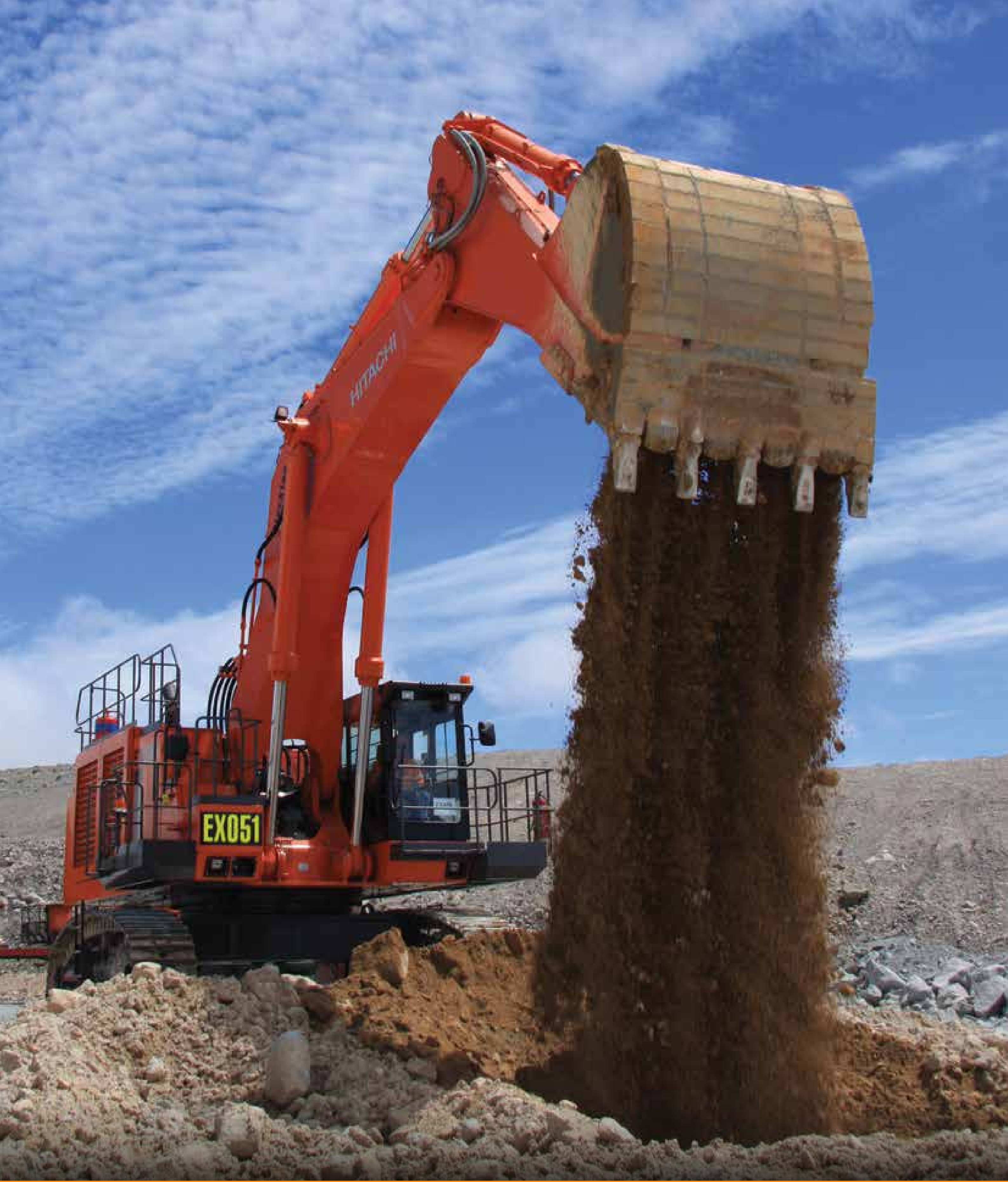

Interim Report

For the six months ended 31 December 2012

SOLID ENERGY
Coals of New Zealand

Solid Energy New Zealand Ltd and Group

Report for the six months ended 31 December 2012

FINANCIAL RESULT

The challenging global coal market continued to impact Solid Energy's profitability in the half year ended 31 December 2012 with underlying earnings cut to $3.5 million (2011: $75.6 million) as a result.

The financial statements reflect total asset impairments of $222.7 million and $56.5 million in one-off costs, including $41.4 million for restructuring the business. In addition net $42.5 million of deferred tax assets have been written off. This resulted in a net loss after tax of $318.2 million (2011: profit of $70.3 million) for the half year.

