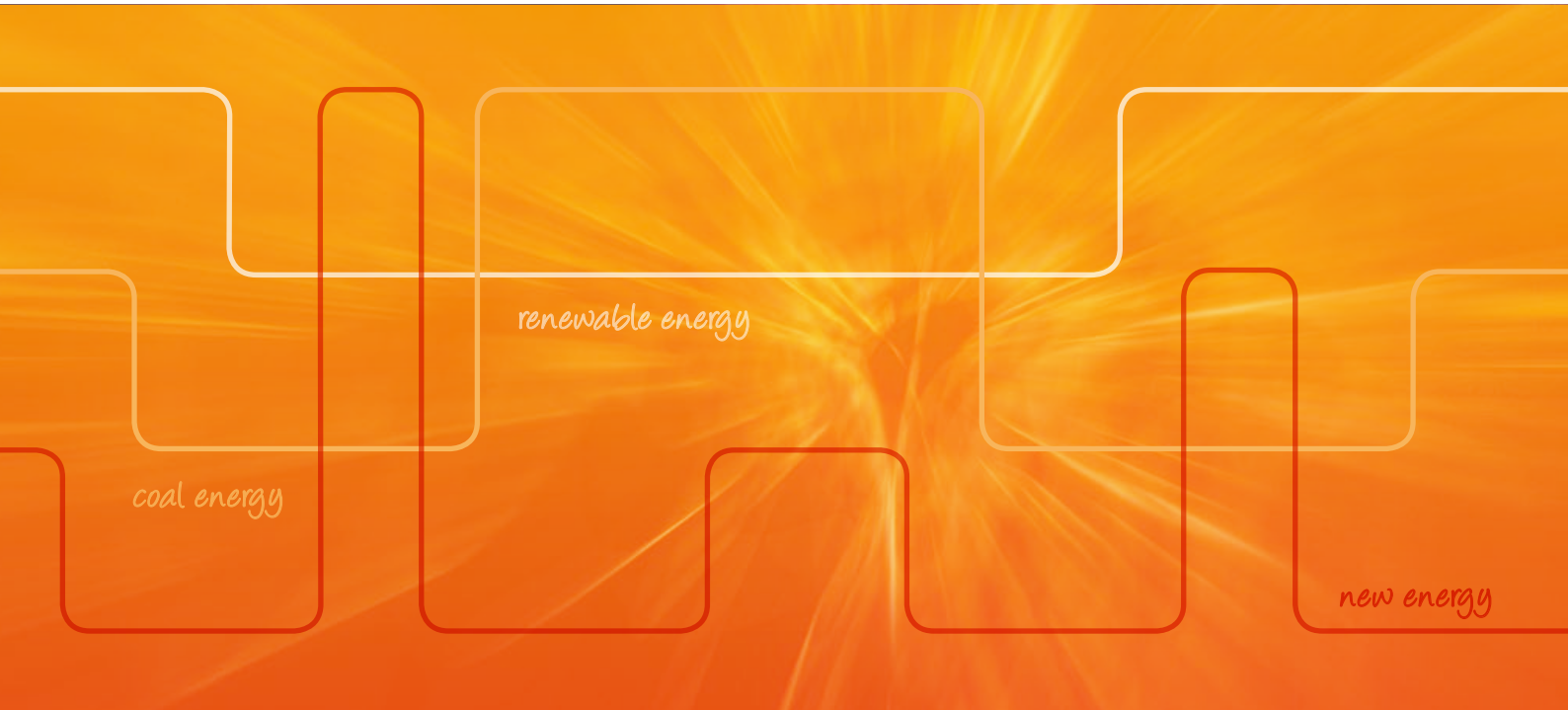


2009

Solid Energy New Zealand Ltd
Interim Report 2009 / 2010

For the six months ended 31 December 2009





coal energy

renewable energy

new energy

Solid Energy New Zealand Limited and Group

report for the six months ended 31 December 2009

Health and Safety

Health and safety performance has improved in the six months with a significant decline in high consequence near miss incidents and continuing decline in the combined lost time injury frequency rate (for staff and contractors) from 16.2 at 30 June 2009 to 12.8 per 1 million hours worked and in the combined all injury frequency rate – incidents requiring medical treatment - from 50.4 at end June to 44.4. There is still some distance to go to meet our overall health and safety goals.

