

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
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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 NZ Ltd Annual Shareholder Meeting (ASM)

To	Minister for State Owned Enterprises	Priority	Routine
cc	Minister of Finance Associate Minister of Finance (Hon Steven Joyce)		
Date	6 October 2009	Deadline	14 October 2009

Purpose

This report provides a background for the Minister for State Owned Enterprises' (SOEs') attendance at the Solid Energy ASM on Thursday, 15 October 2009. We have also provided a 'free and frank' assessment of Solid Energy's performance in the attached 'Equity Analyst Style Report' and a range of discussion points and questions you may wish to raise with the Board and management.

ASM Background

In our view, the purpose of the ASM is for shareholding Ministers to have an open discussion with the Board about the Company's past and future performance. It is an opportunity to communicate performance expectations to the whole Board, as is well timed to provide comment on performance for the year ended 30 June 2009, and the forthcoming business planning round.

Solid Energy will be represented by the Board and members of the senior management team. The meeting is not public, so there will be no media or publicity flowing from them.

The ASM comes the day after Solid Energy's annual public meeting, to be held at the Wellington Town Hall and the ministerial reception to be held at Parliament.

Meeting Agenda and Format

The ASM is essentially a formal meeting, with the format largely prescribed in the Companies Act 1993. Solid Energy has sent a copy of the agenda to your office. Appendix I contains the Agenda and comment on meeting protocols.

We consider the most notable agenda items, in order of occurrence, are the CEO's review, the shareholder comment and question session, and shareholder voting on ordinary resolutions.

Shareholder Comment and Question Session

Agenda item 'D' is a more informal discussion and question forum, which may be the most valuable part of the meeting.

We recommend you commence this agenda item by noting you would like to provide comment the following areas, followed by questions directed to the Chair:

- performance for the year ended 30 June 2009
- the recently completed 2009 Statement of Corporate Intent
- shareholder expectations for the 2010 business planning round.

Appendix II contains some suggested performance review comments and questions for the Chair.

Appendix III provides an Equity Analyst Style report which contains official's free and frank views on the Solid Energy's performance and a range of metrics.

AGM Resolution Votes and Proxys

The last item on the Agenda, is consideration of, and shareholder voting on, two normal resolutions. The resolutions to be voted on are:

- to accept the annual report for the year to 30 June 2009 in particular the Chair and CEO reports, the financial statements and the auditors report
- to note the decision of the directors to pay dividends totalling \$49.5 million for the year ended 30 June 2009.

For each resolution the Minister for SOEs has two voting rights; a 50% shareholding vote as Minister for SOEs, and as the proxy shareholder for the 50% shareholding vote of the Minister of Finance.

Officials recommend that the Minister for SOE votes, are used as follows:

- 'for' to accept the annual report
- 'for' to note the dividend paid by the company.

The proxy votes held for the Minister of Finance, allow voting as follows:

- 'for' to accept the annual report
- 'for' to note the dividend paid by the company.

Consultation

The Treasury has been consulted on, and agrees with, the contents of this report.

Recommendations

2. It is recommended that Ministers

- **note** the performance comments and questions for discussion with the Board and management
- **note** the voting options available to shareholding Ministers.

Chris Jones
Manager - Energy, Land & Environment
CCMAU

Hon Simon Power
Minister of Justice

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Appendix I: Solid Energy ASM Meeting Notes

Expected Attendees:

Board: John Palmer (Chair) , John Spencer (Deputy Chair), Adrienne Young-Cooper, Alan Broome, John MacDonald, John Fletcher, Helen Cull, Simon Marsters

Management: Dr Don Elder (Chief Executive Officer), Barry Bragg (Chief Operating Officer), Warren Maslin (Chief Financial Officer), Alison Brown (General Counsel).

Agenda

- a Chair's Introduction – John Palmer
- b CEO's Review – Dr Don Elder
- c Annual Report & Financial Statements – formal tabling of the annual report
- d Shareholder Questions

This is an informal forum for discussing the company performance, with comments of questions directed through the Chair. We recommend you provide your views on performance for the 2009 year, the recently completed 2009 planning round and SCI, and shareholder expectations for the 2010 business planning round. These comments can then be followed by any questions to the Chair.

