SOLID ENERGY
Coals of New Zealand

Annual Report 2016

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CHAIR'S REPORT

It hasn't been an easy year for global coal producers, with demand continuing to reduce and hard coking coal prices falling as a consequence through to December. China's increased demand in the fourth quarter forced a spike in the spot price but this was short-lived unfortunately and the price at year end was a little lower than the start of the year. At the time of writing, it is worth noting that there has been a material improvement in prices; whether this recovery proves to be sustained is yet to be seen but there certainly are some positive indicators.

Solid Energy has responded to global conditions by focusing on the things we can control – operational efficiency and costs. Cash Operating Costs have dropped from $94 to $82 per production tonne. Further non-core assets have been sold, and production has again been significantly reduced (now down to 2.0Mt) in an effort to cut loss making products. Inevitably, this has required further job losses. Whilst the Board has at all times been mindful of the impact of job losses on the communities in which we operate, and the employees and their families that are affected, difficult decisions have had to be made.

As reported in last year's Annual Report, the Solid Energy group went into Voluntary Administration on 13 August 2015. This concluded a five month period of intense and complex negotiations with bank lenders, the Crown and key contract counterparties, in order to further restructure production, major contracts and financial obligations. On 17 September 2015, creditors supported these initiatives by voting overwhelmingly that the group should execute a Deed of Company Arrangement ("DoCA") and continue operating subject to its terms. Under the DoCA, Solid Energy has embarked on an orderly sale process for its core mining assets, and that process is well advanced. The conclusion of this process should produce market values for these assets. For the purposes of these financial statements, which must be finalised by 30 September to comply with relevant legislation, assessments of asset values have had to be made using the best available information. However the ultimate realisations from the sales process may be materially different.

The result from operating activities (before impairments) was a profit of $28.9M compared to a loss of $33.1M last financial year. While this includes a number of one-off adjustments, this represents a significant turnaround reflecting the benefits of the company's responses to the difficult market conditions with which it has had to contend.

Net Profit After Tax has been affected by the various complex transactions to reflect the period of Voluntary Administration and to implement the DoCA, and shows a profit of $94.6M this year against a loss of $176.7M last year.

The year was always going to be extremely difficult for directors and management given the critical issues that would need to be addressed. Given this, it is particularly important that I thank our CEO Dan Clifford, the senior leadership team, management and staff of Solid Energy for their untiring commitment to running the Solid Energy business safely and ever more efficiently in exceptionally trying and uncertain times. I especially want to acknowledge the commitment, support and in particular the resolve of my fellow directors in guiding the company over the last year.

Andy Coupe
Chair

With the backdrop of international coal prices and the commitment to carry out an orderly sale process for our core mining assets, underpinned by a Deed of Company Arrangement (DoCA), Solid Energy's forward direction was clearly set during the year. Our key focus was on continued discipline in investment, operational performance and efficiency.

At the forefront of our mind has been the execution of the final year of a two-year plan that targeted "certainty" in our safety performance covering personal injury, fatal hazards and systems alignment. The results of our "Safe and Certain" strategy speak for themselves and go straight to the heart of how planning for success, and in this case certainty, can deliver great outcomes. The company achieved a 43% reduction in Total Recordable Injury Frequency Rate in FY16 and a 60% reduction over the two year plan period. In conjunction with this focus was the development of a set of mandatory controls for potentially fatal hazards in our operations. These were developed to specifically ensure our workplaces reflected a planned, safe and 'engineered environment' for our people to work in.

Rehabilitation performance has been on target, with the ratio of hectares rehabilitated to new disturbance at 2.8. Solid Energy is well advanced in dealing with both the Pike River and Huntly East underground mines closure and subsequent rehabilitation.

2016 represented another successful year of achievement of our headline forecasts across production, sales, revenue, costs and capital. The key was the focus on our ability to compete internationally both on an export basis and a domestic basis against imports. Costs and efficiency improvements continued for the year resulting in loss-making volume being removed, production reduced to 2.0Mt and sales reduced to 2.2Mt (from 3.1Mt in FY15). Costs were reduced at a faster rate than the sales volume reduction, resulting in a 13% reduction in our unit costs and an improvement in margin. Coupled with this was a further 11% improvement in our productivity per person (tonnes/ FTE/year) culminating in a 17% improvement over two years.

A number of business restructures were concluded during the period. This resulted in the closure of East Mine in the Huntly District, a significant reduction in activity at our Stockton operation and further rationalization of the Corporate overhead function. With the focus on our controllable outcomes, all of Solid Energy's operations were cash positive by the end of the period.

The sale programme of core mining assets was well underway at balance date. Significant work has gone into ensuring our assets are positioned in the best possible light for successful transactions and ongoing profitable performances.

I want to thank all staff, contract partners and the communities in which we operate who have remained committed to the company and continue to deliver a solid performance across our operations and functions during such difficult times.

Dan Clifford
Chief Executive

OPERATIONS, MARKETS & BUSINESS PERFORMANCE

Operations and Markets

Solid Energy has continued to focus on the optimisation of all sites – seeking to drive better cost outcomes through efficiency and productivity gains from both plant and machinery and the workforce. This has resulted in group wide cash operating costs dropping from $94 per production tonne in FY15 to $82 in FY16.

It was a very difficult year for the export coal market with the spot hard coking coal price continuing its decline, dropping as low as $72.75 per tonne in early December before returning to levels above US$90 per tonne by the end of June 2016. The very low coal price has caused financial turmoil for coal producers across the globe with a number of producers reducing production, closing mines and many filing for bankruptcy.

To combat the falling coal price, in addition to driving further operational efficiencies, the Export business focused its operations on the lowest cost coal pits, highest value coal products and largely limited volume to long term contracted customers to reduce exposure to the international spot coal market. This has resulted in further staffing restructures over the course of the year.

The domestic markets remained relatively stable with competitive conditions, including the threat of coal imports, restricting market pricing. Our customers have demonstrated continued support to the company, valuing our products, relationship and supply security.

Despite Solid Energy having been successful at securing a number of key domestic contracts during the year, a decision was made to close our Huntly East underground mine in response to a reduction in demand of higher value coals. The sealing of the mine is expected to be completed by December 2016, at which point an extensive site rehabilitation programme will begin. This will bring to an end underground mining activities.

In April 2016, a highwall failed at the Reddale Opencast Mine, Reefton. Mining operations at Reddale were immediately ceased. Solid Energy is exploring options to safely extract exposed coal.

Business Performance

2016 ACHIEVEMENTS AGAINST STATEMENT OF CORPORATE INTENT TARGETS		2016 TARGET	2016 ACHIEVED	2015 ACHIEVED
Value: Operations	Sales Units (million tonnes)[1]	2.4	2.2	3.1
	Production Units (million tonnes)[1]	2.2	2.0	2.8
Value: Shareholder Returns	Dividend Paid ($M)	0	0	0
	Dividend Yield	0%	0%	0%
	Dividend Payout	Nil	Nil	Nil
Value: Profitability	Return on Capital Employed[2]	-7%	-5%	-98%
	Operating Margin (EBITDAF/Revenue)	-2%	7%	1%
Value: Leverage/Solvency	Gearing Ratio	100%	100%	148%
	EBITDAF ($M)	-3.9	16.0	3.5
	Interest Cover (times) (EBITDAF/Interest Paid)	-0.4	2.4	0.2
Future Value	Capital Investment ($M)	8	4	8
Health & Safety	Total Recordable Injury Frequency Rate[3]	5.1	4.1	7.2
	Lost Time Injury Frequency Rate[4]	2.1	3.4	0.5
Environment	Regulatory, abatement & enforcement notices	0	0	0

1 Initial target; later reduced
2 EBIT / Average Capital Employed
3 Number of injuries per 1,000,000 hours worked requiring medical aid or greater treatment
4 Number of injuries per 1,000,000 hours resulting in more than one lost work day or shift

Resource Proving during the year focused on resources with strategic short to medium term resource value add to the company resulting in;

- extension of the Wairaki opencast pit at Ohai
- mining extension opportunities at Rotowaro
- mining extension opportunities at Maramarua
- the acquisition of a Reefton Coalfield Mining Permit.

The impending closure of operations at Huntly East, production having been halted earlier, has resulted in a significant adjustment to this year's resource and reserve statement. 301.9Mt of resources (including 1.4Mt of reserves) have been reclassified as Inventory Coal. Inventory Coal is not recognised by the JORC Code as a coal resource. The application of an economic constraint to the North Island opencast resources has resulted in a further reduction of 26.5Mt.

COAL RESOURCES AND RESERVES AT 30 JUNE 2016

		RESOURCES (Mt) including reserves			RESERVES (Mt)		
Export	**Product**	**Measured**	**Indicated**	**Inferred**	**Proven**	**Probable**	**Marketable**
Buller	HCC/SHCC	0.5	14.0	9	0.4	2.6	2.9
	SSCC	0.8	13.6	32	0.6	3.5	4.0
	Thermal	0.5	3.8	3	0.6	5.7	3.9
	Sub-Total	**1.8**	**31.4**	**44**	**1.6**	**11.8**	**10.8**
Island Block	SSCC	3.6	0.7	0			
	Sub-Total	**3.6**	**0.7**	**0**			
Grey	Specialist						1.1
	HCC/SHCC	3.5	4.9	8			
	SSCC	11.5	8.6	24	2.0	0.0	0.4
	Thermal			30			0.4
	Sub-Total	**14.9**	**13.5**	**62**	**2.0**	**0.0**	**1.8**
South Island Domestic	**Product**	**Measured**	**Indicated**	**Inferred**	**Proven**	**Probable**	**Marketable**
Reefton	Thermal	0.2	4.3	17			
Strongman	SSCC	0.1	0.3	5			
Southland/Otago	Lignite	145.6	247.2	315	3.8	3.5	7.3
	Sub-Total	**145.9**	**251.5**	**337**	**3.8**	**3.5**	**7.3**
North Island Domestic	**Product**	**Measured**	**Indicated**	**Inferred**	**Proven**	**Probable**	**Marketable**
North Island	Steel/Thermal	20.6	12.7	14	2.8	1.7	4.5
	Sub-Total	**20.6**	**12.7**	**14**	**2.8**	**1.7**	**4.5**
	Grand Total	**186.8**	**310.1**	**458**	**10.2**	**17.0**	**24.5**

Solid Energy has used the 2012 JORC Code as a guideline for reporting its 2016 Coal Resource and Coal Reserves. The JORC Code is set by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy (AusIMM), the Australian Institute of Geoscientists and the Minerals Council of Australia. Coal Resources are declared as in-ground resources applying cut-off selection criteria defined in the Solid Energy New Zealand Coal Resource Reporting Standard. Coal Reserves are supported by marketing sales plans and commercial sale agreements. Coal Resources are reported inclusive of Coal Reserves. Coal Resource and Coal Reserves are signed off by the designated Competent Person. The names of the Competent Persons are lodged with the Solid Energy's Resource and Reserve Steering Committee Chairman.