During the half year we introduced random drug and alcohol testing at all sites, including offices, in support of our policy of zero tolerance for illegal drug and alcohol use at work. We maintained our ACC Tertiary Accreditation in the period following an audit of Huntly East Mine. We also made a significant investment in risk management training and incident investigation training across all levels of management.

Financial Result

Solid Energy's profit after tax for the six months ended 31 December 2009 was a loss of \$6.5 million, a drastic fall from the same period last year (2008: profit of \$78.4 million). About \$70 million of this fall was expected with the drop in hard coking coal prices and the global economic downturn. The balance was largely attributable to five weeks of industrial action at our main coal mining sites in late 2009.

The industrial disruption was value destroying for all stakeholders. Solid Energy and the Engineering Printing and Manufacturing Union need a more collaborative and less confrontational approach in these negotiations. We are committed to taking our share of the responsibility for achieving this in the future.

Revenue for the half year was \$257 million, less than half that for the same period last year (2008: \$516 million) reflecting the early 2009 drop in hard coking coal prices - from US\$300/tonne to US\$128/tonne.

The rising New Zealand dollar against the US dollar over the last 12 months has resulted in a net gain of \$12.1 million on foreign exchange hedges to be recognised to profit in the six month period to 31 December 2009 (2008: loss of \$44.3 million).

On 30 September 2009, Solid Energy paid our shareholder a dividend of \$24 million. In accordance with the company's dividend policy the Board is proposing a dividend of \$30 million to be paid by the end of March 2010 bringing total cash dividends paid during the current financial year to \$54 million.

Coal business

At 1.68 million tonnes (mt) for the six months, coal sales were down 20% on the same period (2008: 2.11 mt) mainly due to the industrial action.

Export coal sales were down to 670,000 tonnes (2008: 980,000 tonnes) for the half year. New Zealand coal sales were 870,000 tonnes (2008: 1.04 mt).

The Stockton Alliance, a partnership between Solid Energy and Downer EDI Mining NZ Ltd, has made good progress since starting at the beginning of October. The Alliance has brought the management experience and capability, together with the new systems to bring the step change needed in performance. Health and safety performance has improved with a significant reduction in serious near miss incidents. We have also ordered more than \$75 million of new heavy mining equipment and vehicles for the site with the first of these arriving just before Christmas.

The \$124 million coal handling and processing plant is on schedule to be commissioned in March 2010 and we expect it will produce around 75,000 tonnes of upgraded product by end June, moving to full production of around 600,000 tonnes in the 2011 year. The outlook for Stockton is now much improved and with the forecast increase in 2010 international coal contract prices driven by demand from China and India, the mine is set to increase production by 30% in the next six months. By the 2011 year we expect to see the benefit of our investment in the mine with production of around 1.7 million tonnes per annum, a return to near 2008 levels.

At **Spring Creek Underground Mine**, near Greymouth, we continue to meet geological challenges in developing the mine resulting in longer than expected gaps between the end of extraction in one area and development of another. We continue to look for ways to improve development performance so we can ramp up to full production in the 2011 year.

We closed **Terrace Underground Mine** in June 2009 and have been reviewing a range of short and long-term options for the mine and the Coal Mining Licence. We have ruled out continuing to operate the mine ourselves in the near term, but recognise that the economics of this reasonably significant coal resource could change in the future as markets and mining technology develop. We are investigating whether there is interest from a private operator in running the mine and have received a number of responses which we are considering, together with other options.

At **New Vale Opencast Mine** in Southland we have purchased additional equipment to ramp up production to meet demand from expansion of Fonterra's nearby Edendale plant.

In the North Island, at **Rotowaro Opencast Mine** in the Waikato we agreed, with the mining contractor, to cut production to make the mine more efficient and to respond to reduced demand from Genesis Energy for Huntly Power Station. In December, we took the last coal from the Township pit at Rotowaro after 12 years of mining over 6 million tonnes from the area. At **Huntly East Underground Mine**, we continue to struggle with the challenging geological conditions in the deeper northern extension of the mine. We are presently reviewing the long-term viability of the mine. Improving productivity to ensure that the mine can deliver on production targets is essential before we commit to any of the further major capital expenditure necessary for the long-term future of this mine.

Renewable Energy

At Stockton, we progressed plans for a hydro-electricity generation scheme integrated into water management and mining operations. Capable of powering 22,000 homes, the scheme would enable the West Coast region to become nearly self-sufficient in electricity. Another consent was obtained recently for a similar project but we have major concerns that it will be unable to meet our expectations not to interfere with our operations and to guarantee the mine's ability to effectively manage the Stockton Plateau's water resource.

