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.
Hi John

I only learned late today that you had emailed me last night. For some reason I didn’t receive it – can you please check my email address? I have received it from Bill Luff, who received it from Anthony, who is out of the office. I had hoped to talk with John Palmer after his meeting today with you, before sending this, but I have been tied up in meetings until just now and so have not been able to yet.

Here is the background to our 5 year CFIS submission on 9 March, as requested in your email (I understand Anthony and Tom have already provided similar information to Juston):

- The current international economic slowdown has caused international steel demand to fall well below normal levels, which in turn has driven demand for hard coking coal downwards and caused prices to plummet about 30% in 6 months
- The AUD and NZD remain high, even though each time in the past several decades that commodity prices have dropped this far and fast the NZD and AUD have moved down similar amounts
- In NZD terms the quarterly HCC benchmark price has fallen 35% in 6 months to a 36 month low
- Some customers, particularly in China, are currently only taking HCC shipments at prices 10% below the benchmark price
- We do not currently believe this is a structural change in the long-term price, but more likely it is a short-term but severe outlier as steel mills destock in Asia
- Our FY12 H2 result will therefore be well down on H1 and we currently forecast our FY12 full year NPAT in the range $90 - $98 million (before adjustments), down from $134M budget
- Markets remain extremely uncertain and it is difficult to tell whether they are bottoming out or have further yet to fall
- We are therefore currently taking an appropriately conservative view in our financial forecasting, and assuming prices remain low through most of FY13 then rise slowly back to the long-term trend price path through FY14 and FY15
- Faced with this uncertain outlook we are managing the business accordingly at present, implementing significant cost savings measures and constraining capital spend tightly
- We expect we may have a significantly clearer view of forward markets in the next month, and at the same time we will complete the next stage of our internal production planning for FY13 in response to current market scenarios
- We therefore expect to have significantly clearer financial forecasts by mid-April, in time for the 20 April CFIS update

Regards
Don

Dr Don Elder, CEO, Solid Energy NZ Ltd
PO Box 1303, Christchurch, New Zealand
Ph [1]

From: John Crawford [mailto:John.Crawford@treasury.govt.nz]
Sent: Monday, 19 March 2012 5:34 p.m.
To: Don Elder; Anthony Burg
Subject: Financial forecasts
Dear Don

Solid Energy recently supplied Treasury with updated 5-year financial forecasts. These forecasts are one input into Treasury’s preliminary Budget forecasts of the Crown’s financial position.

Solid Energy’s updated forecasts showed significant changes in forecast profits and dividends compared to previous forecasts supplied in Jan 2012 as shown below:

$m – change from previous forecast

<table>
<thead>
<tr>
<th></th>
<th>NPAT</th>
<th>Dividends</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/12</td>
<td>-41.9</td>
<td>-20</td>
</tr>
<tr>
<td>2012/13</td>
<td>-74.4</td>
<td>-45</td>
</tr>
<tr>
<td>2013/14</td>
<td>-64.1</td>
<td>-45</td>
</tr>
<tr>
<td>2014/15</td>
<td>-38.9</td>
<td></td>
</tr>
<tr>
<td>2015/16</td>
<td>-32.3</td>
<td></td>
</tr>
</tbody>
</table>

Ministers were briefed on Treasury’s preliminary Budget forecasts today and expressed concern at the significant changes in Solid Energy’s forecasts. Anthony Burg emailed Treasury on Wednesday last week to provide an explanation and some context for the change in the forecasts, but to our knowledge, Solid Energy had not directly briefed shareholding Ministers as they expected under a “no surprises” policy. Ministers were in particular surprised by how much the forecasts had changed over a 2 month period.

Ministers have requested that we provide them with information as soon as possible explaining:

a. What is the driver and reasons for the change in forecasts – this has been provided by Anthony in his email of last Wednesday?

b. Why Ministers and/or Treasury were not informed prior to the latest forecasts of the significant changes, given we are operating a disclosure regime where significant changes need to be communicated to shareholders and Treasury?

Can you please provide us urgently with the information that we will need for the above. I am available to discuss this should you need to do so.

John Crawford | Deputy Secretary, Commercial Transactions | The Treasury
Tel: +64 4 917 6251

Please consider the environment before printing this email

WARNING

The content of this message is intended only for the use of the person it is addressed to and is confidential and may also be legally privileged.

If this message is not addressed to you, you must not read, use, distribute or copy this document. If you have received this message in error please advise Solid Energy by return email at administrator@solidenergy.co.nz and destroy the original message.

Thankyou.