Despite some modest recovery of international coal prices from a low of around US$140 per tonne in September last year — down from US$221 in June 2012 and a high of US$350 in January 2011 — global markets remain extremely challenging.

Revenue for the half year was $328.1 million, down 39% on the corresponding previous half year (2011: $537.6 million), driven by the fall in export coal prices. Coal sales were down 12% to 2.1 million tonnes (Mt) (2011: 2.4 Mt) as our 2011 half-year sales were boosted by product stockpiled due to shipping delays at Lyttelton port following the June 2011 Canterbury earthquakes. As a result, coal exports of 1.0 Mt were down 22% (2011: 1.3 Mt) with New Zealand coal sales steady at 1.1 Mt (2011: 1.1 Mt). Export coking coal prices fell from US$221/tonne in June 2012 to $US170/tonne in December 2012. The New Zealand dollar remained high against the US dollar in the period, strengthening from 80c at the beginning of July to 83c at the end of December 2012.

FINANCIAL REVIEW

Earnings before Interest and Taxation (EBIT) for the half year, after impairments and restructuring costs, was a loss of $265.5 million, down from a $104.0 million profit in the corresponding previous half year. Underlying earnings for the half year were $3.5 million, down 95% from $75.6 million in the first half of the 2012 financial year.

Prices and Foreign Exchange: The combined effect of pricing and foreign exchange decreased EBIT by $140.8 million. International coal prices in US dollars had generally been falling since the end of December 2011, with a dramatic steepening in early July 2012. As a result, average USD prices received were down 40% on the corresponding previous half year, decreasing EBIT by $113.7 million. The stronger New Zealand dollar against the US dollar reduced EBIT by a further $27.1 million after hedging.

Mix: A change in the mix of product we sold increased EBIT by $12.1 million, with hard coking coal sales increasing slightly to 54% of total export sales volumes (2011: 50%). Spring Creek Underground Mine was put into care and maintenance, resulting in a decrease of semi-soft coking coal sales from 35% to 27%. Thermal coal sales increased slightly to 19% of export sales as we took advantage of market conditions and sold stockpiled lower grade coal (2011: 15%).

Volume: Coal sales volumes were 243,000 tonnes lower for the period. The corresponding previous period was inflated by earthquake delayed shipments at Lyttelton port in the first quarter of the 2012 financial year which, together with the weakened export coal market and lack of Spring Creek coal, decreased EBIT by $20.6 million.

Costs: Cost of sales, exploration and other costs decreased by $129.9 million to $329.7 million largely as a result of reduced third party coal purchases ($74.9 million decrease), combined with the effect of lower operational and support costs.

Direct and indirect exploration, evaluation and development costs decreased by $11.5 million to $1.1 million as we scaled back to a modest, targeted exploration programme. Contractor costs decreased by $9.1 million as we reduced activity and brought more work in house. Emissions Trading Scheme costs decreased by $12.0 million as unit prices continued to decrease.

Tax Expense: The group incurred a tax expense of $42.5 million from writing off deferred tax assets due to their recoverability being uncertain considering forecast prices are expected to remain low within the foreseeable future, and the high level of unrecognised losses carried forward.

Underlying Earnings Adjustments: Underlying earnings for the half year were $3.5 million, down 95% from $75.6 million in the first half of the 2012 financial year. The following items have been excluded from net profit after tax in the calculation of underlying earnings for the half year:

UNDERLYING EARNINGS ADJUSTMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Net 2012	Net 2011
	$M	$M
IMPAIRMENTS		
Stockton Mine	104.3	-
Spring Creek Mine	53.1	-
Underground Coal Gasification (UCG)	23.9	-
Briquette Plant	24.8	-
Biodiesel New Zealand	0.6	-
Nature's Flame	5.0	-
Land and Mineral Rights	25.6	-
Huntly East Mine	(14.6)	-
Ignite Loan Repayment	-	(0.9)
Total Net Impairments	**222.7**	**(0.9)**
ONE-OFF ITEMS		
Restructuring Costs	41.4	-
Additional loss on Biodiesel sale	2.6	-
Discontinued Labour (excluding Spring Creek Mining Company)	8.7	-
UCG Pilot Plant Expenses	3.8	-
Legal claim provision	-	6.2
Total one-off items	**56.5**	**6.2**
Total Underlying Earnings Adjustments pre deferred tax write off	**279.2**	**5.3**
Deferred tax write off	42.5	-
Total Underlying Earnings Adjustments	**321.7**	**5.3**
NPAT as reported	**(318.2)**	**70.3**
Underlying Earnings	**3.5**	**75.6**

An impairment of $104.3 million was booked for **Stockton Opencast Mine** as the company has adopted lower future price assumptions, impacting the assessment of future value. The prolonged market downturn has resulted in weak prices which are expected to continue in the medium term which, combined with a high New Zealand dollar, have impacted the result.

