

The Treasury

Solid Energy Information Release

March 2013

Release Document

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Treasury Report: Solid Energy - update

Date:	1 March 2012	Report No:	T2012/348
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note contents	None
Minister for State Owned Enterprises (Hon Tony Ryall)	Note contents	None
Associate Minister of Finance (Hon Steven Joyce)	Note contents	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
John Crawford	Deputy Secretary, Commercial Transactions	[1]	✓
Juston Anderson	Senior Analyst, Commercial Transactions	[1]	

Minister of Finance's Office Actions (if required)

None.

Enclosure: Yes (Solid Energy Strategic Issues letter and response to Treasury)

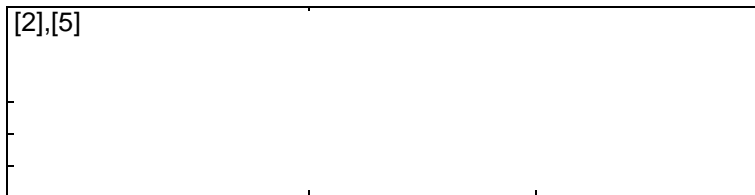
Treasury Report: Solid Energy - update

1. This report:
 - summarises the conclusions of the mixed ownership scoping study of Solid Energy, as requested by the Minister for SOEs
 - updates Ministers on recent developments, and
 - sets out Treasury's intentions from here.

Executive Summary

2. The scoping study by UBS effectively expressed no confidence in Solid Energy's business strategy. [2],[5]

Solid Energy's own forecasts were significantly higher than market forecasts, and according to UBS "not based on any analysis of fundamentals".



3. [2],[5]
4. The scoping study advised that significant changes would be required to Solid Energy's strategy and business before it could be suitable for an IPO. The implicit conclusion is that third parties would not be willing to invest in Solid Energy as it is now.
5. Solid Energy has recently responded to the scoping study, in a note to Treasury and in its Strategic Issues letter to shareholding Ministers. We interpret these responses from Solid Energy as, in effect, rejecting the majority of the scoping study's conclusions, concluding that Solid Energy's current strategy is appropriate, and arguing that a retail-based IPO for Solid Energy is not the appropriate way forward

Next Steps

6. We intend to commission the Crown advisor, Deutsche Bank, to undertake a short-term focused analysis of Solid Energy, building on the UBS scoping study and Solid Energy's recent responses to it.
7. In about 2-3 weeks, once the Deutsche Bank analysis is complete, we will report to Ministers with further advice on the way forward. However, at this point we believe the options are for Ministers to either:
 - support Solid Energy's current strategy and business plan, which in our view would mean withdrawing Solid Energy from the mixed ownership programme, as

under the current strategy the company is not suited for an IPO which focuses on New Zealand retail investors, or

- ask the Board (and in particular the Chair) whether it believes it is able to support a significant shift in the company's strategy, along the lines proposed by the scoping study, in order to prepare the company for an IPO.
8. We note that Solid Energy's strategy effectively rejects the consensus price path used in the scoping study in favour of what it describes as its "well worked and proven analysis" (despite the company being unable to supply this analysis during the scoping study). While it is possible that future price paths could align with Solid Energy's projections, it is our view that supporting Solid Energy's analysis is effectively taking a large commodity price bet against the market.
9. We note that preparing the company for an IPO is likely to take a minimum of 1 year, with full support from the Board and management, plus further time to demonstrate the results of the shift in strategy to the market. This would mean a potential IPO for Solid Energy in late 2013 at the absolute earliest, and more likely some time in 2014.

The Scoping Study

10. The Solid Energy scoping study concluded that an Initial Public Offering (IPO) of Solid Energy, which could meet the MOM objectives, requires a focus on the company's core coal mining business with:
- downsizing of the New Development activities particularly around the large scale projects associated with the Southland lignite resources: coal-to-fertilizer (CTF) and coal-to liquids (CTL) for liquid fuels
 - sale of the renewable businesses (biodiesel and wood pellets)
 - increased expenditure on drilling to prove up the level of coal reserves to meet equity market requirements, and
 - repayment of Solid Energy's debt at time of listing to meet the debt free norm for listed coal companies.
11. The scoping study advised that Solid Energy's Board would need to adopt this new strategy and drive the required changes at the CEO and senior management level, with reductions in corporate head office and overhead costs.