During the half year we produced 6,393 tonnes of **wood pellets** (2008: 4,900 tonnes) from our existing plants at Rolleston and Rotorua and towards the end of the period from our third wood pellet plant at Taupo. The new plant will initially produce 40,000 tonnes of wood pellets a year from wood residue sourced from central North Island sawmillers and manufacturers. In the lead up to commissioning the Taupo plant we sent trial shipments to prospective customers in Asia and Europe where coal fired electricity generators are investigating the use of fuel, such as wood pellets, to lower emissions.

Biodiesel production in the period was up to 545,000 litres (2008: 360,000 litres) as we built our customer base for product made from used oil at our facility in Christchurch. Despite some setbacks due to weather, yield from our oilseed rape crops has been consistent in a good growing season with the harvests now stored at our recently-completed Rolleston storage facility.

New Energy

We maintained a cautious short term approach in developing our new energy projects through the global economic downturn, but the key fundamentals supporting their medium to long-term development – increasing energy demand and reducing supply, resulting in price pressure and a focus on energy security – remain unchanged. During the six months we made significant progress in advancing our plans to harness Southland's world-class lignite resource.

A joint study with Ravensdown is investigating the viability of building a coal-to-fertiliser plant in Eastern Southland which could make New Zealand self-sufficient in, and potentially an exporter

of urea. We also entered into a joint venture with American GTL Energy Ltd to investigate the feasibility of building a briquetting plant that could upgrade lignite extracted from our New Vale Mine, near Mataura. Decisions on next steps for both projects should be made by the end of the current financial year.

During the half year we successfully continued coal seam gas exploration and resource proving in our Huntly field and the Tahora-Tangarakau area in Taranaki. Good progress was made in advancing our underground coal gasification project to convert coal directly into syngas while it is still deep underground.

Outlook

Despite the poor result for the first six months of the 2010 year, Solid Energy is emerging from the global economic recession in good shape and with a strong balance sheet that will support our plans for future growth.

International coal prices are firming driven by demand for coal from China and India. During the last few months we have been working with our international coal customers to manage the supply shortages following the industrial action while planning for increasing production for 2011.

International coal prices have risen since the benchmark prices were agreed for 2009/2010. Benchmark and spot prices for 2010/2011 are currently forecast to be above previously projected levels, but it is still too early to forecast likely prices accurately.

Over the next six months we expect our financial performance to return to profitability but we are far from satisfied with our performance. Across all of our operations we are looking for significant improvements in health and safety, productivity and bottom line profitability. To this extent we are investing in people, systems and plant resources to improve health and safety performance but at the same time we have placed on hold major capital expenditure at the underground mines in particular until we see a step change in performance that will ensure that these operations are viable longer term.

We are pleased to note that two large-scale projects approved in 2009, the new Taupo pellet plant and biodiesel storage facility, were both completed under budget and are now revenue generating. Our third major project, accelerated in 2009, was the Stockton coal processing plant. This major plant is expected to be completed under budget, commissioned in March and producing saleable coal in April 2010.



John Palmer
Chairman
25 February 2010



Dr Don Elder
Chief Executive Officer
25 February 2010

Performance Highlights – Unaudited

	six months to 31 December 2009	six months to 31 December 2008
Sales turnover	\$257.2 million	\$516.4 million
Earnings before interest and taxation	\$(5.7 million)	\$118.5 million
Profit/(loss) after taxation	\$(6.5 million)	\$78.4 million
Dividend paid	\$24 million	\$34.4 million
Return on shareholder's funds (annualised)	-3%	42.5%
Return on average assets (annualised)	-1.5%	21.3%
Tonnes of coal sold – total	1.68 million	2.11 million
• Exports	0.67 million	0.98 million
• Spring Creek Mining Company (51%)	0.14 million	0.09 million
• New Zealand	0.87 million	1.04 million
Pellets sold (tonnes)	6,393	4,900
Biodiesel sold (litres)	545,000	360,000
Coal seam gas produced (terajoules)	0	35

Note: The half year figures equity account for Spring Creek Mining Company (SCMC) and therefore Solid Energy's 51% share of SCMC third-party revenue.

