4 October 2013

**EMBARGOED: NOT FOR PUBLICATION BEFORE 1.30 PM**

**Summary Overview**

* Coal sales of 4.1 million tonnes (Mt), down 11% (2012: 4.6 Mt), in weak commodity markets.
* Revenue of $631.1 million down 35% as average USD prices received fell 34% for the year.
* Net loss after tax of $335.4 million, compared with a loss of $40.2 million in the previous year.
* Underlying earnings of $22.2 million, down 78% (2012: $99.7 million).
* Asset impairments of $215.3 million and one-off costs, including redundancy, restructuring and closure, of $102.2 million contributed to underlying earnings adjustments of $357.6 million.
* No dividend declared.

|  |  |  |  |
| --- | --- | --- | --- |
| **Year Ended 30 June 2013** | **NZ$M**  **2013** | **NZ$M**  **2012** | **Change** |
| Revenue | 631.1 | 978.4 | -35% |
| EBITDA [1] | (205.6) | 44.9 |  |
| EBIT [2] | (274.7) | (27.7) |  |
| Net (loss)/profit after Tax | (335.4) | (40.2) |  |
| Total Underlying Earnings adjustments (net of tax) | 357.6 | 139.9 |  |
| Underlying Earnings after tax [3] | 22.2 | 99.7 | -78% |
| Operating Cashflow | (49.8) | 142.2 |  |
| Dividends Paid | Nil | 30 |  |
| Shareholders’ Equity | 91.6 | 423.4 | -78% |
| Return on Equity [4] | -130% | -9% |  |
| Gearing Ratio [5] | 81% | 42% |  |

**Definitions:**

(All amounts are NZ$ million unless otherwise stated)

1 EBITDA: earnings before interest, tax, depreciation and amortisation

2 EBIT: earnings before interest & tax

3 Underlying Earnings: net profit after tax excluding impairments and large one-off items

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

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

|  |  |
| --- | --- |
| MEDIA RELEASE |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_­­­­\_\_\_\_\_­­­­­­­­­

**Solid Energy asset write downs and one off costs major factors in $335 million loss**

**Underlying earnings positive at $22.2 million**

Assets write downs of $215.3 million, coupled with $102.2 million in one off-costs of restructuring, redundancy and closures, have contributed to a $335.4 million loss (2012: loss of $40.2 million) for coal producer, Solid Energy, as the company refocuses on its core coal mining capability and improving its productivity and competitiveness.

Underlying earnings dropped 78% to $22.2 million (2012: $99.7 million) which, even though the global coal market is weak, is a less than satisfactory trading performance, says Chairman Mark Ford. “But we do believe that Solid Energy has a good operating future now that we have focused the business on cash generation, and reduced and contained costs. The carrying values of our coal assets are likely to remain low for some time as we expect that international export prices will remain depressed in the short to medium term.

“The company’s financial recovery will be contingent on continuous improvement across the business coupled with an improvement in international coal markets which could take up to three years. The impact of change and restructuring on our employees and on regional communities throughout the year has been as severe and as far reaching as any in the company’s 100 year plus history. While our focus is on paying off our debt and further reducing costs through greater efficiency, we hope to be in a position to reinvest in our key coal mining regions once there is a sustained improvement in the market.”

Revenue for the year was $631.1 million, down 35% (2012: $978.4 million) as hard coking coal prices on the international spot market dropped from a high of US$221/tonne in early June 2012 to a low of US$130.75/tonne towards the end of June 2013 and the New Zealand dollar remained high at more than 80c against the US dollar for most of the period. Coal sales were down 11% to 4.1 million tonnes (Mt) (2012: 4.6 Mt) as our international steel making customers cut production in response to weaker markets. Coal exports were down 16% on last year to 2.0 Mt (2012: 2.4 Mt) while sales in New Zealand were down slightly to 2.1 Mt (2012: 2.2 Mt). Average US dollar prices received in the year were down 34% on the previous year.

During the year, Solid Energy restructured its business and closed down or is divesting its renewable energy businesses, coal development projects and surplus assets, with the loss of more than 600 jobs. The company employed 1,036 permanent and fixed term staff at the end of June 2013 (2012: 1,658). Since year end the company has confirmed a further 90 redundancies at Huntly East Mine as the economics of underground mining at Huntly do not justify keeping the operation going in its current form. As of today, Solid Energy employs 902 permanent and fixed term staff. Since 30 June 2012, 550 employees have been made redundant.

**FINANCIAL REVIEW**

Earnings before Interest and Taxation (EBIT) for the year, after impairments and restructuring costs, was a loss of $274.7 million, down from a loss of $27.7 million in the 2012 financial year. Underlying earnings for the year were $22.2 million, down 78% from $99.7 million in the 2012 financial year.

**Prices and Foreign Exchange:** The combined effect of pricing and foreign exchange decreased EBIT by $211.9 million. International coal prices decreased from early July 2012 and have remained low all year. As a result average USD prices received were down 34% on the previous year, decreasing EBIT by $166.3 million. The stronger New Zealand dollar against the US dollar reduced EBIT by a further $45.6 million after hedging.

**Mix:** A change in the mix of product sold increased EBIT by $16.3 million, with hard coking coal sales increasing from 55% to 57% of total sales as production of semi soft coal from Spring Creek Mine was minimal. We suspended operations in August 2012, pending a full review of the mine, and put it into care and maintenance in October 2012.

**Volume:**  Coal sales volumes were 434,000 tonnes lower for the period due to the weakened export coal market and lack of Spring Creek coal. EBIT decreased by $32.8 million as a result.

**Costs:** Cost of sales, exploration and other costs decreased by $207.8 million to $680.6 million largely as a result of reduced third party coal purchases ($100.1 million decrease), combined with the effect of lower operational and support costs.