Health and Safety

In 2016 we rolled out Life Saving Rules to all employees and contractors through a series of educational workshop sessions and take-away support tools. By raising the awareness of critical risk factors and providing context around "why" these rules are important in our workplaces, we have been able to measure the positive impact that this programme has had on our overall safety performance.

The all injury frequency rate achieved was 4.10, an improvement of 43% (FY15 7.2). This figure is representative of six actual injuries. In contrast the lost time injury frequency rate was 3.42 (FY15 0.42) with five of the six recordable injuries incurred resulting in time lost from work. Two of the lost time injuries incurred more than three lost days, but neither injury incurred more than seven lost days and all workers returned to full duties.

In addition to the increased focus on personal accountability, driven through the Life Saving Rules, we sought to better understand the fatal hazards that exist within our operational activities and processes. A key element of our strategy was an increased level of investigation into "High Potential" events (near hits that could have resulted in serious harm or fatal outcomes).

From these events, as well as research into other fatalities within similar industries across the globe, we have identified a set of Fatal Hazards for which we have developed a series of internal guidance papers and educational tools. These will feature as core to our FY17 Safe & Certain project. The roll-out incorporates site "stop work" safety education days involving in-field Fatal Hazard identification workshops. Follow-up training sessions and in-field discussion and review activities will further embed the initial work and sustain engagement.

People

Ongoing re-structuring occurred during late 2015 and early 2016 to reflect the operational requirements of an evolving business. In particular, the Stockton site staff complement was further reduced to reflect reduced coal production. The closure of East Mine was confirmed and a further reduction of Corporate and Support staff occurred.

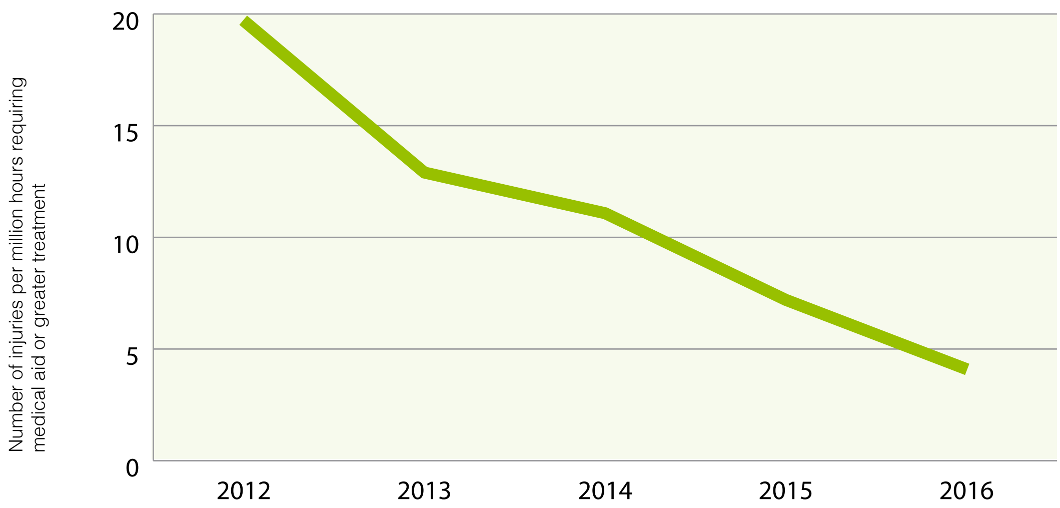
We have seen the successful establishment of our operation at Maramarua and continued development of our Reefton operations.

A skilled group was internally established to support the sales process throughout the 2016 year.

We successfully achieved full compliance with Mine Manager Certificate of Compliance (CoC's) by the originally scheduled date of January 2016. We have continued with an ongoing programme for selected staff to achieve CoC's by the end of 2016. These competency requirements were introduced by the Health & Safety in Employment (Mining Operations and Quarrying Operations) Regulations 2013. The due date was extended to the end of 2016 due to a number of other employers struggling to meet the original date.

In consultation with the E Tu Union we removed ourselves from a Multi Employer Collective Agreement and established single site agreements incorporating rollover terms and conditions through to March 2017.

All Injury Frequency Rate



At year end we employed 398 permanent staff members (2015: 589). Turnover in the year, excluding redundancies, dropped further to 12% (2015: 15%) and absenteeism continued to be at a low 3.35%.

Environment and Community

FY16 saw another strong environmental performance for Solid Energy.

Only one statutory non-compliance event was recorded at Solid Energy sites during the year and continued the overall excellent compliance performance established the previous year (2015: 0). The non-compliance in FY16 involved a slightly elevated concentration of boron in water being discharged to an intermediate treatment area (Kimihia wetland) at East Mine. Boron concentrations at the downstream compliance location (and prior to discharge into Kimihia Stream) were compliant. No regulatory action resulted.

We completed final rehabilitation of 70.5 hectares (2015: 76.6 hectares) which was substantially in excess of land disturbed throughout the year (25.4 hectares). Our principal opencast mines, Rotowaro and Stockton, both exceeded their final rehabilitation targets. Our net disturbed land area at all operations consequently decreased to a total of 1,660 hectares.

Site rehabilitation post-mining is one of the company's most significant liabilities and its costs are assessed twice-yearly in line with half-year and full-year accounts. The total liability (in present value terms) reduced to $159 million – down from $189 million (NPV) in FY15.

FY16 saw the conclusion of a decade-long commitment to Powelliphanta *augusta* land snail management at Stockton mine. Since 2006, we have met all requirements for responsibly managing this species, with a large proportion of the captively-bred population being returned to rehabilitated land at the Stockton Mine.

THE BOARD OF SOLID ENERGY

ANDY COUPE LLB

Chair

Andy Coupe is a professional company director with more than 30 years' experience in investment banking.

Directorships

Farmright Ltd (Chair)
Barramundi Ltd
Kingfish Ltd
Marlin Global Ltd
Gentrack Group Ltd

Other

Takeovers Panel (Deputy Chair)
Institute of Directors, Chartered Member

KEIRAN HORNE BCM, BA

Deputy Chair

Keiran Horne, a consultant with Nexia, is a Chartered Accountant with more than 20 years' experiences as a business advisor and insolvency practitioner.

Directorships

Breastscreen Otago Southland Ltd
Lotto NZ Board, Commissioner

Other

Timaru District Council (Audit and Risk Committee Member)
Institute of Chartered Accountants, Member
Institute of Directors, Member

RABIN RABINDRAN Barrister-at-Law (Middle Temple) AAMINZ, MA (Business Law)

Rabin Rabindran is a barrister and legal consultant specialising in major national and international project structuring, negotiation and documentation mainly in construction, energy, transport and infrastructure development.

Directorships

Bank of India (NZ) Ltd (Chair)
Auckland Transport
New Zealand Liaoning International Investment & Development Co Ltd
Singapore Chapter, ASEAN New Zealand Business Council (Chair)
Swift Energy New Zealand Limited
Swift Energy New Zealand Holdings Limited
Kowhai Operating Limited

DAVID REECE BE Mining, Grd Dip Min Res (Risk Management), GAICD

David Reece has more than 35 years' experience as a mining engineer and operational risk manager in the Australian and international mining industries. He is a principal consultant with The Safety Managers and has been Senior Inspector of Mines with the Queensland Mines Inspectorate.

Directorships

The Safety Managers Pty Ltd (Australia)

NEVILLE SNEDDON BE Mining (Sydney), ME (UNSW), MAIMM, Grad.AICD

Neville Sneddon is a mining engineer with more than 40 years' experience in the Australian mining industry as a company director and in senior management roles with the NSW Mines Department.

Directorships

CSM Energy Ltd (Australia)(Chair)
Stanmore Coal Ltd (Australia) (Chair)
Cobbora Holding Company Pty Ltd (Australia)

Other

Australasian Institute of Mining and Metallurgy (Chairman – Hunter Branch)

Solid Energy New Zealand Ltd is a state-owned enterprise (SOE) incorporated as a private limited-liability company on 24 February 1987. The shareholders of Solid Energy's ordinary shares are the Ministers of Finance and State Owned Enterprises. Solid Energy's ordinary share capital is 60,900,000 $1.00 shares, with each shareholder holding 50%. At time of writing, Solid Energy's strategic objective is to conduct an efficient and orderly sell-down of all its assets in order to achieve best value for creditors.

Regulatory Framework

The legal responsibilities of Solid Energy are those of any other private company, with the addition of the requirements set out in the State Owned Enterprises Act 1986.

SOEs are Crown-owned companies that operate as commercial businesses. The principle objective of every SOE is to operate as a successful business and to be as profitable and efficient as comparable businesses that are not owned by the Crown. SOEs are also required by statute to be good employers and to exhibit a sense of social responsibility. More information about the SOE governance and accountability regime is in the Owner's Expectations Manual at www.treasury.govt.nz

Shareholder Engagement

The Board is accountable to Shareholding Ministers for creating and delivering value through the effective governance of the business. The Board has developed a strategy for engaging and communicating with the Shareholding Ministers, aspects of which are requirements of the State Owned Enterprises Act. In this regard, the Board is required to produce an annual Statement of Corporate Intent, an Interim Report and an Annual Report, all of which must be presented to Parliament by the relevant Shareholding Minister. Outside of these requirements, the Shareholding Ministers are encouraged to make their views known to the Board and to raise matters of concern directly with it.