The decision to place **Spring Creek Mine** into care and maintenance on 25 October 2012, as well as soft global coal markets, resulted in an impairment of $53.1 million for the mine.

Notwithstanding the successful trial of our **Underground Coal Gasification** pilot plant in Huntly, the plant was shut down, resulting in an impairment of costs to date of $23.9 million. At the end of December 2012, we began commissioning the **Mataura domestic-scale briquette plant**, for which GTL Energy has just completed an operating trial period, with the results currently being analysed. Following a refocus of the company's strategy away from near-term lignite developments, a decision has been made to impair the plant by $24.8 million.

Difficult domestic trading conditions and cessation of exporting to Europe resulted in a $5.0 million impairment to Nature's Flame. The business is being marketed for sale.

The sale of **Biodiesel New Zealand's** agricultural division in November 2012 resulted in an impairment of the remaining assets of $0.6 million.

After reviewing existing **land holdings** including associated mineral rights against their current market value, impairments of $25.6 million have been booked for land now deemed to be surplus to requirements.

Completion of supply negotiations with **Huntly East Underground Mine's** major customers in June 2013, along with a revised business model for the North Island operations, resulted in impairment reversals of $21.0 million for Huntly East Mine. This was offset by an impairment of $6.4 million for spend on the ventilation shaft in July and August 2012 before the project was cancelled.

Restructuring costs including redundancies, wages and operational costs paid during consultation periods, and contractor demobilisation payments associated with the operational changes and restructuring of support services and development staff totalled $41.4 million.

The costs of operating **unprofitable or non-operating business units** until they were closed or divested resulted in additional costs of $6.4 million. Labour costs incurred for corporate staff who have now been made redundant totalled $8.7 million.

Capital Management and Funding: Total assets at 31 December 2012 were $901.3 million, down $306 million on the same time last year due to impairments. Total debt including overdrafts at the end of the period was $389 million (December 2011: $245 million) which included $35.6 million of debt assumed from Cargill following the acquisition of Cargill's 49% share of Spring Creek Mining Company in February 2012 and additional funding to support the company as we strategically repositioned it in response to weakened export coal markets. Gearing increased to 52% before, and 88% after, asset impairments and increased funding requirements. Debt comprised drawn bank facilities of $280 million, Medium-term Note issues of $95 million, and overdrafts of $14 million.

Cashflows: Cashflows from operations were negative $55.8 million compared to inflows of $90.9 million to December 2011, with $188 million in decreased cash receipts from lower prices. Capital investment totalled $46.8 million compared with $77.4 million for the same period in 2011. Of this, about $25.9 million related to spend on Spring Creek Mining Company and on the Huntly East Mine ventilation shaft before we halted work.

Production: Coal production for the half year was 1.9 Mt, down 8% on the previous half year as Spring Creek was placed into care and maintenance.

OPERATING REVIEW

Safety remains the top priority for the business, and our key safety indicators continued to improve in the half year. The All Injury Frequency Rate was 17 at 31 December 2012 (2011: 18) and the Lost Time Injury Frequency Rate 3.4 (2011: 4.9).

COAL BUSINESS

At 1.9 Mt, coal production was down 8% on the corresponding half of the last financial year (2.1 Mt) primarily due to decreased production at **Spring Creek Mine** near Greymouth which had been in a development phase with minimal coal production since January 2012. Solid Energy suspended operations at the mine in August 2012 pending a review of its future, placing it into care and maintenance in October 2012. A reduced workforce of 16 has been retained to maintain the mine's fixed plant and infrastructure.

Production at **Stockton Mine** in the Buller was up 4% to 905,000 tonnes. We are continuing our focus on initiatives at Stockton to optimise production, minimise costs and to generate additional cash. The **Stockton Coal Handling and Processing Plant** ran near full capacity and contributed 525,000 tonnes to the mine's half-year production.

Production at **Reddale Opencast Mine** which started in March 2012 was 20,000 tonnes for the half year, while extraction at other smaller pits was down 24% to 65,000 tonnes for the same period; the corresponding previous half year had included trial production from Maramarua in the Waikato. At 155,000 tonnes, production at **New Vale Opencast Mine** was in line with the previous half year.

