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**31 August 2012**

**Good operating performance overtaken by asset writedowns**

Solid Energy’s underlying earnings of $99.7 million (2011: $86.2 million) for the year ended 30 June 2012 is good in a deteriorating market, says Solid Energy Chairman, John Palmer. However, the company’s decision to impair a number of assets has resulted in a loss of $40.2 million (2011: profit of $87.2 million). Total asset impairments, net of tax, of $110.6 million have been booked as at 30 June 2012.

Earlier this week, Solid Energy announced that it plans to reduce underground coal mining operations and exit renewable fuel production. The company plans to wind back operations at Huntly East Underground Mine and is reviewing the future of Spring Creek Underground Mine. The Nature’s Flame wood pellet business has been set up as a standalone operation and the biodiesel business will be divested. As a result, Solid Energy is taking the opportunity to write down these and other assets.

“This result and the changes we are proposing to preserve the long-term value of the business clearly reflect the impact of the global economic downturn and the impact of worldwide commodity markets on the business,” says John Palmer. “Our underground mines have struggled for some time to be profitable as costs have escalated, while at the same time export coal prices have weakened substantially. The current carrying values of these mines cannot be justified based on projected earnings and have therefore been written down.

“In recent years the company has made a significant investment developing renewable energy businesses. The harsh reality is that other fuels are far more competitive in the current financial environment. We took a long-run view of these businesses which relied on a sustained price premium which has largely failed to materialise.”

Revenue of $978.4 million was up 18% on the previous year (2011: $828.7 million), the second-highest annual revenue (2009: $979.5 million). Coal sales were up 13% to 4.6 Million tonnes (Mt) (2011: 4.1 Mt) boosted by product stockpiled due to shipping delays at the Port of Lyttelton following the Canterbury earthquakes in June 2011. Coal exports of 2.4 Mt were up 20% on the previous year (2011: 2.0 Mt) with New Zealand coal sales up 6% at 2.2 Mt (2011: 2.1 Mt). Prices ranged from a high of US$300/tonne for hard coking coal at the start of the financial year, to a low of US$206/tonne, then up to US$225 at year end. The average US dollar price received in the first half of the year was up 31% on the prior year, but softened to up 9% overall for the full year. Average New Zealand dollars prices were up 6% for the full year.”

The company paid a dividend of $30 million on 30 September 2011. Mr Palmer says that given the volatility and continued weakness of international coal markets, the company has not declared a further dividend for the year.

During the year, Solid Energy met a number of key milestones in delivering its long-term growth strategy. The $22 million underground coal gasification pilot plant started producing syngas in April 2012 and the $29 million Mataura domestic-scale briquette plant is about to start production. In May 2012, the company proved coal seam gas technology at its Huntly demonstration plant, producing high-quality gas, converted to electricity on site and exported into the national grid. The company is closing down the plant to focus its commercialisation efforts on the significantly larger Taranaki field.

**Outlook**

John Palmer concludes: “Solid Energy’s financial situation for the next period will continue to be challenging and is worse than during the 2008 global financial crisis. In 2008-09 when US dollar export coal prices collapsed, the New Zealand dollar followed. Coal prices rebounded relatively quickly in the following year, whereas this time, with a high New Zealand dollar, we expect prices to be weak for a prolonged period.

“In addition, the company’s investments over the last four years increased its debt by $250 million.. We are actively managing the business to minimise the impacts of a weak international coal market and to maintain performance. Management’s focus is generating cash and reorganising the company to manage through this difficult period. In the short-term international coal markets will continue to be volatile, but we remain confident in our long-term demand outlook which is strong and unchanged.”

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| Year Ended 30 June | NZ$M2012 | NZ$M2011 | Change  |
| Revenue | 978.4 | 828.7 | +18% |
| EBITDA [1] | 44.9 | 200.8 | -78% |
| EBIT [2] | (27.7) | 137.2 | -120% |
| Net Profit after Tax | (40.2) | 87.2 | -146% |
| Total Underlying Earnings adjustments(net of tax) | 139.9 | (1.0) | - |
| Underlying Earnings after tax [3] | 99.7 | 86.2 | +16% |
| Operating Cashflow | 142.2 | 128.9 | +10% |
| Dividends Paid | 30 | 20 | - |
| Return on Equity [4] | -9% | 18% | - |
| Gearing Ratio [5] | 42% | 30% | - |

**Definitions** (All amounts are NZ$ million unless otherwise stated)

1 EBITDA: Earnings Before Interest, Tax, Depreciation & Amortisation

2 EBIT: Earnings Before Interest & Tax

3 Underlying Earnings: Net Profit after Tax excluding, impairments, & large one off items

4 Return on Equity: Net profit after tax / Average shareholders’ equity

5 Gearing Ratio: Net debt / (Net debt + equity)

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