The Board also uses a range of formal and informal measures to ensure that it understands and effectively responds to shareholder questions and matters relating to the management and governance of the company. In addition to consulting with Shareholding Ministers on transactions above an agreed value threshold, the Board adheres to a "no surprises" policy which ensures that Shareholding Ministers are provided with regular information and updates about the business.

Continuous Disclosure

Under the State Owned Enterprises Continuous Disclosure Rules, and subject to the permitted exceptions, Solid Energy is expected to disclose the terms of material transactions entered into as well as any information in its possession that will have an impact on Solid Energy's commercial value.

Role and Responsibilities

The Board is accountable to the Shareholding Ministers. The role of the Board is to assist Solid Energy to achieve its principal objective. The performance of the Board and the corresponding contributions of the Directors to the Board's collective decision-making process are essential to fulfil this role.

Independence

Each of the Directors of the company is considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement, except where declared and managed accordingly.

Duties and Delegation

The Companies Act 1993 sets out the legal duties of company directors, including the duty to act in good faith and in the best interests of the company. A number of other duties are set out in the Act which place responsibilities of high endeavour upon anyone assuming the role of director.

In discharging its duties, the Board has specifically reserved certain matters for its own consideration and decision making. These are appointing the Chief Executive (CE), determining matters in accordance with approved delegations of authority and formal determinations required by the company's constitutional documents, by statute or by other external regulation. In accordance with the terms of the DoCA, certain decision making, such as overall strategy and annual budgets, must be approved by the Deed Administrators acting on behalf of the Participants Committee established by the DoCA.

Beyond those matters, the Board has delegated authority to achieve the strategic purpose to the CE, who is expected to take all decisions and actions which, in the CE's judgement, are reasonable, having regard to the limits imposed by the Board. The CE remains accountable to the Board for the authority that is delegated and for the performance of the business. The Board monitors the decisions and actions of the CE and the performance of the business to gain assurance that progress is being made towards the strategic purpose.

The Board also monitors the performance of the company and assesses its risk profile through its committees. The CE is required to report to the Board regularly in the spirit of openness and trust, on the progress being made by the business. The Board and its committees determine the information required from the CE, any employee or external party including the external auditor. Open dialogue between individual members of the Board and the CE and other senior managers is encouraged, so as to assist the Directors in gaining a better understanding of Solid Energy's business.

Chair

The Chair of Solid Energy is responsible for leading the Board and ensuring that it is operating to acceptable governance standards. The Chair is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role by promoting a culture of openness and debate, and by facilitating the contribution made by Directors. The Chair is responsible for ensuring that good communication is maintained with the Shareholding Ministers, and that all Directors are made aware of their views. Duties include building an effective, high-performing and collegial team of Directors, and ensuring that they operate effectively as a Board.

Directors' Conflicts Of Interest

Under sections 139 to 149 of the Companies Act, a Director of a company must avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. Under the requirements of the Companies Act, Directors must disclose any relationship and/or matters that give rise to an actual or potential conflict of interest. The Board has in place a process for disclosing and dealing with conflicts of interest, including maintaining an interests register which ensures that all Directors are aware of the existence and nature of any disclosure of interest made by a Director.

Solid Energy's Constitution provides that a Director who is interested in a transaction may not vote on a matter relating to that transaction. Such a Director may attend a meeting at which a matter relating to the transaction arises and may be included among the Directors for the purposes of determining the presence of a quorum. It is the expectation of Shareholding Ministers for Directors who are interested in a transaction to absent themself from deliberation unless the Board resolves that this is not required.

Directors' Appointment Process

Solid Energy's Shareholding Ministers are responsible for the appointment of each Director to the Board of Solid Energy. The process is managed by Treasury with the Shareholding Ministers being accountable to Parliament for the appointment of Directors. Directors are generally appointed for a term of three years and may be reappointed at the expiry of that term, subject to a Director's wish to be reappointed, their contribution having been satisfactory and their skills continuing to be relevant to Solid Energy's Board.

Directors' Insurance and Indemnity

The company has arranged policies of Directors' liability insurance which, together with an indemnity given to the Directors pursuant to Section 162 of the Companies Act 1993, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law.

Directors' Loans

There were no loans by any member of the Solid Energy group to Directors.

DOCA Participants Committee

On 17 September 2015, the Solid Energy group became party to a Deed of Company Arrangement (DOCA). Under the DOCA, the existing Board continues to govern Solid Energy, monitored by the Deed Administrators. Throughout the DOCA period, certain matters will require approval from a committee representing participant creditors.

Directors' Remuneration

The following people held office as Director during the period and received the following remuneration for the period:

Current Directors	
Andy Coupe (appointed 1 October 2013; appointed Acting Chair February 2015; appointed Chair October 2015)	$80,000
Keiran Horne (appointed 1 January 2014, appointed Deputy Chair October 2015)	$65,800
Rabin Rabindran (appointed 1 January 2014)	$45,700
David Reece (appointed 9 June 2014)	$43,000
Neville Sneddon (appointed 8 November 2012)	$43,000

Board Committees

Audit and Risk Committee (Keiran Horne, Chair; Andy Coupe; Rabin Rabindran)

The Audit and Risk Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing Solid Energy's half-yearly and annual financial statements, considering the scope of the company's annual external audit and the extent of non-audit work undertaken by external auditors, approving the company's internal audit programme, advising on the appointment of external auditors and reviewing the effectiveness of Solid Energy's risk management and internal control systems.

Health, Safety and Environmental Committee (Neville Sneddon, Chair; Rabin Rabindran; David Reece)

The principal responsibility of the Health Safety and Environment Committee is to review and make recommendations to the Board on the appropriateness and effectiveness of the company's health, safety and environmental strategy, performance and governance. This committee also reviews the outcomes of all investigations into significant health, safety and environmental incidents, and keeps the Board informed of new developments, trends and/or forthcoming significant impacts on health, safety and environmental matters generally, which may be relevant to Solid Energy and its group's operations.

Remuneration Committee (Rabin Rabindran, Chair; Keiran Horne; Andy Coupe)

The principal roles of the Remuneration Committee are to consider and determine all elements of the remuneration of the CE and the other heads of the business units of the company (the Leadership Team) as defined by the CE and to determine targets for any performance-related pay schemes operated by the company. This committee makes recommendations to the Board in regard to all elements of remuneration of the members of the Leadership Team. The committee receives independent advice on benchmarking and best practice. The remuneration of all Directors is determined by the Shareholding Minister.

THE DIRECTORS PRESENT THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	see notes	GROUP 2016 $M	GROUP 2015 $M
Revenue	8(A)	230.6	368.5
Cost of sales	8(B)	(230.4)	(386.3)
Gross profit/(loss)		0.2	(17.8)
Other income	8(C)	67.8	37.3
Exploration, evaluation and development expenses		(0.3)	(0.3)
Corporate services and administrative expenses	8(D)	(19.7)	(21.2)
Other expenses and restructuring costs	8(E)	(19.1)	(31.1)
Impairment	8(F)	(52.2)	(256.6)
Results from operating activities		(23.3)	(289.7)
Realised and unrealised gains/(losses) on derivatives		2.6	(5.8)
Finance income		3.1	9.4
Finance expenses	8(G)	(20.3)	(34.7)
Net finance income/(expense)		(14.6)	(31.1)
Fair value movement on participant debt	3	250.1	-
Share of (loss) of jointly controlled entities		-	(0.8)
Profit/(loss) before income tax		212.2	(321.6)
Income tax benefit/(expense)	9	(117.5)	144.9
Profit/(loss) after tax		94.7	(176.7)
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified subsequently to profit or loss:			
Cashflow hedges - effective portion of changes in fair value		-	(0.1)
Cashflow hedges - reclassified to profit or loss		-	(0.9)
Income tax benefit/(expense) on fair value of cashflow hedges		-	(0.7)
Net change in fair value of available-for-sale financial assets		(0.1)	(1.1)
Other comprehensive (loss) for the year, net of income tax		(0.1)	(2.8)
Total comprehensive income/(loss) for the year		94.6	(179.5)
Total comprehensive income/(loss) attributable to:			
Members of the parent		94.6	(179.5)
Total comprehensive income/(loss) for the year		94.6	(179.5)

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

	see notes	GROUP 2016 $M	GROUP 2015 $M
Assets			
Cash and cash equivalents	10	57.6	47.7
Locked cash	10	-	17.3
Trade and other receivables	11	34.5	47.2
Inventories	12	19.9	32.1
Assets held for sale	13	222.1	275.0
Other assets		10.0	13.2
Deferred tax asset	9	-	117.5
Total assets		**344.1**	**550.0**
Liabilities			
Accounts payable and accruals	14	23.8	44.5
Other liabilities		0.3	2.4
Liabilities associated with assets held for sale	15	159.9	188.3
Other provisions	15	24.6	52.3
Term lease liability		-	10.0
Interest-bearing & other borrowings		-	347.1
Participant debt	3	135.5	-
Total liabilities		**344.1**	**644.6**
Net assets		**-**	**(94.6)**
Equity			
Issued capital	17	133.3	133.3
Redeemable Preference Shares	17	100.0	100.0
Retained earnings		(233.3)	(328.0)
Other reserves		-	0.1
Total equity		**-**	**(94.6)**

Signed for and on behalf of the Board of Directors, which authorised the issue of the Financial Report on 13 September 2016.