Estimated proceeds

12. [2],[5]

13. [2],[5]

14. [2],[5]

15. The \$5 to \$7 billion range for total proceeds from the mixed ownership model included an estimate of \$680 million to \$830 million from an IPO of Solid Energy. This was based on an estimated value of \$1.7 billion for 100% of Solid Energy, and the Crown selling 40-49% of its shares.
16. The \$1.7 billion valuation for Solid Energy was from an independent valuation of the company by Forsyth Barr, produced using publicly available information. The Solid Energy board's most recent estimate of the value of the company was \$2.8 billion.
17. The significant gap between the scoping study valuation [5] and Solid Energy's own valuation (\$2.8 billion) arise from:
 - Solid Energy utilising commodity price path assumptions for coal and oil for its lignite conversion project products that are very significantly above the consensus views of analysts which formed the basis of the UBS analysis.
 - Solid Energy's risk and return assessments for its lignite development projects being lower than equity or investment market expectations for such early stage, large scale, and high risk projects.
18. [2],[5]

UBS sought, but was unable to

obtain, documentation and analysis from Solid Energy to support the latter's view on commodity price paths.

Impediments to IPO and Investor Expectations

19. The scoping study identified a number of business issues within Solid Energy that investors would expect to be mitigated or resolved prior to any IPO. Moreover, resolution of these issues could increase returns from an IPO. These issues are:

Coal Mining

- Increasing the level of documented coal reserves.
- Adjustment of mining operations and development to the economics of a lower price path assumption.
- [2],[5]
- Operational uncertainty over the Spring Creek mine on the West Coast.

Strategic Business Positioning

- Scale of investments and capital investment in New Developments.
- Renewable Energy investments go beyond core competencies in the value chain.
- Diversion of cash flow and management resources from the core coal business.

Cost Structure

- Head office overhead significantly larger than comparable Australian listed companies.
- Adopting a new corporate structure to assist in transitioning to a project based, multi-resource developer.

Other Matters

- Board composition.
- Capital structure.

20. Further detail on these issues is provided in Annex A.

Recent developments

21. Following the scoping study, Solid Energy was requested to develop a revised strategy and business plan to prepare the company for an IPO, and provide this to shareholding Ministers by 31 January 2012. This plan was to reflect the Board's response to the analysis in the scoping study prepared by UBS. The board was also asked to provide quarterly reports to shareholding Ministers and Treasury on the revised plan's implementation.
22. The Chair of Solid Energy responded to you on 27 January stating that "most of" shareholding Minister's expectations "are well within Solid Energy's ability to fulfil" and that "we will have to you a formal response to the UBS Scoping Study by the third week of February and will integrate our strategy revision into the Strategic Issues letter due on 28th February". The third week of February was 13 to 17 February.
23. On 23 February, after following up with the company, Treasury received a response from Solid Energy to the scoping study. We do not believe Solid Energy has sent this response directly to Ministers, as the Chair indicated in his letter of 27 January. However, Solid Energy has covered much of the same ground in its Strategic Issues letter, which was sent to Ministers on 28 February. Copies of the response to Treasury and the Solid Energy Strategic Issues letter are attached to this report.
24. We interpret these responses from Solid Energy as, in effect, rejecting the majority of the scoping study's conclusions and arguing that a retail-based IPO for Solid Energy is not the appropriate way forward.

Post-Investment Review

25. As you know, all SOEs have been requested to carry out post-investment reviews (PIRs) of significant investments that they have undertaken. Solid Energy's PIR was received by Treasury on 28 February, covering the company's investments in a Taupo wood pellet processing plant and the Stockton Water Management Project.
26. We have now begun our analysis of the PIR, but based on Solid Energy's figures and assumptions:
 - the Taupo wood pellet plant was commissioned 5 months later than planned
 - actual expenditure was as budgeted (\$33.9 million)
 - the originally planned capacity of 60,000 tonnes per year was not met, and the plant as commissioned is only capable of 30,000 tonnes of production per year
 - prices received from the sale of wood pellets have been lower than forecast
 - the total and variable costs of production of the wood pellets have been higher than forecast, and
 - as a result of the above factors, gross margins from the pellet plant have been significantly negative, and are forecast to continue to be negative in the short term.