Appendix II provides some suggested comments on these topics, and questions for the Chair.

- e Voting on Ordinary Resolutions

As Ministers for State Owned Enterprises and the proxy holder for the Minister of Finance, you are able to cast voting rights for 100% of the shares. There are two normal resolutions which require the shareholder to vote on.

- i) Annual Report – this is a vote to **accept** or **reject** the Annual Report 2009
 - as Minister for SOEs we recommend you vote 'for' to accept the Annual Report 2009.
 - as proxy holder for the Minister of Finance, you can vote 'for' to accept the Annual Report 2009.
- ii) Dividend – this is a vote to **note** dividends of \$49.5 million for the 30 June 2009 year
 - as Minister for SOEs we recommend you vote 'for' to note the 2009 dividends
 - as proxy holder for the Minister of Finance, you can vote 'for' to note the 2009 dividends.

- f Meeting Close.

Appendix II: Solid Energy Performance Discussion

Performance and Planning Comments

- Note - Equity Analyst Style Report attached for reference.
- Solid Energy's performance has again been volatile due to the impact of export coal prices and the strength of the New Zealand dollar. Though well short of budget, the record profit remains a good result, as is the dividend payment for the year.
- The speed with which Solid Energy responded to the near collapse in global coking coal prices and demand in late 2008 was very pleasing as was the way shareholding Ministers were kept apprised. The response was made to protect the long-term value of your most valuable asset, the Stockton Plateau, with investment priority given to core mining activities, such as the coal washery and the Millerton and Cypress extensions, rather than some of the less certain new energy investments. We encourage the Board to continue its investigations into new energy uses for coal - the potential benefits for the company are significant, as they are for contributing to economic growth – but at the same time, these benefits will need to be balanced with environmental responsibility.
- The new contract with New Zealand Steel is clearly a highlight for the year, as is the Downer Alliance contract which you consider will be the basis for a step change in performance at Stockton.
- There has been a significant increase in focus on health and safety issues, particularly at Stockton, where performance during 2008 and 2009 had become unacceptable.
- Prior to the 2009 planning round, shareholding Ministers gave a clear message to all SOEs regarding our expectations for improved performance, greater transparency, and for larger more consistent dividend flows to be paid to the Crown as a priority rather than as a residual to capital investment plans.
- Although market changes have meant it is not possible for Solid Energy to forecast profit levels as per 2008, we are pleased with the focus that has been placed on improving productivity, protecting cashflows, and retaining confidence in Solid Energy's long-term strategy.
- In line with our expectations, Solid Energy will be taking on more debt to fund significant capital expenditure over the coming years. In the past the balance sheet has been overly conservative, so we are pleased to see forecast debt moving towards BBB credit rating levels. The Chair's letter of 31 August 2009 confirmed the Board was continuing to investigate options for freeing up cash, with additional dividends a prime consideration for the Board.
- We are pleased with the new disclosures in Solid Energy's 2009 SCI, particularly the improved outlook comments, the new performance targets, and the revised approach taken by the Board to its estimate of commercial valuation.
- Although the 2009 SCI has only recently been finalised, are thoughts will soon turn to the 2010 business planning round. At this early stage I would like to note that our focus will continue to be on improving SOE productivity, performance and transparency. The size of the portfolio demands this approach if we are achieve economic growth at a national level.

Questions for the Chair

Solid Energy's performance is obviously very susceptible to international prices. Are there any options for gaining longer term supply contracts to smooth out some of the volatility? If so, would you consider them a an attract option?

What success is SEL having with getting customers to take their deferred export shipments at the higher 2008/09 contract prices?

The Stockton Alliance commenced on 3 October. Has the Alliance started in a strong position and been well staffed? Although its very early days, how has the transition gone to date?

Has it been a mistake to invest in biofuels or do you stand by the investment? Does it have a viable future?

Carbon – the 2009 Annual Report is positive about the future of commercialising carbon capture and storage. Given that commercially viable CCS options are not currently available, what are the chances of this happening for a Coal to Liquids or Underground Gasification project?

When the joint venture with Cargill was established it was a saviour for Spring Creek Mine. But despite all the additional investment, mine production has been well below target. What is the future for the mine and what is the worst case scenario?