Andy Coupe (Chair)

Keiran Horne (Director)

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

GROUP		Attributable to equity holders of the parent					
	see notes	Ordinary Capital	Redeemable Preference Shares	Retained Earnings	Cash Flow Hedge Reserve	Available for sale reserve	Total Equity
		$M	$M	$M	$M	$M	$M
As at 1 July 2015		133.3	100.0	(328.0)	-	0.1	(94.6)
Total comprehensive income/(loss) for the year		-	-	94.7	-	(0.1)	94.6
As at 30 June 2016		**133.3**	**100.0**	**(233.3)**	**-**	**(0.0)**	**(0.0)**
As at 1 July 2014		60.9	100.0	(151.3)	1.7	1.2	12.5
Total comprehensive income/(loss) for the year		-	-	(176.7)	(1.7)	(1.1)	(179.5)
Transactions with owners in their capacity as owners:							
Indemnity		103.0	-	-	-	-	103.0
Establishment fee		(2.5)	-	-	-	-	(2.5)
Deferred tax		(28.1)	-	-	-	-	(28.1)
Net Contributions from Ultimate Parent	17	72.4	-	-	-	-	72.4
As at 30 June 2015		**133.3**	**100.0**	**(328.0)**	**-**	**0.1**	**(94.6)**

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

	see notes	GROUP 2016 $M	GROUP 2015 $M
Cash flows from/(used in) operating activities			
Receipts from customers		297.4	421.6
Payments to suppliers and employees		(318.0)	(422.2)
Net cash flows from operating activities	18	**(20.6)**	**(0.6)**
Cash flows from/(used in) investing activities			
Proceeds from sale of property, plant and equipment		24.5	34.1
Collateralised derivatives		1.7	(5.3)
Investment in mining assets and property, plant and equipment		(4.2)	(9.2)
Net cash flows from investing activities		**22.0**	**19.6**
Cash flows from/(used in) financing activities			
Interest received		0.7	1.7
Transfer (to)/from locked cash account	10	17.3	(16.0)
Interest paid		(6.8)	(21.8)
Repayment of other interest-bearing borrowings		(1.8)	(1.8)
Payment of Crown indemnity fee		-	(2.5)
Repayment of lease liability		(0.9)	(1.3)
Net cash flows from/(used in) financing activities		**8.5**	**(41.7)**
Net increase/(decrease) in cash and cash equivalents		**9.9**	**(22.7)**
Opening cash and cash equivalents		47.7	70.4
Closing cash and cash equivalents	10	**57.6**	**47.7**

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

1. CORPORATE INFORMATION

These financial statements are for Solid Energy New Zealand Ltd (Subject to Deed of Company Arrangement), ('Solid Energy', the 'Parent'), and its subsidiaries, (together 'Solid Energy Group'), as set out below:

Subsidiaries:

- Solid Energy Renewable Fuels Ltd (Subject to Deed of Company Arrangement)
- Solid Energy Land Lease Ltd (Subject to Deed of Company Arrangement) (previously Biodiesel New Zealand Ltd)
- Solid Energy Land Holdings Ltd (Subject to Deed of Company Arrangement)
- Spring Creek Mine Holdings Ltd (Subject to Deed of Company Arrangement)
- Spring Creek Mining Company (Subject to Deed of Company Arrangement)
- Solid Energy Briquettes Ltd (Subject to Deed of Company Arrangement)
- Stockton Alliance Ltd (Subject to Deed of Company Arrangement)
- Pike River (2012) Ltd (Subject to Deed of Company Arrangement) and
- Nature's Flame Italia SRL (in Liquidation).

The following companies were amalgamated with Solid Energy during the year:

- Terrace Coal Mine Ltd (Subject to Deed of Company Arrangement)
- CoalCorp Services Ltd (Subject to Deed of Company Arrangement)
- Coal New Zealand Ltd (Subject to Deed of Company Arrangement)
- Coal New Zealand International Ltd (Subject to Deed of Company Arrangement) and
- Coal Bed Methane Ltd (Subject to Deed of Company Arrangement).

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

2. DEED OF COMPANY ARRANGEMENT AND GOING CONCERN

On 17 September 2015, the group (other than Nature's Flame Italia SRL (in Liquidation)) ('Solid Energy DOCA Group') became a party to a Deed of Company Arrangement ('DOCA'). In accordance with the DOCA, the Solid Energy DOCA Group has engaged an investment bank to assist with an orderly, managed sale of its assets. At the end of this process, residual participant debt (refer Note 3) and residual intra-group debt will be extinguished with the intention that the Solid Energy DOCA Group companies will be liquidated on a solvent basis.

As such, the financial statements have been prepared on a non-going-concern basis with all assets measured at the lower of carrying amount and fair value less costs to sell. The key assumptions in determining fair value less costs to sell are detailed in Note 5. Liabilities are measured at the carrying amount in accordance with contractual or legislative requirements. Current best estimates of contractual costs on wind-up have been provided for. The carrying amount is calculated on an historical cost basis except for:

- Derivative financial instruments that have been measured at fair value;
- Participant Debt (being both Participant Creditor Debt and Participant Creditor Contingent Debt, as defined in Note 3) which is measured with reference to expected future payments (refer Note 3);
- Provisions and Crown Indemnity Asset which are measured at net present value; and
- Tangible mining assets which include capitalised rehabilitation provisions.

As a non-going-concern, the statement of financial position has been presented in broad order of liquidity.

3. PARTICIPANT DEBT

On 17 September 2015 each member of the Solid Energy DOCA Group became a party to the Restructured Debt Deed ('RDD'), as anticipated in the DOCA. Under the RDD, the debt owing to the Participant Creditors ('Participant Creditor Debt') is split into two tranches: Tranche A (which represents 1/3rd of the claim and is interest-bearing) and Tranche B (which represents 2/3rds of the claim and is non-interest bearing).

Repayments are made as a result of cash sweeps from excess cashflow, with the balance of debt due and payable after not more than 2.5 years from 17 September 2015.

The RDD also provides that the debt claims are limited recourse (effectively limited to the value of the available assets of the Solid Energy Group).

Under the DOCA and RDD, certain future claims against the Solid Energy DOCA Group by Participant Creditors (for example those disclosed in Notes 7(A) and 7(B)) will be added to the Participant Creditor Debt as the liabilities arise. These claims will be added 1/3rd to Tranche A and 2/3rds to Tranche B, and will be subject to the same terms as existing Participant Creditor Debt. Where accounting standards require a liability to be recognised in relation to this future potential debt, we have classified the liability as 'Participant Creditor Contingent Debt'.

	Face Value $M	Carrying Value $M
Participant Creditor Debt	365.0	128.3
Participant Creditor Contingent Debt	20.6	7.2
Total Participant Debt	**385.6**	**135.5**

The carrying value of Participant Debt is calculated in accordance with the accounting policy noted below.

3. PARTICIPANT DEBT (continued)

(A) Interest rate

The interest rate on Tranche A debt is reset quarterly. The interest rate as at 30 June 2016 was 5.42% per annum.

(B) Fair value adjustments

On initial recognition of the Participant Debt, a fair value adjustment of $216.3 million was recognised in Profit or Loss. Subsequent adjustments of $33.8 million have also been recognised in Profit or Loss. Expected future debt repayments have been estimated with reference to internal cash flow forecasts, with sales proceeds calculated consistently with those noted in Note 5.

(C) Security

The Participant Debt is secured by a General Security Deed, as well as mortgages over non-core land. Refer Note 6 for further details.

(D) Defaults and breaches

The terms of the RDD require the Solid Energy DOCA Group to meet a number of financial and non-financial covenants and pledges on an ongoing basis.

At 30 June 2016, the Solid Energy DOCA Group was in compliance with its covenants.

(E) Accounting policy

All loans and borrowings are initially recognised at fair value plus transaction costs. Fair value is estimated based on expected future payments, discounted using the current market interest rate for a similar financial instrument. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. If the estimated payments are later revised, the carrying amount of the liability is adjusted to reflect actual and revised estimated cashflows discounted at the instruments original effective interest rate.

4. REHABILITATION PROVISION & CROWN INDEMNITY ASSET

The Solid Energy Group 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 estimated with certainty.

On 17 September 2015, existing Crown indemnities were restructured by extinguishing the existing indemnities and providing new indemnities on a mine by mine basis. The value of the new indemnities has been made transferable to approved future mine owners by permitting them to be ‘cashed out’ to an escrow agent prior to sale. The escrow agent will hold the funds and reimburse certified rehabilitation work carried out by future mine owners.

Local Authorities have also been given direct access to claim against the Crown indemnities (once cash out has occurred) in the event of non-performance of the new mine owner’s obligations. In return, the Local Authorities have agreed not to claim any historic rehabilitation obligations against the Solid Energy Group, other than as can be satisfied through the Crown indemnities.

		Group	
Rehabilitation Provision	See Notes	2016 $M	2015 $M
Opening balance as at 1 July		189.4	166.1
Arising during the year		0.7	1.8
Amounts incurred and charged		(12.6)	(8.7)
Change in cost estimates, discount rate and inflation estimates		(28.7)	27.1
Effect of discount rate unwind		9.8	3.1
As at 30 June		158.6	189.4
Classified as:			
Liabilities associated with assets held for sale		155.6	184.2
Other provisions		3.0	5.2
		158.6	189.4

The rehabilitation provision has been reassessed following reduced mobile plant lease rates, lower fuel costs, dedicated staffing rosters and the removal of third party margin by bringing certain rehabilitation activities ‘in house’. A resulting reduction of $28.7 million is included within ‘Other income’ in the Profit or Loss (2015: $10.9 million increase included within ‘Other expenses and restructuring costs’), with adjustments relating to operational mines capitalised to mining assets.

4. REHABILITATION PROVISION & CROWN INDEMNITY ASSET (continued)

Crown Indemnity Asset		
Opening balance as at 1 July	103.7	60.1
Restructure of existing indemnities	35.8	-
New indemnities introduced	-	103.0
Amounts claimed	(16.4)	(9.9)
Change in estimates, discount rate and inflation estimates	(5.6)	32.6
Effect of discount rate unwind	1.9	5.8
Impairments	-	(87.9)
Closing balance as at 30 June	**119.4**	**103.7**

Classified as:		
Assets held for sale	116.4	99.0
Other assets	3.0	4.7
	119.4	**103.7**

Included within “Other income” in the Profit or Loss is $30.2 million (2015: $30.7 million) relating to changes in the estimated value of the Crown indemnity asset. In the prior year, an impairment of $87.9 million was recognised due to restrictions around the ability for future mine owners to access the indemnities.