Statement of Comprehensive Income for the Six Months Ended 31 December 2009 - Unaudited

	see notes	Six months to 31 Dec 09 \$'000	Six months to 31 Dec 08 \$'000
Continuing Operations			
Revenue		257,214	516,380
Cost of sales		(234,884)	(290,278)
Gross Profit		22,330	226,102
Other income		1,125	1,033
Administration expenses		(35,966)	(34,342)
Other expenses	3	230	(251)
Onerous contract provisions and impairments - reversal/(impairment)	3	1,385	(18,402)
Result from operating activities		(10,896)	174,140
Realised and unrealised gain/(loss) on derivatives		12,051	(44,274)
Finance income		348	1,649
Finance expense		(4,170)	(8,073)
Net finance income/(expense)		8,229	(50,698)
Share of profit of Jointly Controlled Entity		(4,061)	(4,973)
(Loss)/profit before income tax		(6,728)	118,469
Income tax	4	249	(40,061)
(Loss)/profit for the period		(6,479)	78,408
Other comprehensive income			
Effective portion of changes in fair value of cashflow hedges		22,902	(62,273)
Income tax on other comprehensive income		(6,680)	18,982
Other comprehensive income for the period, net of income tax		16,222	(43,291)
Total comprehensive income for the period		9,743	35,117
Total comprehensive income attributable to:			
Members of the parent		9,743	35,462
Minority interest		-	(345)
Total comprehensive income for the period		9,743	35,117

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2009 - Unaudited

	see notes	As at 31 Dec 09 \$'000	As at 31 Dec 08 \$'000	As at 30 Jun 09 \$'000
Non-current assets				
Property, plant and equipment	5	330,037	218,382	275,581
Biological assets	6	8,297	5,596	3,459
Mining assets		150,384	151,545	152,011
Crown receivable		27,312	35,598	43,803
Intangible assets		1,805	1,633	1,872
Investment property	7	5,650	5,235	5,650
Investment in jointly-controlled entity		11,305	11,554	7,715
Other investments		4,440	4,360	4,415
Lease receivable		3,294	3,977	3,601
Trade and other receivables		13,549	4,953	5,162
Derivatives		-	-	11,567
Deferred tax asset		-	28,200	5,763
Total non-current assets		556,073	471,033	520,599
Current assets				
Inventories		48,881	41,926	42,914
Stripping in advance		67,492	72,288	66,793
Derivatives		46,640	40	12,808
Trade and other receivables		71,451	58,998	126,732
Short-term crown receivable		26,371	20,573	13,864
Cash and cash equivalents		6,008	57,518	8,064
Tax receivable		1,497	-	-
Total current assets		268,340	251,343	271,175
Total assets		824,413	722,376	791,774
Non-current liabilities				
Term provisions	8	123,465	137,284	141,239
Term lease liability		12,100	12,594	12,356
Interest-bearing bonds, loans and borrowings		79,000	-	38,000
Deferred tax liability		938	-	-
Total non-current liabilities		215,503	149,878	191,595
Current liabilities				
Accounts payable and accruals		47,995	56,412	78,890
Derivatives		-	77,348	-
Bank overdraft and overnight cash facilities		54,000	-	24,000
Current portion of interest-bearing loans and borrowings		36,000	-	-
Provisions	8	51,288	50,523	51,902
Tax payable		-	19,028	11,503
Total current liabilities		189,283	203,311	166,295
Total liabilities		404,786	353,189	357,890
Equity				
Issued capital		60,900	60,900	60,900
Retained earnings		324,720	348,993	355,849
Reserves		34,007	(40,706)	17,135
Total equity		419,627	369,187	433,884
Total equity and liabilities		824,413	722,376	791,774

The accompanying notes form an integral part of these financial statements.