In the Waikato, production at **Rotowaro Opencast Mine** was in line with the corresponding half of the previous year. At **Huntly East Mine** production increased 9% to 184,000 tonnes in the half year. In October 2012, we reduced the mining team at Huntly to 171 and stopped capital investment in upgrading the mine ventilation as part of our response to the impact of the weak global coal market on the business.

Resources: During the quarter we significantly reduced our resource exploration and proving activity on the West Coast as part of the company's response to the weak coal export markets. We continued a limited programme to further characterise high-quality hard coking coal resources in the Upper Seven Mile (Grey District).

COAL DEVELOPMENTS

The **Mataura domestic-scale briquette plant** began commissioning in December 2012 with the results of an operating trial currently being analysed. The **Underground Coal Gasification** pilot plant successfully produced syngas at our Huntly site between April and October. During this time the key operational test programme objectives were met as planned and a controlled shutdown of the pilot is now complete. The **Huntly Coal Seam Gas** demonstration plant was shut down, having successfully produced high quality gas and generating electricity for sale on the local network.

RENEWABLE ENERGY

Nature's Flame wood pellet production for the period decreased 40% to 15,000 tonnes and sales volumes decreased 52% to 11,000 tonnes as export sales were scaled back due to very weak European markets and the weak Euro. **Biodiesel** production and B100 sales volumes were down to 404,000 litres and 493,000 litres respectively as the business focused on blended product. We sold the agricultural division of the business in November 2012 and the fuel business in February 2013.

Mark Ford (Chairman)
30 September 2013

Garry Diack (Interim Chief Executive)
30 September 2013

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 – UNAUDITED

	See notes	Six months to 31 Dec 2012	Six months to 31 Dec 2011
		$M	$M
Revenue		328.1	537.6
Cost of sales		(307.9)	(429.3)
Gross profit		**20.2**	**108.3**
Other income		1.3	2.2
Exploration, evaluation and development		(11.6)	(15.7)
Shared services and administrative expenses		(10.2)	(14.6)
Other expenses and restructuring costs		(33.5)	-
(Impairment)/Impairment reversal	3	(222.7)	0.9
Results from operating activities		**(256.5)**	**81.1**
Realised and unrealised gains on derivatives		1.5	27.8
Finance income		0.4	1.6
Finance expenses		(21.1)	(11.5)
Net finance (expense)/income		**(19.2)**	**17.9**
(Loss)/profit before income tax		**(275.7)**	**99.0**
Income tax expense	4	(42.5)	(28.7)
(Loss)/profit after tax		**(318.2)**	**70.3**
OTHER COMPREHENSIVE INCOME			
Effective portion of changes in fair value of cashflow hedges		(2.2)	(28.1)
Income tax benefit/(expense) on other comprehensive income		0.6	7.5
Other comprehensive (loss)/income for the period, net of income tax		**(1.6)**	**(20.6)**
Total comprehensive (loss)/income for the period		**(319.8)**	**49.7**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 – UNAUDITED

	See notes	As at 31 Dec 2012 $M	As at 31 Dec 2011 $M	As at 30 Jun 2012 $M
CURRENT ASSETS				
Cash and cash equivalents		1.9	16.4	2.3
Trade and other receivables		84.7	174.7	96.8
Derivatives		-	11.2	1.9
Inventories		91.1	104.4	93.9
Stripping in advance		48.4	63.4	38.4
Crown receivable	5	22.1	20.3	22.1
Assets classified as held for sale		1.6	-	15.7
Total current assets		**249.8**	**390.4**	**271.1**
NON-CURRENT ASSETS				
Trade and other receivables		4.3	5.4	5.3
Lease receivable		0.6	1.7	1.1
Derivatives		-	0.5	0.4
Biological assets		0.5	1.8	0.5
Investment property		3.5	4.9	3.7
Other investments		4.8	4.8	4.8
Investments in jointly-controlled entities		-	2.5	-
Deferred tax assets	4	-	-	42.0
Property, plant and equipment		329.7	444.6	412.9
Mining assets		185.3	254.8	281.5
Non-current stripping in advance		63.0	34.0	84.0
Crown receivable	5	58.1	57.3	58.5
Intangible assets		1.7	4.6	1.1
Total non-current assets		**651.5**	**816.9**	**895.8**
Total assets		**901.3**	**1,207.3**	**1,166.9**
CURRENT LIABILITIES				
Bank overdraft and overnight cash facilities		14.0	-	-
Interest-bearing borrowings		375.0	-	-
Accounts payable and accruals		126.1	133.1	140.6
Derivatives		1.5	4.1	1.8
Tax payable		-	17.0	4.4
Provisions	5	79.3	71.1	71.0
Liabilities associated with assets classified as held for sale		0.9	-	1.5
Total current liabilities		**596.8**	**225.3**	**219.3**
NON-CURRENT LIABILITIES				
Term accounts payable and accruals		-	-	15.7
Term interest-bearing borrowings		-	245.0	295.0
Term lease liability		10.7	11.1	10.9
Derivatives		6.0	4.1	5.2
Deferred tax liability		-	0.7	-
Investment deficit in jointly-controlled entities		0.7	-	0.7
Term provisions	5	183.5	181.9	196.7
Total non-current liabilities		**200.9**	**442.8**	**524.2**
Total liabilities		**797.7**	**668.1**	**743.5**
Net assets		**103.6**	**539.2**	**423.4**
EQUITY				
Issued capital		60.9	60.9	60.9
Retained earnings		47.8	476.5	366.0
Reserves		(5.1)	1.8	(3.5)
Total equity		**103.6**	**539.2**	**423.4**