27. [2],[5]
28. Solid Energy advises that it used the company's weighted average cost of capital as the discount rate for the net present value calculation. In our opinion this is not appropriate – a project specific rate should be used, which for a project like this would be higher. [2],[5]
29. Solid Energy states that it is currently considering options for future returns on this investment, and that “a learning from this project has been that the business would have benefited from a more thorough understanding of the complexities and risks of developing new or emerging markets with relatively new products”.
30. [4],[5]
31. In our view this PIR supports the comments in the UBS scoping study that:
- Solid Energy's Renewable Energy investments go beyond its core competencies, and
 - the investments represent a diversion of cash flow and management resources from the core coal business.
32. The other project covered by Solid Energy's PIR, the Stockton Water Management Project, was considered essential to improve the environmental impact of mining at Stockton. Therefore Solid Energy advises that “ no [net present value], [internal rate of return] or Payback calculation applies to this investment. Success is measured in satisfactory environmental improvements and the retention of the 'licence to operate' at Stockton”.

Solid Energy's financial performance

33. The Annual Portfolio Report showed that over the 5 years from 2006 to 2011, Solid Energy:
- generated operating cashflows of \$518 million, but only paid dividends to the Crown totalling \$134 million
 - invested \$547 million into the purchase of fixed assets, and
 - increased its total liabilities by \$394 million.
34. In effect, Solid Energy has used its entire operating cashflows over the last 5 years to fund new investment, as well as supplementing this with increased borrowing. The relatively small dividends paid to the Crown have been funded by the company taking on increased debt. The UBS scoping study indicated that listed coal companies are typically debt free.

35. The significant investment by Solid Energy (around \$0.5 billion over the last 5 years and around \$1 billion over the last 10 years) does not seem to have resulted in increases in Solid Energy's profits, once you strip out the effect of movements in coal prices.

Recommended Action

We recommend that you **note** the contents of this report.

John Crawford
Deputy Secretary, Commercial Transactions

Hon Bill English
Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Annex A: Impediments to IPO and Investor Expectations

Coal Mining

1. Average mine lives among comparable listed Australian coal companies exceed 30 years. In moving to a listed company Solid Energy would need to bring forward planned exploration and drilling to define its West Coast resources and reserves to the extent necessary to provide investors greater assurance over mine lives. [2],[5]
2. Solid Energy's business plan assumes coal prices significantly higher than current consensus prices and as a result higher operating and capital expenditure than would be economic at lower consensus prices. Solid Energy will need to prepare a modified mine and overall coal business plan for review by a technical expert for the purposes of a prospectus.
3. [2],[5],[7]
4. [2],[5],[7]
5. [2],[5],[7]
6. [2],[5],[7]
7. [2],[5],[7]
8. Solid Energy is looking to acquire 100% of the Spring Creek mine by buying out its joint venture partner Cargill. The Spring Creek underground mine has a design capacity to produce 800,000 tonnes per annum of semi-soft coking coal for blending with hard coking coal from Stockton. The mine has been unable to meet production targets due

to the inability to advance development, in part because of the joint venture partner's underinvestment in operational and capital expenditure. Complete ownership by Solid Energy will avoid lengthy and unscheduled shutdowns to develop more coal to mine and to assess safety conditions in the mine.

Strategic Business Positioning

9. In order to mitigate investor concerns around Renewables and New Developments the scoping study recommends that:
 - the Renewable Energy businesses are sold prior to IPO
 - the costs and resources of New Developments are materially reduced to annual expenditures of no more than [2],[5] per annum (operational and capital expenditures plus overhead allocation) on projects that have not reached a defined feasibility study stage, and
 - In the absence of such disciplined actions investors will discount the value of the coal business.
10. Since 2005 Solid Energy has directly spent an estimated NZ\$165 million on its Renewable Energy and New Development activities [2],[5] but excluding unallocated corporate office costs. Overhead and development expenditure for the June 2012 year is expected to be [2],[5] approximately equally allocated between the UCG and CTF projects.
11. The Renewable Energy projects are yet to generate earnings before interest, tax and depreciation and investors will not likely identify linkages between these businesses and Solid Energy's core competencies.
12. For New Developments Solid Energy should focus on finding promoter and operator partners for economically viable projects and constrain expenditure to exploration and development activities. The CTF and CTL projects should be put on hold unless external analysis demonstrates materially improved project economics using market based commodity price expectations and valuation parameters.

Cost Structure

13. Solid Energy's head office overhead is significantly larger than comparable Australian coal companies. Solid Energy's coal only overheads are [2],[5] compared with Australian companies [2],[5] Solid Energy's combined coal and head office corporate overheads are [2],[5] The scoping study notes that some of this difference can be explained by the scale up of resources to develop the New Developments and Renewable Energy business and less focus on allocation of costs to the projects to which they relate e.g. unallocated corporate costs to business units, unallocated exploration costs within the coal business and the low level of head office costs allocated to New Developments relative to the time UBS understands is being invested in these projects.
14. The scoping study recommends a detailed review of head office costs in order to identify:
 - head office costs that cannot be directly allocated to business units
 - areas of cost saving, and
 - operating cost structure differences versus Australian coal mining companies.