Refer to Note 23(A) for details of changes to the Crown rehabilitation indemnities subsequent to balance date.

(A) Key estimates and judgements

In calculating the estimated future costs of rehabilitating and restoring areas disturbed in the mining process, estimates and assumptions have been made. The amount the group is expected to incur to settle these future obligations includes estimates of discount and inflation rates, expected mine life, application of the relevant legislative requirements for rehabilitation, and the future expected costs of rehabilitation for each site. The provision is reviewed at each reporting date and updated based on the best available estimates and assumptions at that time. As some of these estimates and assumptions are subject to significant uncertainty, there may be significant future variances from current estimates.

The discount rate estimate for rehabilitation costs uses a risk-free rate for discounting future rehabilitation costs. At 30 June 2016 the risk-free discount rate was assessed as ranging from 2.1% for cash flows in one years time to 4.8% for cashflows in greater than 20 years time (2015: 2.9% to 5.5%) nominal with inflation estimated at 1.5% to 2.0% (2015: 1.6% to 2.5%). The rates used are the rates published by the New Zealand Treasury for use in accounting valuations.

(B) Accounting policy

The estimated cost of any end of mine life rehabilitation is provided for at the commencement of the mining project, with a corresponding asset recognised in relation to the mine site. Measurement of the rehabilitation provision is on the basis of expected future costs discounted using a risk-free rate. The inflation rate and risk-free rates used are those published by the New Zealand Treasury for use in accounting valuations.

Any increases in the rehabilitation provision that relate to the ongoing production of the mine are expensed as the obligation arises. Any other change in the net present value of rehabilitation costs, including those resulting from new disturbances, updated cost estimates and changes to the lives of operations are capitalised to mine assets. Changes in net present value relating purely to discounting future values are reflected in finance expenses.

Measurement of the Crown indemnity asset, in relation to indemnified rehabilitation costs, is on the basis of expected future reimbursable costs discounted using a risk-free rate where appropriate.

5. FAIR VALUES

All of the groups assets are measured at the lower of carrying amount and fair value less costs to sell (refer Note 2). Assumptions are required to be made in order to assess the fair value less costs to sell of assets.

In estimating the fair value less costs to sell, a number of estimates and judgements are made by management. These estimates and associated assumptions are based on historical experience, supported by independent external industry sources where appropriate and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

We have set out below the key estimates and assumptions for assets carried at fair value less costs to sell, grouped into levels based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(A) Derivatives - level 2

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. Fair values reflect the credit risk of the financial instrument and include adjustments to take account of the credit risk of the group and counterparty where material. Derivatives have been valued at net $0.7 million and are included within 'other assets' and 'other liabilities'.

(B) Assets held for sale - level 3

The carrying value of assets held for sale reflects the lower of historical carrying amount and fair value less costs to sell. As a result, the carrying value does not reflect an indicative sale value as the historical carrying amount may be lower than fair value less costs to sell. As these assets are currently being marketed both invidually and collectively, any value realised on final sale may differ from the current carrying value.

(i) Mining Assets

The fair value of mining assets has been estimated based on future cash flows expected to be derived from those assets for the period included in the current mine and market plans, discounted at a rate of return expected to be required by a potential buyer. Assets have been grouped into relevant cash generating units for this purpose.

Estimated recoverable reserves and resources are prepared by appropriately qualified persons using JORC methodology where appropriate.

For coal resources remaining at the end of the current mine and market plans, or where the mine is not currently in production, the fair value is determined on an implied dollar per tonne basis with reference to market enterprise values and stated levels of resources of comparable listed coal companies, adjusted where appropriate to take account of mining method, coal quality, and time to develop coal.

Key assumptions include the timing and value of expected production and sales volumes, commodity prices, exchange rates, discount rates, mineral rights, operating costs, future capital expenditure and the required rate of return for any purchaser in an orderly transaction. Details of key assumptions regarding the assets carried at fair value less costs to sell are as follows:

Export operations

Whilst the assumptions remain the Directors' best estimate, the actual assumptions applied by a purchaser could be materially different.

- Average sales of 1.30 Mt per year over an 11-year mine plan, with 35.2 Mt of resources valued beyond this period (2015: average sales of 1.29 Mt per year over a 12-year mine plan, with 31.6 Mt of resources valued beyond this period);
- Export coal price assumptions have been sourced from Wood Mackenzie, a global provider of market intelligence to the energy, metals and mining industries.
- The exchange rate applied is the NZD/USD forward curve as at 29 June 2016 off the spot rate of 0.71 (June 2015: NZD/USD forward curve as at 30 June 2015 off the spot rate of 0.68)
- Market - predominantly existing export customers in Asia;
- Logistics costs are assumed to remain on existing contractual terms;
- Leased earth moving equipment is leased on expected rates (based on current negotiations) to the end of the third quarter of FY17, and thereafter procured on market terms;
- Post-tax nominal discount rate of 15% reflecting the weighted average cost of capital of a potential purchaser (2015: 15% post-tax nominal). Discount rates likely to be used by potential purchasers are highly uncertain.
- The following table summarises the sensitivity of the assessed fair value less costs to sell to movements in the key assumptions:

5. FAIR VALUES (continued)

Key Assumption	Sensitivity	Change in Fair Value less Costs to Sell ($M)
Discount Rate	± 2%	∓ $9M
Coal Price	± US$5/tonne	± $36M
Exchange Rate	± 1 Cent	∓ $7M
Costs	± $5/tonne	∓ $23M

North island operations

The following table summarises the key assumptions used in assessing the fair value less costs to sell and the senstivity of the assessed fair value less costs to sell to movements in those assumptions:

Key Assumption	Rate Applied	Sensitivity	Change in Fair Value less Costs to Sell ($M)
Production	Average of 791kt per annum	Not provided	Not provided
Mine Life	9 years	Not provided	Not provided
Discount Rate	9.5% post tax nominal	± 2%	∓ $5M
Sales Price	Various contracted sales prices	± $5/tonne	± $20M
Costs	Current budgeted costs with assumed inflation of 1.9%	± $5/tonne	∓ $20M

Southland operations

The following table summarises the key assumptions used in assessing the fair value less costs to sell and the senstivity of the assessed fair value less costs to sell to movements in those assumptions:

Key Assumption	Rate Applied	Sensitivity	Change in Fair Value less Costs to Sell ($M)
Production	Average of 361kt per annum	Not provided	Not provided
Mine Life	19 years	Not provided	Not provided
Discount Rate	9.5% post tax nominal	± 2%	∓ $5M
Sales Price	Various contracted sales prices	± $2.50/tonne	± $7M
Costs	Current budgeted costs with assumed inflation of 1.9%	± $2.50/tonne	∓ $7M

Other operations

The carrying value of mining assets of other operations is carried at a combination of historical cost and fair value less costs to sell.

(ii) Non core land

The fair value of non-core land is based on active market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Valuations are performed by an external, independent valuation company, having appropriate recognised professional qualifications and experience in the location and category of property being valued. Selling costs are assumed at 3% where appropriate.

(iii) Crown indemnity asset

The Crown indemnity asset is measured in accordance with the accounting policy as disclosed in Note 4(B).

6. SECURITY OVER ASSETS

Each member of the Solid Energy DOCA Group is a party to a General Security Deed ('GSD'). Under the GSD, each member grants security over all of its assets in favour of Trustees Executors Limited as security trustee to hold on behalf of all creditors of the Solid Energy DOCA Group.

In addition, Solid Energy New Zealand Limited (subject to deed of company arrangement), Solid Energy Land Holdings Limited (subject to deed of company arrangement) and Solid Energy Renewable Fuels Limited (subject to deed of company arrangement) have each also granted mortgages over certain non-core land held by them in favour of Trustees Executors Limited in its capacity as security trustee.

The group has performance bonds and guarantees in respect of environmental liabilities outstanding at 30 June 2016 totalling $25.0 million (2015: $25.6 million) which may be drawn down by Councils or Crown Entities in the event the group fails to perform under various contracts and licenses. No loss is expected in respect of these bonds.

7. CONTINGENT LIABILITIES

(A) Cargill

Balances owing to Cargill International S.A. ('Cargill') have been classified as Participant Creditor Debt in accordance with the DOCA, and valued in accordance with the terms of the RDD.

Following the signing of the DOCA in September 2015, Cargill lodged an application in the High Court on 15 October 2015 against Solid Energy New Zealand Ltd (Subject to Deed of Company Arrangement), Spring Creek Mining Company (Subject to Deed of Company Arrangement), the Deed Administrators and Solid Energy Group's lender banks seeking a number of orders including that the DOCA be terminated, or alternatively that a number of variations to the DOCA be made (including that Cargill be treated as a trading creditor). Cargill considered, among other issues, that it was unfairly prejudiced by its treatment as a Participant Creditor under the DOCA.

Subsequent to balance date, judgment on the above matters was received in favour of the Solid Energy Group. A Notice of Appeal against part of the judgement was lodged by Cargill on 1 September 2016

A provision has been included for future legal costs in relation to this dispute.

(B) Pike River Coal

The Receivers of Pike River Coal Ltd (in Receivership)('PRC') advised the Administrators of an "unquantified contingent liability" on 25 August 2015 in relation to a deferred payment under the Mining Asset Sale and Purchase Agreement relating to the Pike River Mine.

PRCs rights and entitlements under the agreement have subsequently been assigned to New Zealand Oil and Gas ('NZOG').

Under the DOCA, NZOG's claim is classified as a Participant Creditor Debt to the extent that any claim made is accepted by the Deed Administrators. If a claim is made and accepted, the claim will be added as Participant Creditor Debt.

(C) Other

In the event that the assets sales program is not successful, a number of other liabilities may arise.

There were no other significant contingent liabilities at 30 June 2016.