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

STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 – UNAUDITED

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
	Issued Capital	Retained Earnings	Cash Flow Hedge Reserve	Total Equity
	$M	$M	$M	$M
As at 1 July 2012	60.9	366.0	(3.5)	423.4
Total comprehensive (loss)/income for the period	-	(318.2)	(1.6)	(319.8)
Transactions with owners in their capacity as owners:				
Dividends	-	-	-	-
As at 31 December 2012	**60.9**	**(47.8)**	**(5.1)**	**103.6**
As at 1 July 2011	60.9	436.1	22.4	519.4
Other adjustments to retained earnings	-	0.1	-	0.1
Total comprehensive (loss)/income for the period	-	70.3	(20.6)	49.7
Transactions with owners in their capacity as owners:				
Dividends	-	(30.0)	-	(30.0)
As at 31 December 2011	**60.9**	**476.5**	**1.8**	**539.2**

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

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 – UNAUDITED

	Note	Six months to 31 Dec 2012 $M	Six months to 31 Dec 2011 $M
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Cash was provided from:			
Customers		344.8	532.4
Interest received		0.4	0.3
		345.2	**532.7**
Cash was applied to:			
Payments to suppliers and employees		(374.1)	(398.9)
Exploration and evaluation expenditure		(11.6)	(15.7)
Tax paid		(4.4)	(19.9)
Interest paid		(10.9)	(7.3)
		(401.0)	**(441.8)**
Net cash flows from operating activities	7	**(55.8)**	**90.9**
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Cash was provided from:			
Disposal of shares in subsidiary		-	0.2
Proceeds from sale of property, plant and equipment		8.5	1.3
		8.5	**1.5**
Cash was applied to:			
Purchase of property, plant and equipment		(23.5)	(38.6)
Capitalised interest		(0.3)	(0.7)
Purchase of biological assets		-	(0.9)
Investment in intangible assets		(0.6)	(2.2)
Investment in mining assets		(23.0)	(38.1)
Investment in other non-current assets		-	(0.1)
		(47.4)	**(80.6)**
Net cash flows from/(used in) investing activities		**(38.9)**	**(79.1)**
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Cash was provided from:			
Bonds and bank loans		80.0	25.0
Repayment of lease receivable		0.5	0.4
		80.5	**25.4**
Cash was applied to:			
Payment of dividend	10	-	(30.0)
Repayment of lease liability		(0.2)	(0.2)
		(0.2)	**(30.2)**
Net cash flows from/(used in) financing activities		**80.3**	**(4.8)**
Net increase/(decrease) in cash and cash equivalents		(14.4)	7.0
Opening cash and cash equivalents		2.3	9.4
Closing cash and cash equivalents		**(12.1)**	**16.4**
FOR THE PURPOSE OF THE STATEMENT OF CASH FLOWS, CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING:			
Cash at bank and in hand		1.9	6.4
Short-term deposits		-	10.0
Closing balance		**1.9**	**16.4**
Bank overdraft and overnight facilities		(14.0)	-
Total cash and cash equivalents		**(12.1)**	**16.4**