Personnel costs decreased by $32.6 million due to restructuring undertaken in the year. Contractor costs decreased by $29.0 million, and repairs and maintenance by $17.8 million as the company reduced activity and brought more work in house. Professional services fees and litigation costs reduced by $25.6 million largely due to the settlement and legal costs incurred in 2012 as a result of a contractor claim. Direct and indirect exploration, evaluation and development costs decreased by $12.1 million as the company scaled back to a modest, targeted exploration programme. Emissions Trading Scheme costs decreased by $24.9 million as unit prices continued to decrease. Additional restructuring and redundancy costs of $39.1 million were incurred during the year.

**Tax Expense:** The group incurred a tax expense of $40.1 million from writing off deferred tax assets due to their recoverability being uncertain considering the high level of unrecognised losses carried forward and prices which are forecast to remain low within the foreseeable future.

**Underlying Earnings Adjustments:** Underlying earnings for the year were $22.2 million, down 78% from $99.7 million in the 2012 financial year. The following items have been excluded from net profit after tax in the calculation of underlying earnings for the year:

|  |  |  |
| --- | --- | --- |
| **Year Ended 30 June (NZ$ million)** | **2013** | **2012** |
| **Impairments** |  |  |
| Stockton Mine | 80.1 | - |
| Spring Creek Mine | 53.1 | 64.3 |
| Underground Coal Gasification (UCG) | 23.9 | **-** |
| Briquette Plant | 26.2 | **-** |
| Cobden Bridge (Greymouth) | 8.8 | - |
| Biodiesel New Zealand | 0.6 | 9.0 |
| Nature’s Flame | 4.3 | 24.5 |
| Switch | - | 1.6 |
| Land and Mineral Rights | 32.9 | **-** |
| Huntly East Mine | (14.6) | 33.8 |
| Coal Seam Gas | - | 18.5 |
| Ignite loan repayment | - | (2.5) |
| **Total Net Impairments** | **215.3** | **149.2** |
| **One-Off Items** |  |  |
| Redundancies | 17.1 | - |
| Stand-down period and restructuring costs | 22.0 | - |
| Other restructuring costs | 7.6 | - |
| Discontinued operations |  |  |
| Renewables | 5.2 | - |
| Coal Developments | 14.9 | - |
| Pike River | 4.7 | - |
| Corporate Labour | 13.6 | - |
| Capital projects | 10.5 | - |
| Stores write downs | - | 7.9 |
| Onerous leases | 6.6 | 1.6 |
| Contractor Claim Settlement | - | 12.5 |
| **Total One-Off Items** | **102.2** | **22.0** |
| Tax on Impairments and One-off Items | - | (46.5) |
| **Total Underlying Earnings Adjustments pre deferred tax write off** | **317.5** | **124.7** |
| **Deferred tax write off** | **40.1** | **15.2** |
| **Total Underlying Earnings Adjustments** | **357.6** | **139.9** |
| **NPAT as reported** | **(335.4)** | **(40.2)** |
| **Underlying Earnings** | **22.2** | **99.7** |

An impairment of $80.1 million was booked for **Stockton 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. Combined with a high New Zealand dollar, this has impacted the assessment of asset carrying values.

The decision to place **Spring Creek Mine** into care and maintenance on 25 October 2012, as well as soft global coal markets, resulted in additional impairments of $53.1 million for the mine. An impairment of $8.8 million was also recognised for Cobden Bridge, with the value of this leased rail bridge asset no longer fully supported by Spring Creek Mine or other near-term coal developments.

Notwithstanding the successful trials 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. The **Mataura domestic-scale briquette plant** was commissioned in May 2013. The technology provider GTL Energy has just completed an operating trial period, with the results currently being analysed. With the refocus of the company’s strategy away from immediate lignite developments, a decision has been made to impair the briquette plant by $26.2 million.

Difficult domestic trading conditions and cessation of exporting to Europe have resulted in a $4.3 million impairment to **Nature’s Flame**. The business is being marketed for sale. The sale of **Biodiesel New Zealand Ltd’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 $32.9 million have been booked for land now deemed surplus to requirements.

Completion of supply negotiations with **Huntly East Mine’s** major customers, 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 totalled $46.7 million.

The costs of operating unprofitable or non-operating business units until they are closed or divested resulted in additional costs of $24.8 million. Labour costs incurred for corporate staff who have now been made redundant totalled $13.6 million. A number of projects were closed down during the period resulting in costs of $10.5 million being written off.

Onerous leases of $6.6 million were recognised in relation to plant deemed surplus to requirements after downsizing of operations.

**Capital Management and Funding:** Solid Energy’s total assets at 30 June 2013 were $859 million, down $308 million on the same time last year due to impairments. Net bank debt and bonds at the end of the period were $381 million (June 2012: $295 million), comprising drawn bank facilities net of cash of $286 million and Medium Term Note issues of $95 million. Gearing increased to 81% after asset impairments as the company strategically repositioned in response to weakened export coal markets. This resulted in a decrease in shareholders’ equity of $332 million to $91.6 million.

**Cashflows:** Cashflows from operations were negative $49.8 million compared to inflows of $142.2 million in 2012, with $327.0 million in decreased cash receipts largely as a result of lower prices. Capital investment totalled $55.4 million compared with $164.0 million for the 2012 financial year. Of this, approximately $22 million related to spend at Spring Creek and Huntly East Mines before development work was halted.

**Production:** Coal production for the year was 3.9 Mt, down 6% on the previous year as Spring Creek Mine was placed in care and maintenance.

For further information contact:

Vicki Blyth Telephone: 03 345 6000

Stakeholder Relations Manager Mobile: 021 670 250

Solid Energy New Zealand Limited