Statement of Cashflows for the Six Months Ended 31 December 2009 - Unaudited

	see notes	GROUP	
		Six months to 31 Dec 09 \$'000	Six months to 31 Dec 08 \$'000
Cash flows from operating activities			
Cash was provided from:			
Customers		310,829	546,741
Interest received		348	1,634
		311,177	548,375
Cash was applied to:			
Payments to suppliers, employees		(286,817)	(359,967)
Exploration and evaluation expenditure		(5,848)	(2,409)
Tax paid		(13,000)	(26,386)
Interest paid		(2,753)	(1,806)
		(308,418)	(390,568)
Net cash flows from operating activities	9	2,759	157,807
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant & equipment		665	56
		665	56
Cash was applied to:			
Purchase of property, plant and equipment		(62,259)	(26,748)
Purchase of biological assets		(4,838)	(2,964)
Investment in mining assets, (including exploration and evaluation)		(13,755)	(12,236)
Investment in other non-current assets		(29)	-
Investment in jointly-controlled entity – Spring Creek Mining Company		(7,650)	-
		(88,531)	(41,948)
Net cash flows from investing activities		(87,866)	(41,892)
Cash flows from financing activities			
Cash was provided from:			
Bank loans received		57,000	-
Bonds received		20,000	-
Repayment of lease receivable		307	262
		77,307	262
Cash was applied to:			
Repayment of bank loans		-	(15,000)
Payment of dividend	13	(24,000)	(34,375)
Repayment of lease liability		(256)	(238)
		(24,256)	(49,613)
Net cash flows from financing activities		53,051	(49,351)
Net increase/(decrease) in cash and cash equivalents		(32,056)	66,564
Opening cash and cash equivalents		(15,936)	(9,046)
Closing cash and cash equivalents		(47,992)	57,518

The accompanying notes form an integral part of these financial statements.

Statement in Changes in Equity for the Six Months Ended 31 December 2009 - Unaudited

GROUP	Attributable to equity holders of the parent						Minority Interest	Total Equity
	Issued Capital	Retained Earnings	Available for Sale Reserve	Cash Flow Hedge Reserve	Other Equity Reserve	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
As at 1 July 2009	60,900	355,849	-	17,785	(650)	433,884	-	433,884
Total comprehensive income for the period	-	(7,129)	-	16,222	650	9,743	-	9,743
Transactions with owners in their capacity as owners:								
Dividend Paid	-	(24,000)	-	-	-	(24,000)	-	(24,000)
As at 31 December 2009	60,900	324,720	-	34,007	-	419,627	-	419,627
As at 1 July 2008	60,900	304,615	(198)	3,433	(650)	368,100	345	368,445
Total comprehensive income for the period	-	78,753	-	(43,291)	-	35,462	(345)	35,117
Transactions with owners in their capacity as owners:								
Dividend Paid	-	(34,375)	-	-	-	(34,375)	-	(34,375)
As at 31 December 2008	60,900	348,993	(198)	(39,858)	(650)	369,187	-	369,187

The accompanying notes form an integral part of these financial statements.

Notes

to the Financial Statements

for the six months ended 31 December 2009 – unaudited

1 Corporate Information

These financial statements are for Solid Energy New Zealand Ltd ("Solid Energy"), its subsidiaries Solid Energy Renewable Fuels Ltd, Biodiesel New Zealand Ltd, Solid Energy Land Holdings Ltd, Spring Creek Mine Holdings Ltd, Terrace Coal Mine Ltd, CoalCorp Insurance Services Ltd, Coal New Zealand Ltd, Coal New Zealand International Ltd, Coal Bed Methane Ltd, Waikato Mining and Contracting Ltd and the jointly controlled entities, Spring Creek Mining Company and Stockton Alliance Limited (Incorporated July 09).

On 4 September 2009 Solid Energy entered into a contractual agreement with Downer EDI Mining NZ Limited to form an alliance, known as Stockton Alliance, to jointly manage the mining operations at Stockton Mine. The arrangement included formation of a jointly owned employment company, Stockton Alliance Ltd, which employs and takes on secondment all staff at Stockton. All customer and supplier contractual relationships remain with Solid Energy New Zealand Ltd. All assets, including mining licenses remain under Solid Energy ownership.

Solid Energy is a profit oriented company incorporated in New Zealand. Solid Energy is registered under the Companies Act 1993.

2 Summary of Significant Accounting Policies

(A) Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 31 December 2009 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements.

The accounting policies stated in the 2009 Annual Report have been consistently applied except for borrowing costs which were previously expensed as incurred. From 1 July 2009 the following amended policy has been applied to comply with the amendments to NZ IAS 23 Borrowing Costs:

"Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Qualifying assets are those that take a significant amount of time to get ready for their intended use or sale. Capitalisation of borrowing costs is not applied to the borrowing costs associated with mining assets in the exploration and evaluation phase or to assets held for potential future mining activities.

Other borrowing costs are recognised as an expense as incurred."

In the six months to 31 December 2009 \$1.4 million of borrowing costs were capitalised as a result of this change in accounting policy. The change is not retrospective and no changes have been made to prior periods as a result of the amended accounting standard.