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

1. CORPORATE INFORMATION

These financial statements are for Solid Energy New Zealand Ltd ('Solid Energy'), its subsidiaries Solid Energy Renewable Fuels Ltd, Biodiesel New Zealand Ltd, Solid Energy Land Holdings Ltd, Spring Creek Mine Holdings Ltd, Spring Creek Mining Company, Terrace Coal Mine Ltd, CoalCorp Insurance Services Ltd, Coal New Zealand Ltd, Coal New Zealand International Ltd, Coal Bed Methane Ltd, Pike River (2012) Ltd, Natures Flame Italia SRL and the jointly controlled entity, Stockton Alliance Limited.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 31 December 2012 have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

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

The accounting policies stated in the 2012 Annual Report have been consistently applied. Certain comparatives have been restated to conform with the current period presentation.

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

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

The interim condensed consolidated financial statements have been prepared on a going concern basis. Refer note 14.

3. (IMPAIRMENT)/IMPAIRMENT REVERSAL

	Six months to 31 Dec 2012	Six months to 31 Dec 2011
	$M	$M
(Impairment) of property, plant and equipment, and mining assets (i)–(viii)	(222.7)	-
Impairment reversal of other receivable (ix)	-	0.9
	(222.7)	**0.9**

Material Impairments

(i) **Stockton Mine** - Sustained weak export coal markets and a continued high New Zealand dollar have resulted in a further reduction in projected pricing and production at Stockton Mine. An impairment of $104.3 million has been recognised as a result. The recoverable amount of the cash generating unit is based on value in use for coal resources included in the current mine plan, and fair value for future mining resources not currently included in the mine plan. Key assumptions used in the discounted cash-flow projections are:

- Average production of 1.6 million Mt per year over a 6 year mine plan, with 61.7 Mt of resources valued beyond this period;
- Change in product mix to focus on semi-hard coking coal;
- Price based on a US$200/tonne hard coking coal price being equilibrium price determined from a range of external industry sources, and NZD/USD rate of 0.80 long term from 2016 financial year onwards;
- Market - predominantly existing export customers in Asia; and
- Post-tax real discount rate of 8.7% to reflect Weighted Average Cost of Capital.

The two key assumptions used in the discounted cash-flow projections are export coal sales price and NZD/USD exchange rate. A NZ$1 decrease per tonne of coal sold throughout the planned period would result in a $7.8 million decrease in the recoverable amount.

(ii) **Spring Creek** - Continued weakened coal markets, oversupply of mining equipment in the global market, and a lack of viable mining plans have resulted in an impairment of $53.1 million for Spring Creek mine. The recoverable amount of the cash generating unit is based on fair value.

(iii) **UCG** - Following the successful trials of our Underground Coal Gasification pilot plant in Huntly, the plant was shut-down, resulting in an impairment of $23.9 million. The recoverable amount of the cash generating unit is based on fair value.

(iv) **Briquette Plant** - Following a refocus of the company's strategy away from near-term lignite developments, a decision has been made to impair the plant by $24.8 million. The recoverable amount of the cash generating unit is based on fair value.

(v) **Nature's Flame** - Solid Energy impaired the Nature's Flame business by $5.0 million based on fair value as it looks to divest the business.

(vi) Due to a comprehensive review of surplus land holdings with a view to divestment as part of a strategic response to the weakened global coal markets, and continued downward pressure on coal resource values, a $25.6 million impairment of **land and associated mineral rights** was raised. The recoverable amount of the land was based on fair value.

(vii) **Huntly East Mine** - During the year ended 30 June 2012, the weakening coal market and low forecast coal prices along with difficult mine development conditions due to the geology of the mine and uncertainty over contract negotiations with a major customer, resulted in an impairment of the Huntly East Mine of $33.8 million.

Solid Energy has now completed supply negotiations with a major customer. The new contract is reliant on using a blend of Huntly and Rotowaro coal to achieve specifications, and as a result Huntly East and Rotowaro assets are now aggregated into a North Island Operations Cash Generating Unit. Based on value in use calculations, there is no impairment at the North Island Operations level and an impairment reversal of $21.0 million was recognised during the period. An additional impairment of $6.4 million was recognised in relation to the ventilation shaft development that was ceased in August 2012.

(viii) **Biodiesel** - a lower than anticipated sale price for the Biodiesel agricultural business resulted in additional impairments of $0.6 million.

4. INCOME TAX

At 31 December 2012 the group had a total of $107.9 million of trading losses available to be carried forward, with a resulting deferred tax asset of $30.2 million. The group had a further $97.2 million of deferred tax assets arising mainly from the impairment of coal mining, renewable fuel, briquetting and underground coal gasification operations at 31 December 2012.