Other Matters

15. The scoping study recommends reducing the Board from eight to six members given the size is large in comparison with Australian coal companies of a similar size. It proposes that two Board members have direct coal mining experience and an international director with large scale oil and gas development and processing experience should be considered.
16. The scoping study also recommends that Solid Energy should have no debt at the time of IPO. The majority of listed Australian coal companies have positive cash balances because of the inherent volatility in coal mine cash flows and the substantial cash requirements for new mine developments. [5]



SOLID ENERGY
Coals of New Zealand

28 February 2012

Hon Tony Ryall
Minister for State Owned Enterprises
Parliament Buildings
WELLINGTON

Dear Minister

2012 STRATEGIC ISSUES

We are writing to provide a summary of the key business issues that we expect to address through this year's planning process.

In summary Solid Energy sees the following strategic issues having priority in the present planning round,

1. **Performance;** meeting strategic, operational and financial performance targets, and short term 'MOM milestones', to establish credibility in our capability and delivery
2. **Capability;** demonstrating our ability to attract and maintain technical and operational capability in the short and long term, in the face of intense market competition and the situation in Christchurch.
3. **Capital;** maintaining access to sustaining and development capital, while acknowledging the Crown's MOM objectives.
4. **Monetising Assets;** converting intrinsic value in current resources and reserves, and IP, into recognised value.
5. **Realising future value growth** by delivering long-term strategic initiatives.

Business Performance

Over the next 12-18 months Solid Energy has a number of strategic, operational and financial performance targets that need to be met in order to produce satisfactory results and demonstrate our capability to deliver. Our FY2013 Business plan will include milestones that address the issues identified in the UBS scoping study that was completed as part of the Mixed Ownership Model ("MOM") process.

Improvements in productivity, health & safety and cost will continue to be a focus across the entire business.

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Key strategic issues for Solid Energy to consider during this planning round are:

- *How to balance investment in long term value opportunities while managing the short term cash volatility*
- *Ensuring that all short term milestones are consistent with our strategic objectives*
- *Our ability to deliver mutually satisfactory MoM outcomes from both an fiscal and capital perspective*
- *Improving the long term risk and reward profile of our asset base through diversification from conventional coal*

Capability

Demonstrating our ability to attract and maintain technical and operational capability in the short and long term, in the face of intense market competition especially from the aggressive Australian resource sector. These pressures continue to be exacerbated by the situation in Christchurch whose attractiveness has diminished post-earthquakes. Sector specific challenges include high cost escalation in the resources sector for labour, material and equipment, and strong competition for key technology, partners and specialist expertise.

Key strategic issues for Solid Energy to consider during this planning round are:

- *Recruitment, retention and development of a future workforce for the NZ mining industry*
- *Obtaining the specialist capabilities and a workforce to deliver new large scale natural resource projects*
- *Attracting the "best" partners that can create further value or minimise execution and operating risk for our projects*

Capital

Like most resource development companies, Solid Energy's business plan will again contain significant capital investment over the short, medium, and long term. We have many attractive projects with returns considerably above our cost of capital.

Solid Energy has always intended to introduce new capital to help fund the development and construction of these new projects. As the existing Shareholder the Crown has first option on introducing new capital however we have assumed current fiscal pressures make this unlikely. Attracting capital is critical to the development of many of our strategic projects. The MoM process provides one option to access capital at the parent level. There are also a number of alternative capital raising options that may create additional value over and above access to capital at the parent level.

The application of the MoM objectives by UBS to the partial sell down of Solid Energy has raised several issues which remain unanswered by the scoping study. While the market focus of the scoping study has given the company an invaluable insight into the demands of the capital markets, Solid Energy is concerned that such a narrow focus has driven a series of recommendations that may not be in the best interests of the business nor its future shareholders, including the Crown.

We believe that the unique nature of Solid Energy amongst the nominated MoM SOEs; its product mix, its exposure to world commodity markets and exchange rates, its long term growth strategy, all need careful consideration in establishing the most appropriate ownership structure in order to deliver maximum long term value to shareholders. Not only are these factors eschewed in the scoping study, they almost certainly do not fit comfortably within the proposed MoM framework.

We consider Solid Energy will benefit from exposure to the capital markets and having access to capital and we are keen to work together with Treasury on delivering a capital plan that maximises value for Solid Energy while meeting the Crown's MoM fiscal and political objectives.