8. REVENUE, INCOME AND EXPENSES

		see notes	Group 2016 $M	Group 2015 $M
(A)	**Revenue**			
	Sale of goods		230.6	368.5
			230.6	368.5
(B)	**Cost of sales**			
	Coal production costs		(173.3)	(274.4)
	Renewables production costs		(0.2)	(7.2)
	Depreciation & amortisation	13	(14.5)	(44.2)
	Distribution, direct selling and other costs		(42.4)	(60.5)
			(230.4)	(386.3)
(C)	**Other income**			
	Rental income		1.6	2.1
	Fair value movement		62.3	30.7
	Surplus on sale of property, plant and equipment		3.9	4.5
			67.8	37.3

Included within fair value movement is $3.4M for the release of provisions. The remaining balance relates to the rehabilitation provision and Crown indemnity assets. Refer Note 4 for further details.

		see notes	Group 2016 $M	Group 2015 $M
(D)	**Corporate services and administrative expenses comprise:**			
	Bad debts		-	-
	Doubtful debts		(0.3)	-
	Auditor's remuneration comprises:			
	Audit of the financial statements		(0.3)	(0.4)
	Other assurance-related services		-	-
	Total Auditor's remuneration		(0.3)	(0.4)
	Director's fees comprises:			
	Standard director's fees		(0.3)	(0.3)
	Additional fees		-	(0.2)
	Total Director's fees		(0.3)	(0.5)
	Depreciation		-	(2.5)
	Corporate services		(6.1)	(8.3)
	Other administrative expenses including personnel, travel, professional services, utilities, premise costs and costs relating to the sales program		(12.7)	(9.5)
			(19.7)	(21.2)
(E)	**Other expenses and restructuring costs**			
	Restructuring costs and redundancies comprising:			
	Reefton operations		(0.3)	(0.3)
	Huntly East mine		(4.9)	-
	Stockton		(0.6)	(6.2)
	Corporate		(11.7)	(2.9)
	Other		(0.1)	-
	Total restructuring costs and redundancies	(i)	(17.6)	(9.4)
	Fair value movement	(ii)	(1.5)	(21.7)
			(19.1)	(31.1)

(i) Restructuring costs include redundancy entitlements and legal and professional services fees paid to consultants for restructuring advice. Included in Corporate restructuring costs are costs relating to the Voluntary Administration and Deed of Company Arrangement.

(ii) Fair value movement relates to changes in onerous provisions (2015: includes the revaluation of borrowings denominated in US$, revaluation of the rehabilitation provision and related crown debtor, as well as movements in the provision for onerous contracts).

8. REVENUE, INCOME AND EXPENSES (Continued)

		see notes	2016 $M	2015 $M
(F)	(Impairment)/impairment reversal			
	(Impairment)/impairment reversal of property, plant and equipment, mining assets and stripping in advance	(i)-(v)	(52.2)	(168.7)
	Impairment of Crown receivable	(vi)	-	(87.9)
			(52.2)	(256.6)

(i) Export operations - Sustained weak export coal markets and a continued high New Zealand dollar have resulted in a further reduction in projected future value for the Export Operation's cash generating unit (CGU). An impairment of $28.1 million has been recognised as a result (2015: $152.3 million). Refer to Note 5 for further details of the assumptions used in the assessment of fair values.

(ii) Other mining operations - During the 2016 financial year the Reefton Operations and Spring Creek Mine cash generating units have been impaired by $1.8 million based on the expected fair value less costs to sell (2015: $11.0 million impairment in relation to Reefton Operations and Spring Creek Mine cash generating units, and $0.9 million impairment of unused mobile plant at Huntly East). Refer Note 5 for further details of the assumptions used in the assessment of fair values.

(iii) Land and mineral rights - During the 2016 financial year Solid Energy recorded a $0.3 million impairment reversal against land held for sale based on updated market valuations (2015: $1.1 million impairment reversal).

(iv) Discontinued operations - During the 2016 financial year mining at the Huntly East mine was discountinued and work to seal the mine commenced. This has resulted in an impairment of $22.6 million (2015: assets at the former Pike River mine site were impaired by $4.5 million based on the expected sales proceeds and the sale of remaining assets at the UCG pilot plant in Huntly resulted in an impairment reversal of $0.3 million).

(v) Corporate assets - During the prior financial year, corporate assets were impaired by $1.4 million based on the expected sales proceeds.

(vi) Crown receivable - An impairment of $87.9 million was recognised in the prior year to record the value of the rehabilitation indemnities at their estimated value assuming the mining operations are sold.

		2016 $M	2015 $M
(G)	Finance expenses:		
	Interest expense	(10.3)	(24.2)
	Other finance expenses	(0.2)	(2.3)
	Discount rate unwind on term provisions	(9.8)	(8.2)
		(20.3)	(34.7)

(H)	Included within cost of sales and administrative expenses are:		
	Operating lease payments	(9.4)	(22.6)
	Personnel costs:		
	Wages and salaries	(43.9)	(62.3)
	Contributions to defined contribution plans	(1.7)	(2.7)

(I) Accounting policy

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered to have passed to the buyer at the time of delivery of the goods to the customer. For free on board export shipments delivery is deemed to have taken place once the ship is fully loaded and the bill of lading is issued.

9. TAX

	see notes	GROUP 2016 $M	GROUP 2015 $M
(A) Income tax expense/(benefit)			
Income tax expense/(benefit) can be reconciled to accounting (loss)/profit as follows:			
Accounting profit/(loss) before tax		212.2	(321.6)
Tax at the group's statutory income tax rate of 28%		59.4	(90.0)
Tax effect of items recognised through equity		-	28.1
Group losses utilised in respect of current year		-	(1.8)
Recognition of previously unrecognised temporary differences	(C)	-	(117.5)
Derecognition of previously recognised temporary differences	(C)	117.5	
Unrecognised movement in temporary differences	(C)	(56.7)	64.2
Unrecognised current year tax losses	(C)	(7.7)	-
Other		5.0	(0.5)
Aggregate income tax expense/(benefit)		**117.5**	**(117.5)**
Charged to Income			
- Deferred tax	(C)	117.5	(117.5)
- Current tax		-	(27.4)
		117.5	**(144.9)**
Charged to Equity			
- Deferred tax		-	-
- Current tax		-	27.4
		-	**27.4**
Aggregate income tax expense/(benefit)		**117.5**	**(117.5)**
(B) Imputation credit account			
At balance date the imputation credits available to the shareholders of the parent were:			
Through direct shareholding in the parent company		231.0	231.0
Through shareholding in subsidiaries		3.0	3.0
Imputation credit account closing balance		**234.0**	**234.0**

(C) Unrecognised deferred tax assets

A deferred tax asset is recognised to the extent it is considered probable that future taxable profit will be available to utilise tax losses and deductible temporary differences of the group within a 3 year period. The group has $306.1 million (2015: $275.0 million) tax losses and $208.1 million (2015: $174.3 million) deductible temporary differences for which no deferred tax asset has been recognised. The amount of tax losses is subject to confirmation by Inland Revenue and the losses will continue to be carried forward subject to meeting the minimum shareholding continuity requirements. Approximately $53.8 million of the group's tax losses were incurred by Spring Creek Mining Company prior to that company being wholly owned by the group, and those tax losses can only be utilised by Spring Creek Mining Company itself.

Based on the current tax loss position and terms of the DOCA and associated agreements, the group does not anticipate having any tax liability in the future.

(D) Accounting policy

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly into equity. Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

10. CASH, CASH EQUIVALENTS AND LOCKED CASH

	GROUP 2016 $M	GROUP 2015 $M
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	49.7	39.3
Short-term deposit	7.9	8.4
Total cash and cash equivalents	**57.6**	**47.7**
The short-term deposit is a guarantee for an environmental bond (refer Note 6).		
Locked cash comprise the following:		
Cash at bank	-	17.3
Total locked cash	**-**	**17.3**

The locked cash was released to the group during the year.

11. TRADE AND OTHER RECEIVABLES

	see notes	2016 $M	2015 $M
Trade receivables		32.0	43.5
Allowance for impairment loss	(A)	(0.4)	(0.1)
		31.6	**43.4**
Prepayments		2.9	3.8
Total trade and other receivables		**34.5**	**47.2**

Trade receivables are non interest-bearing and are generally on 30-90 day terms.

Trade receivables are recognised and carried at the invoice amount less an allowance for any uncollectible amounts.

(A) Allowance for impairment loss

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the group will not be able to collect the receivable. Financial difficulties of the debtor and default on payments are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

The Group has a total of $0.4 million owing that is greater than 30 days overdue. A provision of $0.4 million has been provided against this balance.

12. INVENTORIES

	2016 $M	2015 $M
Coal stock - finished goods	19.9	32.1
	19.9	**32.1**

Where inventories are expected to sell with the mining operation assets, these have been classified as assets held for sale.

(A) Accounting policy

Inventories are valued at the lower of weighted average cost or net realisable value.

Costs include direct material, labour and transportation expenditure incurred in getting such inventories to their existing location and condition, together with an appropriate portion of overhead expenditure.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

13. ASSETS HELD FOR SALE

Assets held for sale include: mining assets, property, plant and equipment; materials and stores; coal inventory - work in progress; and the Crown Indemnity Asset to the extent this is expected to be transferred to a future mine owner.

		GROUP	
	see notes	2016 $M	2015 $M
Opening balance as at 1 July		275.0	464.5
Additions (including stripping capitalised)		20.5	23.6
Other cost adjustments		12.3	124.3
Disposals		(19.0)	(34.1)
Depreciation and amortisation charge for the year		(14.5)	(46.7)
Net impairment		(52.2)	(256.6)
Closing balance as at 30 June		**222.1**	**275.0**

Other cost adjustments includes movments in the Crown Indemnity Asset (refer Note 4). Refer Note 8 (F) for details of impairments recognised during the year.

(A) Determination of coal reserves and resources

Estimated recoverable reserves and resources are used to determine the amortisation of mine production assets and in accounting for stripping in advance costs. Estimates are prepared by appropriately qualified persons using JORC methodology where appropriate, but will be impacted by assumptions relating to commodity prices, exchange rates, production costs and recoveries amongst other factors.