The group has de-recognised the total deferred tax asset available of $127.4 million as it is not probable that future taxable profit will be available to utilise these losses (2011: Nil). The de-recognition of deferred tax assets carried forward from 30 June 2012 resulted in a $42.5 million charge to the profit and loss in the six months ended 31 December 2012 (2011: Nil).

5. PROVISIONS

	Dec 2012	Dec 2011	Jun 2012
	$M	$M	$M
Rehabilitation provision	224.8	220.6	230.2
Mobile plant provision	29.9	22.9	28.1
Other	8.1	9.5	9.4
	262.8	**253.0**	**267.7**
Comprising:			
Current	79.3	71.1	71.0
Non-current	183.5	181.9	196.7
	262.8	**253.0**	**267.7**

Rehabilitation provision

The 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 established with certainty.

The company has an indemnity from the Crown for its share of end of mine life rehabilitation costs relating to mining activities prior to 1 April 1987.

	Dec 2012	Dec 2011	Jun 2012
	$M	$M	$M
Crown receivable			
Current	22.1	20.3	22.1
Non-current	58.1	57.3	58.5
	80.2	**77.6**	**80.6**

Mobile plant provision

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

6. INTEREST-BEARING BORROWINGS

Bank Debt - due to significant asset impairments, the group breached debt gearing and minimum shareholders' funds bank covenants. A waiver of the covenant had not been obtained at reporting date, however as at 30 September 2013 the requisite number of banks had agreed the terms of a capital restructure (see note 13 (A)).

Bonds - the covenants for the Medium Term Notes are inter-related with the bank facility. Although the group considers that it was in compliance with all of its covenants in the Deed Poll for Medium Term Notes, as at balance date the group did not have an unconditional right to defer settlement of the Medium Term Notes (as defined in NZ IAS 1 Presentation of Financial Statements) for at least 12 months after the reporting period. Waivers of any actual or anticipated non-compliance are being sought from the requisite majority of noteholders, and the group expects that such waivers will be in place during October 2013 as part of the capital restructure (see note 13 (A)).

Therefore the bank debt and Medium Term Notes have been classified, for accounting purposes, as current. This classification is for the purposes of the financial statements and does not necessarily reflect the final agreement reached in respect of that debt (see note 13 (A)).

7. RECONCILIATION OF PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Six months to 31 Dec 2012	Six months to 31 Dec 2011
	$M	$M
(Loss)/profit after taxation	**(318.2)**	**70.3**
NON-CASH ITEMS		
Depreciation	21.9	21.9
Amortisation of mining assets	9.4	7.8
Movement in fair value of investment property	0.2	0.8
Impairment of fixed asset and mining properties	222.7	-
Unrealised gain/(loss) on foreign exchange contracts	0.6	(2.0)
Deferred taxation movement taken to profit or loss	42.5	(2.4)
Discount unwind on term provision	1.7	1.5
Rehabilitation adjustments	4.7	0.2
	303.7	**27.8**
MOVEMENTS IN WORKING CAPITAL		
Accounts payables and accruals	(14.5)	12.7
Trade and other receivables	12.1	(36.7)
Non-current prepayments	1.0	0.4
Inventories	2.8	6.6
Stripping in advance	(22.5)	(13.8)
Tax payable	(4.4)	11.2
Reclassification of working capital items as held for sale	4.4	-
	(21.1)	**(19.6)**
OTHER STATEMENT OF FINANCIAL POSITION MOVEMENTS		
Rehabilitation provision	(7.1)	4.8
Other provisions	0.5	12.6
Term trade payables	(15.7)	-
Crown receivable	0.4	(3.5)
	(21.9)	**13.9**
ITEMS CLASSIFIED AS INVESTING/FINANCING ACTIVITIES		
Deficit/(surplus) on sale of property, plant and equipment	2.0	(0.8)
Interest costs capitalised	(0.3)	(0.7)
	1.7	**(1.5)**
Net cash flows from operating activities	**(55.8)**	**90.9**

8. CAPITAL COMMITMENTS

Capital commitments as at 31 December 2012 are estimated to be $1.1 million (2011: $27.1 million). These commitments relate to the purchase of property, plant and equipment, and mining assets.

9. RELATED PARTY TRANSACTIONS

Government-related entities

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

10. DIVIDENDS

No dividend was paid during the six months ended 31 December 2012 (2011: $30 million).

