

# **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.

Reference: T2012/2290

Date: 12 September 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: Solid Energy - Update following monthly monitoring meeting**

On Tuesday 11 September Treasury officials met with Solid Energy CFO (Anthony Burg) and Group Manager External Affairs (Bill Luff), as part of the current intensive monitoring arrangement. The following is an update on the state of the company as outlined at this meeting.

### **Key Messages**

The conditions that Solid Energy faces are still worsening and this financial year will be very challenging. The company requires quick results from cost saving initiatives. While it has been successful at securing support from banks there is a large risk that if prices do not improve it will be at risk of breaching its revised interest cover covenant by February or March next year. The company is in the process of developing a business plan that addresses the current situation, but it will have to manage a series of risks such as international prices, exchange rate, asset divestment, contract renewal [2], [5], [6] and successful implementation of the restructure, which at best it only has limited control over. There is an increasing likelihood that Crown support will be required if some or all of these risks materialise.

### **Bank Negotiations**

[2],[5],[6]

[2],[5],[6]

## **Market Outlook**

The coal market continues to weaken. Quarter 2 prices look weaker than Solid Energy's revised base case scenario and appear to be more consistent with the downside scenario. Reaction to this is starting to be seen across the industry with a number of recent mine closures announced in Australia. Solid Energy is still forecasting a recovery in prices in quarters 3 and 4. If this does not materialise the company is likely to find itself in a very difficult position. The company is also significantly exposed to the NZD/US exchange rate with any further appreciation costing the company in the region of [2],[5] for each cent increase in the rate.

## **Cost Control**

In this environment the company's cost control programme is critical, as it is the only factor that the company can control directly. We are concerned that the company has not been aggressive enough in pursuing reductions in head office costs, with the current plan only taking these back to 2010 levels. The company emphasised that it was important to get a resolution to the Spring Creek situation and it is working hard to support the current process.

## **New Developments**

Solid Energy has changed the focus of its new development projects. It is looking for partners for both Underground Coal Gasification (UCG) and Coal Seam Gas (CSG), with UCG most likely to focus on exporting the technology, as has been successfully achieved by Australian firms working with the technology. Solid Energy is still pursuing investment in lignite development in Southland, but is looking to firm up development plans, so it can divest some of its land holdings. The company is hopeful that this might realise [2],[5] in cash, which would be used to repay debt.

## **Further Discussion**

We plan to further discuss Solid Energy's current situation with you at the next Mixed Ownership Ministers Meeting on Monday 17 September.

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