(B) Accounting policy

Stripping in advance

As part of its mining operations, Solid Energy incurs costs for the removal of overburden and other waste materials (stripping costs) both during the development phase (development stripping) and production phase (production stripping) of its operations. The stripping in advance asset is carried at cost less amortisation and any impairment losses.

Stripping costs incurred in the development phase of a mine, before the production phase commences, are capitalised as part of the cost of constructing the mine. The capitalisation of development stripping costs ceases when the mine is commissioned and ready for use as intended by management. After the commencement of production, further development of a mine may require a phase of stripping that is similar in nature to development phase stripping. The cost of such stripping is accounted for in the same way as development stripping.

Separately identifiable stripping costs incurred during the production phase are capitalised as a stripping in advance asset where the costs are associated with improved access to coal to be mined in the future. The amount of stripping costs capitalised is based on the strip ratio that is obtained by dividing the total volume of waste expected to be mined over the life of the mine by the tonnage of coal expected to be mined across the life of the mine. Stripping costs incurred in the period are capitalised to the extent that the current period actual strip ratio exceeds the life of the pit average strip ratio. Significant changes in estimates to the economically recoverable reserves are accounted for prospectively, from the date of the change.

14. ACCOUNTS PAYABLE AND ACCRUALS

	GROUP	
	2016 $M	2015 $M
Trade accounts payable and accruals	18.4	35.2
Employee entitlements	5.4	9.3
Total accounts payable and accruals	**23.8**	**44.5**

(A) Fair value

The carrying value of current payables is assumed to approximate fair value.

(B) Related party payables

For terms and conditions of related party payables refer to Note 21.

(C) Accounting policy

Trade and other payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee entitlements

Short-term employee entitlement obligations such as salaries and wages and annual leave are expensed as the related service is provided. Long-term employee entitlements such as long service leave and other entitlements that are vesting are recognised when they accrue to employees.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

15. OTHER PROVISIONS

The following liabilities are associated with assets held for sale:

	see notes	GROUP	
		2016 $M	2015 $M
Rehabilitation provision	4	155.6	184.2
Other liabilities		4.3	4.1
Closing balance as at 30 June		**159.9**	**188.3**

The following liabilities are are not expected to transfer to a future mine owner:

	see notes	GROUP	
		2016 $M	2015 $M
Mobile plant provision	(A)	10.3	34.8
Other	(B)	14.3	17.5
Total other provisions		**24.6**	**52.3**

(A) Mobile plant provision

The group provides for costs relating to the demobilisation of mobile plant fleet from mine sites and for costs associated with the usage of components on leased plant.

15. OTHER PROVISIONS (continued)

	GROUP	
	2016 $M	2015 $M
Opening balance as at 1 July	34.8	36.2
Arising during the year	3.1	11.0
Amounts incurred and charged	(3.3)	(12.4)
Other adjustments	(5.9)	-
Amounts charged to Participant Creditor Debt	(2.5)	-
Amounts reclassified to Participant Creditor Contingent Debt	(15.9)	-
Closing balance as at 30 June	**10.3**	**34.8**

Under the DOCA and RDD, certain future claims in relation to the mobile plant provision will be added to the Participant Creditor Debt as the liabilities arise. These amounts have been reclassified as Participant Creditor Contingent Debt. Refer Note 3 for further details.

(B) Other provisions

Other provisions include provisions for future restructuring and asset divestment costs, onerous contracts, litigation costs and other contractual obligations, as well as future rehabilitation costs for mines not expected to sell.

(C) Accounting policy

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

A provision is made for onerous contracts when the net present value of any contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Mobile plant costs

Demobilisation costs are those costs relating to the cost of decommissioning, refurbishing and removing mobile plant fleet from the mine site at the end of the contract. Certain leases also require the group to compensate the lessor for any loss on sale of the plant items. Demobilisation costs are provided for at the start of the contract and are amortised over the life of the contract.

The group is required to maintain leased mobile plant equipment to a minimum standard under the lease agreements. The costs required to replace worn components on mine site mobile plant fleets are provided for based on the number of hours the mobile plant has been used.

16. FINANCIAL INSTRUMENTS

The group's financial instruments comprise trade receivables, accounts payable, participant creditor debt, cash and cash equivalents, locked cash, cash collateralisation of derivatives and derivatives. All financial instruments are classified as either 'Loans and receivables' or 'Other financial liabilities', with the exception of derivatives which are classified as 'Held for trading'.

(A) Derivatives

In order to protect against exchange rate movements, the group enters into forward exchange contracts and collar and call options for US$. These contracts are hedging a portion of export receipts and are timed to mature in line with anticipated sales receipts. Solid Energy's treasury policy does not allow derivative finanical instruments to be held or issued for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value and retested on this basis at each reporting period. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss as the group's hedging does not meet the criteria for hedge accounting.

The de-recognition of a financial instrument takes place when the group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

At 30 June 2016, the value of derivatives held was $0.7 million (2015: negative $1.7 million). This is recorded within 'Other assets' and 'Other liabilities'. The nominal value of derivatives at reporting date was as follows:

	GROUP	
	2016 $M	2015 $M
Foreign currency forward contracts	17.7	31.0
FX collar options	7.0	42.8
	24.7	73.8
Exchange rate at year end (US$)	0.710	0.678

Solid Energy's hedging facilities require fixed collateralisation of $3.5 million and variable collateralisation up to the value of the mark to market of the derivative book to be held on deposit with ANZ. At 30 June 2016 the variable collateralisation amounted to $0.4 million (2015: $1.8 million). Derivative collateralisation is recorded within 'Other assets'.

(B) Risk exposures and responses

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing financial risks to within acceptable levels of risk tolerance. The main risks arising from the group's operations, along with methods used to measure and manage the risks, are set out below.

Commodity price risk

The group's major price risk is export coal pricing with respect to direct and/or indirect calculation of revenue, and the valuation of the mining operation assets (refer Note 5). Export coking coal prices can fluctuate significantly. The group does not hedge the spot price, and financial instrument exposure to commodity price risk at balance date is minimal due to the fact that all export debtors have been sold at contracted rates. The terms of the export sales contracts are set quarterly.

Foreign currency risk

The group's exposure to foreign currency risk relates predominantly to the group's export receipts which are primarily denominated in US$. The group also has foreign currency risk with respect to the valuation of inventory and mining operation assets (refer Note 5).

The group regularly monitors its exposure to foreign currency risk with reference to market forecasts for foreign exchange and internal sales forecasts. The group's treasury policy sets out paramaters for managing foreign currency risk. This policy aligns with the quarterly pricing of its export sales contracts, requiring cover of between 60% and 100% of the 0-3 months expected net US$ cash flow and up to 80% of the 3-6 months expected net US$ cash flow.

At 30 June 2016, the group had hedged 66% (2015: 82%) of its 0-3 months foreign currency firm commitments and 0% (2015: 77%) of its 3-6 months foreign currency firm commitments.

16. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk arises from the financial assets of the group, which comprise receivables, cash and short-term deposits, locked cash, collateralisation of derivatives and derivative financial instruments. The group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the group's policy to securitise its trade and other receivables. It is the group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. For export sales, letters of credit are used to manage credit risk where appropriate. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The group's exposures and the credit ratings of its counterparties (if any) are regularly monitored to ensure that compliance with the parameters set in the Treasury Policy is maintained. Cash and cash equivalents, locked cash, collateralisation of derivatives, and derivatives are all held with ANZ.

Liquidity risk

The group's objective is to ensure it has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments as they fall due. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The group's participant debt is limited recourse, effectively limited to the value of the available assets of the Solid Energy Group. Refer Note 3 for further details.

17. EQUITY

	GROUP	
	2016 $M	2015 $M
60,900,000 ordinary shares each fully paid	60.9	60.9
Net contributions from Ultimate Parent	72.4	72.4
100,000,000 Redeemable Preference Shares each fully paid	100.0	100.0
	233.3	233.3

Fully paid ordinary shares carry one vote per share and carry equal right to dividends and surplus on winding up.

Key terms relating to the Redeemable Preference Shares (RPS) are as follows:

- RPS are redeemable at the discretion of the Board, subject to the terms of the DoCA.
- RPS will have preferred access to distributions in priority to ordinary shares.
- RPS are entitled on redemption to $1.00 per share plus 5% per annum, compounding quarterly from issue date, less any dividends paid on RPS during the term. No dividends can be paid to the ordinary shareholders until the RPS are redeemed.

Contributions from Ultimate Parent

In September 2014, the group signed a Deed of Indemnity and Bond Facility with the Crown, indemnifying the group for up to $103.0 million for future rehabilitation costs in relation to mining activities from 1 April 1987 to 22 September 2014. At a cost of $2.5 million, this created an equity injection, net of tax, of $72.4 million.

During the current period this indemnity was restructured. Refer to Note 4 for further details.

(A) Accounting policy

Share capital and redeemable preference shares are classified as equity if they are non-redeemable, or are redeemable only at the company's option, and any dividends are discretionary. Dividends on share capital classified as equity are recognised as distributions within equity in the period in which they are declared.

18. RECONCILIATION OF PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTVITIES

	GROUP	
	2016 $M	2015 $M
(Loss)/profit after taxation	94.7	(176.7)
Non-cash items		
Depreciation & amortisation	14.5	46.7
Impairment of property, plant and equipment, mining assets and crown receivable	52.2	256.6
Fair value movement on participant debt	(250.1)	-
Other fair value adjustments	(60.8)	(10.0)
Share of loss of joint venture	-	0.8
Deferred taxation movement taken to profit or loss	117.5	(144.9)
	(126.7)	149.2
Movements in working capital		
Accounts payable and accruals	(20.8)	(17.6)
Accounts receivable	12.7	11.9
Inventories	12.2	20.3
	4.1	14.6
Other statement of financial position movements	5.1	(3.3)
Items classified as investing/financing activities		
(Surplus) on sale of property, plant and equipment	(3.9)	(4.5)
Interest costs	6.8	21.8
Interest received	(0.7)	(1.7)
	2.2	15.6
Net cash flows from/(used in) operating activities	(20.6)	(0.6)

19. CONSENTS

The company is required by the Resource Management Act 1991 to hold various consents, issued under that Act, before it can mine. The company has all the consents it requires for its current operations. Consents are issued for varying periods and are renewed upon expiry. The company anticipates all expiring consents will be renewed.