11. CONTINGENT LIABILITIES

The group is required to pay $25.0 million by instalment, triggered when extraction at Pike River over a consecutive 12-month period reaches 250,000 tonnes or when the total aggregate extraction over any period reaches 1.25 million tonnes (whichever occurs first).

Due to the significant uncertainty surrounding any future mining at the Pike River Mine, the financial effects of the $25.0 million instalment payments cannot be reliably estimated and no provision has been made for the payments.

There were no other significant contingent liabilities at 31 December 2012.

At 31 December 2011, the group had a contingent liability in relation to a claim with a former mine subcontractor. The claim has subsequently been settled.

12. PERFORMANCE BONDS AND GUARANTEES

It is not practical to estimate the fair value of performance bonds and guarantees with an acceptable level of reliability. The group has performance bonds and guarantees in respect of environmental liabilities outstanding at 31 December 2012 totalling $58.5 million (2011: $56.1 million) which may be drawn down in the event the group fails to perform under various contracts and licences. No loss is expected in respect of these bonds.

13. SIGNIFICANT AFTER REPORTING DATE TRANSACTIONS

(A) Group Financing Arrangements

Subsequent to 31 December 2012, Solid Energy reached a capital restructure agreement which has the support of, and appropriate commitments from, the group's shareholder and a sufficient number of its principal bank creditors.

The key features of the capital restructure involve:

- A restructuring of the bulk of its bank debt facilities, including renegotiation of covenant requirements;
- An exchange of certain portions of bank debt and a holding of Medium Term Notes for $75.0 million of Redeemable Preference Shares;
- Issuing of $25.0 million of additional Redeemable Preference Shares to the Crown for cash;
- A secured working capital facility of $50.0 million to be provided by the Crown;
- A term loan facility of $50.0 million secured by way of mortgage, to be provided by the Crown;
- A secured stand-by facility of up to $30.0 million to be provided by the Crown, if required; and
- Maturity date of 7 September 2016 for the Crown and bank debt facilities.

The key terms of the capital restructure were agreed as at 30 September 2013, however the final settlement and documentation was not completed and is expected to be finalised during October 2013.

(B) Restructure

During the six months to 30 June 2013, further restructuring and redundancy costs of $5.3 million were recognised by the group.

Subsequent to 30 June 2013, Solid Energy announced further restructuring proposals as part of an on-going response to depressed global coal prices. As a result of the proposals, management and support services jobs at the Stockton mining operations, and management, support services and workforce roles at Huntly East Underground Mine would be reduced. The restructuring is expected to cost $5.6 million in the year to 30 June 2014.

(C) Other

Further impairments and impairment reversals have been recognised by the group in the six months to 30 June 2013, totalling a net reversal of $7.4 m. Refer to the 2013 Annual Report for further details.

There were no other significant events after reporting date.

14. GOING CONCERN

The financial statements have been prepared using the going concern assumption.

The Directors believe the going concern assumption is a valid basis on which to prepare the financial statements. The Directors reached this conclusion having regard to the circumstances, which they consider likely to affect the group during the period of one year from the date these financial statements are approved (30 September 2013), and to circumstances which they believe will occur after that date which could affect the validity of the going concern assumption.

The Directors are confident in the group's ability to continue as a going concern, as it has secured the support of, and appropriate commitments from, the shareholder and a sufficient number of its principal bank creditors to put in place the capital restructuring described at note 13 (A), which will provide funding support as required for at least the next 12 months. As a result, the Directors consider that the group is in a position to meet its immediate and future obligations for the forseeable future. If the group were unable to continue as a going concern, this would have a material impact on the financial statements and adjustments may have to be made to reflect the situation that assets may need to be realised and liabilities extinguished at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position.

There remain certain risks in respect of the implementation of the capital restructuring, including:

- usual settlement/documentation risk inherent from its not being fully implemented as at 30 September 2013;
- a dissenting creditor seeking to prevent its implementation, or subsequently challenging it or seeking not to be bound by it (in this regard, one creditor has indicated that if the restructuring is in a form unacceptable to it, it will challenge aspects of the restructuring).

The Directors have obtained detailed advice as to the nature and likelihood of, and potential strategies to deal with, the principal risks identified. In addition, there remains a material uncertainty relating to the level of future coal prices to determine the group's ability, in the absence of asset realisations, to generate sufficient cash flows for any repayment or refinancing requirements at the maturity of the group financing arrangements outlined in note 13 (A).

These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the group be unable to continue as a going concern.

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