Key strategic issues for Solid Energy to consider during this planning round are:

- *Understanding the options available for Solid Energy to access capital and the implications on strategy, delivery, long term value and the MoM objectives*
- *Continue to refine the allocation of investment capital and people between sustaining our existing operations and investing in our long term growth*
- *Securing capital for our large scale projects in a form that adds value and doesn't relinquish control over strategic resources or give up excessive future value*

Monetising Assets

In addition to maximising the cash available from our existing operations and in response to the capital market perspectives highlighted by UBS, Solid Energy will intensify its focus on external perceptions of value. This will involve reviewing our current resources into reserves and critically evaluating our current asset base.

Opportunities also exist to create additional value through accelerating approvals (and raising risk profile) on metallurgical coal projects and moving to construction phase of coal to fertiliser project.

Key strategic issues for Solid Energy to consider during this planning round are:

- *Assessing the future value and risk of current operations and future projects and identifying the best option to monetise*
- *Ensuring broad stakeholder support for our existing operations and future projects to ensure that our future value can be realised*

In addition to these primary strategic issues the global commodity outlook and carbon management continue to be of significant importance to Solid Energy.

Global Commodity Outlook

Our view on the long term supply and demand fundamentals has not changed. Strong growth profiles in emerging economies will continue to create long term demand for commodities. In addition supply side constraints will result in higher prices which in turn will drive both innovation and substitution. In the short term commodity prices are softening due to slowing demand as a result of the current financial crisis in Europe and economic contraction in the Chinese steel market. While we expect this effect to be short term it will nevertheless provide a significant cash constraint in FY2013, accentuating the previously signalled requirement for capital in the short term.

New Zealand is uniquely positioned to capture the opportunity created by rising demand as a result of our location, proximity to high growth Asian markets and our unique resource base which includes world scale deposits of unconventional resources.

Key strategic issues for Solid Energy to consider during this planning round are:

- *How to balance investment in long term value opportunities while managing the short term cash volatility*
- *How to maximise the opportunity created by strong demand in commodities in the medium and long term*

Cost of Carbon

A significant impact on Solid Energy's future strategy is the cost of carbon. New Zealand's Emissions Trading Scheme (ETS) has not significantly impacted Solid Energy's business to date given the transitional provisions in place to end 2012. With the anticipated changes to the Climate Change Response Act the impact will increase, and there remains uncertainty in the allocation of credits to trade-exposed companies, including Solid Energy. Specifically the current ETS position regarding methane vented from underground mines remains an important issue for Solid Energy.

Over the longer term, the uncertainty regarding global carbon markets post-2012 makes valuing the carbon effect on Solid Energy's development projects difficult. We continue to recognise the importance carbon management will play in enabling some of our future developments such as coal-to-products and underground coal gasification.

A key strategic issue for Solid Energy to consider during this planning round is the uncertainty engendered by New Zealand's carbon regulatory regime and the consequential need to consider alternative approaches to carbon management.

Our SCI and our Business Plan will provide further detail and we look forward to discussing these in due course.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Palmer', with a large, stylized loop at the end.

J PALMER
Chairman

cc: Juston Anderson, Treasury

Solid Energy Business Plan Update; the Response to the UBS Scoping Study

Introduction

- The Board of Solid Energy acknowledges that the sell down of any of New Zealand's SOE's need to meet both political and fiscal objectives set down for the MoM process. Their application by UBS to the partial sell down of Solid Energy has raised several issues which remain unanswered by the scoping study.
- While the market focus of the scoping study has given the company an invaluable insight into the demands of the capitals markets, the board of Solid Energy is concerned that such a narrow focus has driven a series of recommendations that may not be in the best interest of the business nor its future investors, including the Crown.
- We believe that the unique nature of Solid Energy amongst the nominated MoM SOEs; its product mix, its exposure to world commodity markets and exchange rates, its long term growth strategy, all need careful consideration in establishing the most appropriate ownership structure in order to deliver maximum long term value to shareholders. Not only are these factors eschewed in the scoping study, they almost certainly do not fit comfortably within the proposed MoM framework.
- The Board acknowledges that both Solid Energy and the Crown will benefit from exposure to the capital markets and having access to capital. We are keen to work together with Treasury on delivering a capital plan that maximises value for Solid Energy while meeting the Crown's MoM fiscal and political objectives.