20. COMMITMENTS

(A) Operating lease commitments - group as a lessee

The group has entered into commercial leases on land, mobile plant, offices, office equipment and vehicles. These leases have terms between 1 and 15 years with a renewal option on the office lease. Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	GROUP	
	2016 $M	2015 $M
Up to 1 year	4.3	23.7
1 to 5 years	2.0	6.2
Over 5 years	2.3	3.4
Total minimum lease payments	**8.6**	**33.3**
Total future minimum sublease payments due	**0.2**	**0.4**

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(B) Contractual commitments

The group has a number of operational contracts with various parties in relation to the purchase of coal, mine operations and the transportation of coal. At 30 June 2016 the group is committed to spending a minimum of $71.4 million (2015: $69.5 million) over the following 12 months.

(C) Capital commitments

The group's contractual commitments to purchase property, plant equipment and mining assets at 30 June 2016 are estimated to be $0.5 million (2015: $1.4 million).

21. RELATED PARTY TRANSACTIONS

(A) Ultimate parent

Solid Energy is a limited liability company incorporated in New Zealand under the Companies Act 1993 and is owned by the Government of New Zealand. With the exception of the indemnities provided in respect of rehabilitation obligations as detailed in Note 4, the liabilities of Solid Energy and its subsidiaries are not in any way guaranteed by the Government of New Zealand.

(B) Key management personnel:

Compensation for key management personnel:

	GROUP	
	2016 $M	2015 $M
Short-term employee entitlements	2.3	2.1
Contributions to defined contribution plans	0.0	0.0
Termination benefits	0.0	0.1
Total compensation	**2.3**	**2.2**

(C) Transactions with related parties

Solid Energy undertakes 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.

Subsidiaries

Solid Energy has an operating agreement in place with Spring Creek Mining Company, a 100% owned subsidiary, which was placed on care and maintenance in October 2012. The costs recharged to Spring Creek during the year were $1.9 million (2015: $2.7 million). Solid Energy purchased coal from Spring Creek for resale into the domestic and international markets. During the year the total value of these purchases was $0.1 million (2015: $0.4 million).

Terms and conditions of transactions with related parties

Outstanding related party trade receivable and trade payable balances at year end are unsecured, interest free, and settlement occurs in cash. In accordance with the DOCA, at the end of the DOCA period, residual intra-group debt will be extinguished with the intention that the Solid Energy DOCA Group companies will be liquidated on a solvent basis.

(D) Interests register

For the purposes of Section 140 of the Companies Act 1993 and clause 26 of the company's constitution the following Directors' interests are disclosed. All transactions with parties in which Directors and key management personnel have an interest are conducted on arms length commercial terms.

Current directors:

There are no interests to disclose.

Key management personnel

There are no interests to disclose.

(E) Directors insurance

The group has arranged policies of Directors' Liability insurance, with an indemnity limit of $30M, which ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example the incurring of penalties and fines which may be imposed in respect of breaches of the law.

22. OTHER SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of preparation and statement of compliance

The financial statements for the year ended 30 June 2016 have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and the requirements of the Companies Act 1993, the Financial Reporting Act 2013, and the State Owned Enterprises Act 1986.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest one-tenth of one million dollars ($ million).

New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. Any new accounting standards have not had any significant impact on the financial statements.

Where necessary the analysis of certain comparatives has been amended to align with the current classification or to improve the information provided to the reader.

22. OTHER SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) Basis of consolidation

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Solid Energy had control.

(C) Foreign currency translation

Both the functional and presentation currency of Solid Energy and its New Zealand subsidiaries is New Zealand dollars ($). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the reporting date. All differences in monetary assets and liabilities in the consolidated financial statements are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(D) GST

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

i) where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

ii) for receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as an operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

23. SIGNIFICANT AFTER REPORTING DATE EVENTS AND TRANSACTIONS

(A) Crown Rehabilitation Indemnities

Subsequent to balance date, Solid Energy has agreed with the Crown, subject to execution of the Deed of Commitment by the Ministers, terms of a restructured rehabilitation indemnity relating specifically to acid drainage resulting from historical mining at the Stockton mine. The new arrangements with the Crown will only come into effect on transfer of the Stockton mine to a the new owner. This restructured rehabilitation indemnity is expected to account for the majority of the difference between the Rehabilitation Liability and the Crown Indemnity Asset at 30 June 2016.

(B) Cargill

Refer Note 7(A) for details of ongoing litigation, including a Notice of Appeal lodged by Cargill on 1 September 2016.

(C) Other

There were no other significant events after reporting date.

EMPLOYEE REMUNERATION

Employee Remuneration

Of the employees detailed in the accompanying table, 80 would not have been included in the plus-$100,000 table if not for payments related to them being made redundant during the year. Of those, 44 were people who had been employed on individual employment agreements and 36 had been employed under the terms of the collective agreement.

The number of employees who earned more than $100,000 in the 2016 financial year is detailed in the table. Gross earnings include company benefits and any retirement or redundancy payments made during the year. Company benefits include superannuation, vehicles, contractual bonus entitlements, retention payments, medical and life insurance.

Retention payments include amounts paid to certain employees whose continued employment to specified dates was deemed by the Board and Participants Committee to be critical to the management of the business through the DoCA period and to the sales process.

Remuneration Band	2016	2015
$100,000 - $119,999	32	52
$110,000 - $119,999	29	38
$120,000 - $129,999	23	36
$130,000 - $139,999	15	23
$140,000 - $149,999	17	20
$150,000 - $159,999	12	9
$160,000 - $169,999	10	11
$170,000 - $179,999	7	11
$180,000 - $189,999	10	8
$190,000 - $199,999	3	6
$200,000 - $209,999	5	3
$210,000 - $219,999	4	6
$220,000 - $229,999	7	5
$230,000 - $239,999	1	
$240,000 - $249,999	1	1
$250,000 - $259,999	6	2
$260,000 - $269,999	1	
$270,000 - $279,999	2	1
$280,000 - $289,999	3	2
$290,000 - $299,999	2	2
$300,000 - $309,999	1	
$310,000 - $319,999		1
$320,000 - $329,999	1	
$380,000 - $389,999	2	
$410,000 - $419,999	1	
$450,000 - $459,999	1	
$510,000 - $520,000		1
$650,000 - $660,000		1
$670,000 - $679,999	1	
$1,100,000 - $1,109,999	1	

INDEPENDENT AUDITOR'S REPORT
TO THE READERS OF
SOLID ENERGY NEW ZEALAND LIMITED (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The Auditor-General is the auditor of Solid Energy New Zealand Limited (Subject Deed of Company Arrangement)and its New Zealand domiciled subsidiaries and other controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, David Gates, using the staff and resources of KPMG, to carry out the audit of the financial statements of the Group on her behalf.

We have audited the financial statements of the Group on pages 15 to 37 that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, and the notes to the financial statements that include accounting policies and other explanatory information.

Qualified Opinion - Our work was limited due to uncertainties over assets held for sale and the associated liabilities

In August 2015, the directors of the boards of the companies that make up the Group placed those companies into voluntary administration. In September 2015, the companies (other than Nature's Flame Italia SRL (in Liquidation)) and their creditors entered into a Deed of Company Arrangement which resulted in the Group's assets being offered for sale over the next two and a half years from that date.

The Board of Directors have recognised an impairment of $52.2 million of the Group's assets held for sale. The details of this impairment are outlined in note 13 on page 29 and note 5 on pages 22 and 23 of the financial statements. The Board of Directors' decision to recognise an impairment is as a result of the fact that the Group will not continue as a going concern in the foreseeable future.

The Group has provided us with the information that is available to them and the key assumptions used in calculating the fair value of the assets held for sale are disclosed in note 5 on pages 22 and 23 of the financial statements. However as the sale process has not yet been concluded, it is not possible to obtain sufficient supporting evidence to confirm the fair value of the assets held for sale and the associated liabilities because there are uncertainties in measuring them. These uncertainties could have a material effect on the statement of comprehensive income and the statement of financial position.

Our audit opinion on the Group's 30 June 2015 financial statements, which is reported as comparative information in the 30 June 2016 financial statements, was qualified for the same reasons outlined above.

In our opinion, except for the possible effects of the limitation outlined above, the financial statements of the Group, which have been prepared on a non-going concern basis, on pages 15 to 37:

- present fairly, in material respects, the Group's:
- financial position as at 30 June 2016; and
- financial performance and cash flows for the year ended on that date; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We draw attention to disclosures outlining that the financial statements have been appropriately prepared on a non-going concern basis

We draw your attention to the disclosure within Note 2 on page 19 of the financial statements which outline that the financial statements have been prepared on a non-going concern basis. In accordance with the Deed of Company Arrangement the Group's assets are currently being offered for sale. In preparing the financial statements on a non-going concern basis, the Board of Directors have continued to apply the requirements of the New Zealand equivalents of the International Financial Reporting Standards. We consider the decision to prepare the Group financial statements on a non-going concern basis to be appropriate and the related disclosures to be adequate.

We draw attention to additional disclosures outlining the amendment to the terms of the Crown Indemnity asset subsequent to year end

We draw your attention to the disclosure within Note 23 on page 37 of the financial statements which provides additional information about the amendment to the Crown Indemnity Agreement subsequent to 30 June 2016. The restructured Crown Indemnity still remains subject to final documentation and Ministerial Approval. This amendment is likely to have a material impact on the carrying value of assets and liabilities held for sale. We consider these disclosures to be appropriate.

Our audit was completed on 13 September 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. We are unable to determine whether there are material misstatements because the scope of our work was limited, as we referred to in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also, we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe, with the exception of the limitation in respect of the future realisable value of assets held for sale and the associated liabilities we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion on the financial statements.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand and New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit we have no relationship with or interests in the Group.

David Gates
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

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