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

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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.
Aide Memoire: Updated Spring Creek Questions and Answers

This aide memoire is an update on the one sent this morning with more detail and suggested communications lines on the issues discussed.

What has the profitability of the Spring Creek Mine been?

The Spring Creek mine has been struggling for some time even when the coal prices were historically high. The following table of the mine’s performance over the last 3 years was provided to Alan Jackson as part of his initial review.

<table>
<thead>
<tr>
<th>EBIT, NZ$ million</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>3.454</td>
<td>44.177</td>
<td>23.911</td>
</tr>
<tr>
<td>Actual</td>
<td>-13.996</td>
<td>-13.716</td>
<td>-83.814</td>
</tr>
</tbody>
</table>

The table shows that Spring Creek has been making losses for the past 3 years and has fallen significantly behind budget targets (note that the large loss in 2012 is driven by a non-cash impairment of capitalised mine development).

In its proposed media release Solid Energy is stating that the mine has lost $120 million since it began operation in 1999. We cannot verify this figure but it is consistent with what we understand the performance of the mine has been. $120 million is a more appropriate figure to use publicly than the information listed above.

What is the cost of developing Spring Creek panels 9-11?

Sold Energy has informed us that the cost of developing the next section of the mine is $8-9 million per month, with revenues not beginning until early next year.

In its proposed public announcement Solid Energy is stating that a further $40-70 million would be required to return the mine to full production.
What is Solid Energy’s ability to finance development?

Solid Energy is not in a position to finance further development of the mine. The company’s debt has grown from $38 million in 2008/9 to $295 million as at 30 June 2012 (these are publicly available figures announced in annual reports) and has continued to grow in the first few months of the financial year. [2],[5]

The company had been pursuing a growth and diversification strategy based on a view that energy prices would continue to grow. This has seen investments in renewable energy, coal seam gas, underground coal gasification and lignite development, which has contributed to this debt growth. Solid Energy has had to review a number of these business units to take account of the changed market conditions and this has resulted in slower development and business exits (and consequently job losses). The renewable businesses, like Spring Creek, have been a continuous loss maker [2],[5]

Could the Crown contribute capital?

This is an option, but it would not change the fact that the mine is not expected to be profitable. We believe that Solid Energy management would choose to allocate any additional capital spending toward other development opportunities that have higher NPV than the extension of the Spring Creek mine. Solid Energy report that, at current prices, extraction of coal from panels 9-11 would be at best break even and not cover any of the capital development costs.

What has happened to the global coal price?
The global coal price has been weak throughout most of the year, but took a very significant dive in August. Prices have since stabilised, but remain well below recent levels with an expectation that they will remain there for some time.

Solid Energy state in its proposed press release that for extraction of Spring Creek coal to be profitable, semi-soft coking coal would need to be between $180-200 a tonne. The current price is in the vicinity of $120 a tonne.

**Are there options beyond care and maintenance?**

Treasury commissioned Bernard McKinnon (an Australian mining expert) to review the operations of Spring Creek to see if there were other options to mine the resource that would be more financially attractive. His report concluded that Spring Creek is a difficult resource to mine and that the current methods being employed are the most appropriate. If the mine cannot be made cash positive at current coal prices then care and maintenance is an appropriate option.

**Are we seeing what is happening at Spring Creek occurring elsewhere?**

In response to the recent fall in global coal prices a number of producers with mines that are high on the cost curve (such as Xstrata & BHP Billiton) are closing mines or moving them to care and maintenance. The graph below shows some of the recent announcements and where Solid Energy mines sit relative to them.

[2],[5]
Key Information that can be discussed publicly

- The Spring Creek mine has lost $120 million since it began operation in 1999.
- It would cost an additional $40 – 70 million to complete the current development phase and this would not be recovered at current coal prices.
- To be economic Spring Creek needs to receive $180- $200 a tonne for its production. Current market prices are around $120 a tonne.
- Solid Energy is in a difficult financial position with debt of $295 million as at 30 June. It is reviewing its entire business and this has seen other business units, such as renewables, scaled back or divested.

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