The operational results of Solid Energy are not materially affected by seasonality.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

3 Revenue, Income and Expenses

	see notes	6 months to 31 Dec 09 \$'000	6 months to 31 Dec 08 \$'000
(A) Other expenses			
Gain/(loss) on disposal of assets		230	(251)
(B) Impairments and onerous contract provisions - reversal/(impairment)*			
Impairment of property, plant and equipment (i)		-	(2,472)
Impairment of goodwill (i)		-	(1,660)
Impairment of mining assets (ii), (iii)		-	(12,289)
Impairment reversal/(impairment) (i)		1,385	(1,981)
		1,385	(18,402)

* Impairments and onerous contract provisions - reversal/(impairment)

- (i) Biodiesel - At 31 December 2008, a reassessment of the business as a result of the decline in diesel prices, the repealing of the Biofuels Sales Obligation legislation, and lower than anticipated crop yields on certain properties resulted in a total of \$6.1 million of impairments and onerous contract provisions within the Biodiesel New Zealand Ltd subsidiary. In the six months to 31 December 2009 \$1.4 million of the onerous contract provisions were utilised as contract payments were made.
- (ii) Coal seam gas - At 31 December 2008, a reduction in expected future gas prices and lower than previously assumed gas flow rates resulted in a \$6.3 million impairment of our investment in mining licences to secure access to the resource.
- (iii) New Vale - As at 31 December 2008, the mine was unable to grow current and projected sales as planned, which resulted in an impairment of the mining licence acquisition cost of \$6.0 million.

4 Income Tax

As at 31 December 2009 there are \$nil accumulated tax losses (31 December 2008: \$nil)

5 Valuation of Property, Plant & Equipment and Mine Properties

The agreement by which Solid Energy New Zealand Limited purchased the business from the Crown recognises potential land claims that may be lodged under the Treaty of Waitangi Act 1975. The effect on the valuation of assets resulting from potential claims cannot be quantified.

However under the Treaty of Waitangi (State Enterprises) Act 1988, the Crown will compensate Solid Energy for any loss that occurs upon the resumption of any interest in land by the Crown.

6 Valuation of Biological Assets

Biological assets comprise forestry and crop assets and are revalued each year end at 30 June.

Forestry assets have not been revalued for the interim periods ending 31 December on the basis that the movement in valuation is not considered material.

Ordinarily crop costs incurred to date approximate fair value and a fair value review is not necessary for the purposes of the interim accounts. However in the six months ended 31 December 2008 a fair value reduction of \$1.9 million was required as a result of the reduction in diesel prices and the repealing of the Biofuels Sales Obligation legislation. No fair value adjustment is required at 31 December 2009.

7 Valuation of Investment Property

Investment properties are revalued each year end at 30 June. These have not been revalued for the interim periods ending 31 December on the basis that the movement in valuation is not considered material.

8 Provisions

	Dec-09	Dec-08	Jun-09
	\$'000	\$'000	\$'000
Rehabilitation Provision	165,659	183,852	180,217
Demobilisation Provision	1,732	1,974	4,176
Onerous Contract Provision	7,362	1,981	8,748
	174,753	187,807	193,141
Comprising:			
Current	51,288	50,523	51,902
Non-current	123,465	137,284	141,239
	174,753	187,807	193,141

The Company is required, by various legislation controlling its mining activities, to rehabilitate to an agreed condition, the land on which its mining activities occur. The final cost of rehabilitation cannot be established with certainty.

At 31 December 2009 the discount rate estimate was reassessed as being 6.31% nominal (2008: 4.71%) with inflation estimated at 2.03% (2008: 2.38%). This change in estimates had the effect of decreasing the provision by \$29.8 million at 31 December 2009 when compared to 31 December 2008.