Response to UBS scoping study

- UBS have applied their view of future prices paths for coal which are at considerable variance to those of Solid Energy. Our historic analysis (see Appendix 1) suggests not only is Solid Energy's track superior in this regard, (and the motivation for UBS's low case projections transparent), but a significant element of Solid Energy competitive advantage in promoting its growth strategy lies in the company's well worked and proven analysis. Solid Energy's understanding of the fundamentals of global coal and related markets, and its application to the business, has seen the value of Solid Energy growth from close to zero a decade ago to its current SCI value.
- UBS's perception of Solid Energy essentially as a conventional coal producer leads to Solid Energy being benchmarked against a set of peers that may not be appropriate given the unique nature of New Zealand's resources, the existing product mix of the company, the boutique nature of our operations and our strategic projects and aspirations. Determining our peers because of the product we currently sell or the current extraction method is only one part of the picture.
- Within the context of these reservations the Board of Solid Energy accepts that several of the insights of the UBS scoping study have merit and that a concentrated focus on a series of key strategic milestones over the course of the next 12-18 months has the potential to generate short term value uplift for the company and the shareholder.
- Given the uniqueness of Solid Energy amongst the SOEs identified for partial sell down and the seemingly unattractive UBS MoM proposal to the Crown, Solid Energy contents the Crown and the company should investigate other options which fulfil the MoM objectives, and which have the potential to be of direct benefit to Solid Energy.

Modifying Solid Energy's Current Business Plan

- On the basis of the UBS work and given the reservations described above Solid Energy has analysed the UBS recommendations (see Appendix 2) and developed a set of strategic milestones which are more generally applicable to a wider range of capital market options in that they focus on value uplift rather than a retail IPO in the near term.
- The milestone plan has been developed and endorsed by the Solid Energy board is as follows,

Solid Energy Milestones 2012 – 2013

1.	Determine viability of increasing R/P ratios by accelerating West Coast Coal prospecting and development activity
2.	2/15
3.	Optimise West Coast resources position, initially Spring Creek
4.	Determine fit of Renewables businesses within the overall Solid Energy strategy/price discounting and monetise
5.	Commission Briquetting Demonstration Plant and investigate partial sell-down options
6.	Attain value recognition for CTF (CTL on care and maintenance)
7.	Light-up Huntly UCG and develop global UCG business plan
8.	'Farm-in' partner/new equity to CSG programme
9.	Reassess company structure and review overheads
10.	Divestment Review

- The Board of Solid Energy has endorsed these milestones for integration into the company's current year Business Plan and is ensuring they form an integral part of the forthcoming Business Plan. As such they are scheduled to be addressed over the next 12 to 18 months.
- The board has requested regular updates as to progress together with their inclusion in Solid Energy's quarterly reports to the shareholder.

Valuation

- UBS have concluded that an enterprise valuation of Solid Energy is approximately 60. This is a market valuation based on a set of conservative assumptions and substantially explains the difference when compared to the company's current SCI value. The UBS market value in providing a relative measure of all coal companies based on a conservative view on future price requires careful consideration as to the inherent impact of such prices on the company's future strategy and therefore value given they have the effect of substituting the current market transaction value for future cash flows.
- There are a number of discrepancies in the valuation model which should be noted. These include;
 1. Solid Energy business plans are based on our internal view of price and therefore include mine design based on those future prices and the resultant economics. The UBS study applied Solid Energy production profiles, mine designs, capex and operating cost assumptions to a consensus price path. Solid Energy would consider different sequencing of operations and possibly even different asset mix based on this different view of the long term future price.
 2. There is no explanation as to why our closest comparable company being Bathurst Resources Limited is currently priced at a significant premium to Solid Energy in the New Zealand equity market.

3. The valuation of the New Energy business has been set at [REDACTED] which is a point estimate. The Board views the New Energy projects as future options for the business and their true option value needs further assessment and consideration before ascribing a point value for the purposes of valuation.
4. The valuation of Solid Energy's coal development assets is [REDACTED]. When this is compared to both the corporate coal costs ([REDACTED]) and exploration costs associated with these developments ([REDACTED]), no compelling argument for accelerating the proving and development of these assets, as UBS proposes, exists.

In summary the UBS approach runs the significant risk of sub-optimising the future value of Solid Energy. However the UBS market based approach to the Solid Energy scoping study has highlighted a number of areas where the company can reassess its immediate priorities and adjust its current Business Plan accordingly. The achievement of these milestones is expected to generate value in the near term which will improve the platform from which considered decisions can be taken as to how best to advance the MOM process as it relates to Solid Energy.