

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.

Date: 9 August 2012



To: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce)
Minister for State Owned Enterprises (Hon Tony Ryall)

Aide Memoire: Update on Solid Energy

On 5 June 2012 we reported to you on the current financial position of Solid Energy. In response to that report you agreed to place Solid Energy in an intensive monitoring regime, with monthly reporting and meetings with the Treasury. You also requested that Solid Energy supply a revised business plan for 2012/13.

Treasury received a revised draft business plan late last week and held its first monthly monitoring meeting with Solid Energy on Monday this week. The news is not good, with international markets further deteriorating since June. The company is now managing to the downside scenario in its draft business plan and faces some difficult issues over the coming months.

Solid Energy has told us that due to the state of the international coal market it is now unlikely that it will be able to find a new partner for the Spring Creek Mining Company. This, coupled with lower than expected coal returns and an increased debt position, is leading the company to consider the future of the asset. Closure is now a real possibility with up to \$140 million worth of impairment possible, and likely job losses.

[2],[5],[6]

[2],[5],[6] , and the continued weakness in the international coal market place Solid Energy at significant risk of breaching its banking covenants. As you will be aware, Solid Energy has bank debt of around \$295 million. Solid Energy is having discussions with banks next week to inform them of developments. It is possible that as a result of these conversations the Crown may be approached for indications of support for Solid Energy. If the situation continues to worsen there is also a possibility that a more significant level of support may be sought from the Crown, including equity. Treasury will offer further advice should these situations eventuate.

Solid Energy is taking steps to address the situation. It is now operating on the assumption that the current state of the coal market is more than a temporary anomaly and will be around for at least two years. A major restructuring has been announced and Solid Energy is looking at ways to take fixed costs out of the business. The company has moved to monthly budget approvals and looking to significantly reduce capital expenditure. Solid Energy also gave positive signals about the divestments of assets including its renewables business and land holdings in Southland.

We will continue to monitor the situation with the company closely. The business plan submitted last week is now out of date due to the decision to manage to the downside scenario. We will request that Solid Energy develop a document more representative of the current situation to report to you soon.

You have today received the June quarterly report from Solid Energy that outlines the expected 2011/12 year end result, which is an NPAT of \$33.8 million, down from a budget of \$134 million (note that Solid Energy's half-year result was NPAT of \$70.3 million). The year-end NPAT of \$33.8 million includes write downs of \$69.5 million.
[2],[5]

Solid Energy's quarterly report also updates you on some of the underlying drivers of the situation the company faces, and its strategies to address them.

The current position of the company is also adding complexity to the process of appointing a new chair of the Solid Energy Board. The specific requirements of the role, and the current position of the company, are impacting on the willingness of people to serve. A meeting is scheduled for 23 August 2012 with shareholding Ministers to discuss this, and Ministers will receive advice before this meeting.

There is also one vacancy on the board from the retirement of Adrienne Young-Cooper earlier in the year. Ministers have agreed the focus is on identifying a new board member with relevant mining expertise, to strengthen this critical skill set around the Board table (there is currently only one director on the Board with this background). Again, it has proved difficult to identify candidates with the right skill sets, who lack conflicts, and who are willing to consider serving on the Board – however a strong Australia based option has been identified, and we will seek Ministerial approval to proceed with formal due diligence shortly.

It is likely that at least some of the candidates for consideration will need confirmation of any changes proposed to director reimbursement before agreeing to serve

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Chris White, Manager, Commercial Transactions Group, [1]