9 Reconciliation of surplus after taxation to net cash flows from operating activities

	GROUP	
	6 months to 31 Dec 09	6 months to 31 Dec 08
	\$'000	\$'000
Net (deficit)/surplus after taxation	(6,479)	78,408
Non cash items:		
Depreciation	8,784	9,065
Amortisation of mining assets	13,105	13,516
Amortisation of intangibles	67	45
Movement in fair value of biological assets	-	2,911
Provision for onerous leases	(1,385)	1,981
Impairment of goodwill and intangibles	-	1,660
Impairment of fixed asset and mining properties	-	14,761
Unrealised loss on foreign exchange contracts	637	20,142
Equity accounted (profits)/losses of jointly controlled entity	4,061	4,973
Deferred taxation movement taken to the income statement	271	(1,161)
Discount unwind on term provision	1,631	1,738
	27,171	69,631
Movements in working capital:		
Accounts payables and accruals	(30,895)	(8,735)
Trade and other receivables	55,281	29,485
Movement of non-current prepayments	(8,387)	1,029
Inventories	(5,967)	(6,697)
Stripping in advance	(699)	(10,950)
Tax payable	(13,000)	14,836
	(3,667)	18,968
Other balance sheet movements:		
Term provisions	(19,651)	(909)
Current Provisions	771	12,149
Crown receivable	3,984	(4,679)
Mining assets	2,277	(16,012)
	(12,619)	(9,451)
Items classified as investing/financing activities:		
(Surplus)/deficit on sale of property, plant & equipment	(230)	251
Interest costs capitalised	(1,417)	-
	(1,647)	251
Net cashflows from operating activities	2,759	157,807

10 Capital Commitments

Capital commitments as at 31 December 2009 are estimated at \$54.7 million (2008: \$14.4 million). These commitments predominantly relate to the construction of a coal handling and processing plant at the Stockton Mine.

11 Performance Bonds and Guarantees

It is not practical to estimate the fair value of performance bonds and guarantees with an acceptable level of reliability. The group has performance bonds and guarantees outstanding at 31 December 2009 totalling \$52.0 million (2008: \$52.0 million) which may be drawn down in the event the Group fails to perform under various contracts and licenses. No loss is expected in respect of these bonds.

12 Contingencies

Emissions Trading Scheme (ETS)

The New Zealand Emissions Trading Scheme (ETS) was passed into legislation in September 2008 and subsequently amended by the Change Response (Moderated Emissions Trading) Amendment Bill in November 2009. For Solid Energy, the ETS comes into effect on 1 July 2010, when the transport, energy and industrial sectors are required to account for CO₂ equivalent emissions associated with designated activities. Solid Energy, as a coal miner, is designated as a default participant (apart from very large customers which are allowed to manage the obligation themselves) for the coal that it mines and is required to surrender eligible emissions units associated with coal sold domestically and associated with mining coal that is subsequently exported.

Although the legislation is in effect, there is still significant uncertainty as to how this will impact Solid Energy. Key uncertainties include:

- Definition of eligible emissions
- Regulations regarding the process for customers or Solid Energy to obtain credits as compensation for the costs of the ETS have not been established and tested. It is impossible to determine what our net position (the difference between our gross ETS liability less credits issued for compensation) will be, in terms of credit liability, until this process is finalised.
- Solid Energy has the ability to apply for Unique Emission Factors (UEFs) that more closely represent actual emissions of covered activities. Certain activities have potentially much lower emissions (and therefore liabilities) than the default emission factors adopted by ETS.

Our initial analysis of the potential impact of the ETS does not give rise to any impairment of assets for the period. This position will be reviewed when changes to the regulations defining the liabilities under ETS are confirmed.

Ngakawau River Water Quality

Solid Energy has committed with local stakeholder and community groups in the Stockton Mine area to improve the water quality of the Ngakawau River. This will involve improving water in terms of suspended solids and turbidity (clarity) to allow for recreational use of the river, and raising the pH levels (reducing acidity) to support aquatic plant and animal life by May 2010. The costs involved are included within the provision for rehabilitation and subsidence.

13 Dividends Paid and Proposed

A dividend of \$24.0 million was paid during the six months ended 31 December 2009 (2008: \$34.4 million).

Subsequent to 31 December 2009 the directors have approved a dividend of 49.3 cents per share, amounting in total to \$30.0 million. The dividend was declared on 25 February 2010 to be paid to the shareholder on 31 March 2010.

14 Related Party Transactions

Solid Energy undertakes many transactions with other State Owned Enterprises and Government Departments. These transactions are carried out on a commercial and arms length basis and it is not considered that these fall within the intended scope of related parties disclosure.

Solid Energy operates the Spring Creek Mine on behalf of Spring Creek Mining Company (SCMC), a 51% owned jointly-controlled entity, the costs recharged to SCMC during the six months to 31 December 2009 were \$27.3 million (2008: \$21.4 million)

15 Significant After Balance Date Transactions

There were no significant after balance date transactions which require disclosure.

