owned Enterprises**  
*on behalf of shareholding Ministers*

cc: Dr Don Elder, CEO, Solid Energy Ltd