Directors

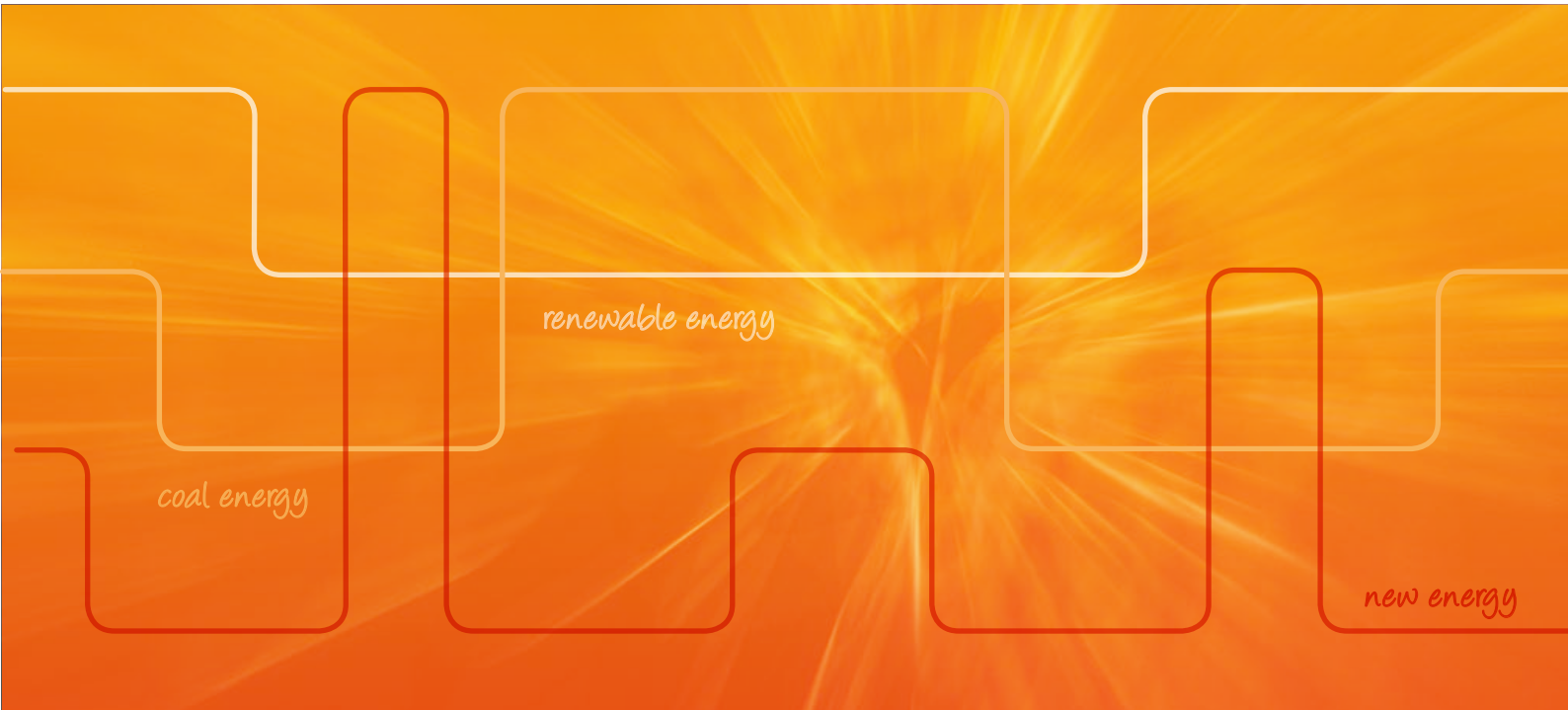
John Palmer
John Spencer
Alan Broome, AM
Helen Cull QC
John Fletcher
John McDonald
Simon Marsters
Adrienne Young Cooper

Chairman – ONZM, BAgSc, FNZID – Nelson
Deputy Chairman – BCom, FCA – Wellington
I.Eng, F.AusIMM, FAICD, MIMMM (London) – Sydney
BA, LLB (Hons) – Wellington
BSc, DBA, PMD – Wellington
BCA (Hons), BCom, CA, CMA – Auckland
BE Hons (Chem) - Auckland
BA, MSc (Resource Management), MNZPI – Auckland

Chief Executive Officer

Dr Don Elder

DPhil, BEng Hons (Civil)





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