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SOLID ENERGY
Coals of New Zealand

Annual Report 2015

CONTENTS

ACTING CHAIR'S REPORT

The year under review has seen a continuation of the challenges that have confronted Solid Energy over the past two years, and the Board and management have worked intensively to respond to those challenges. The responses, noted here and in the Chief Executive's report, have required some hard decisions, notably but not restricted to the significant lowering of production of hard coking coal and consequent job losses. The Board acknowledges the impact on those employees affected and the flow-on impact on the communities in which they live. However the actions taken were undoubtedly necessary.

In the latter part of calendar 2013, when Solid Energy, its shareholder and major lenders agreed an initial capital restructure package, it was based on independent expectation of a turnaround in international coking coal prices and a consequent company move back towards sustainable profitability well before September 2016, the end of that agreement's term.

In fact, falling international demand for steel products and a very large oversupply of coking coal have continued to weigh on the prices paid for both the main steel inputs, iron ore and coal. In the year under review, the quarterly contract benchmark (the basis upon which Solid Energy's coal exports are priced) again fell through each quarter, from US$120 a tonne in July 2014 to US$93 in the first quarter of this, the 2016 financial year. At time of writing, the spot market remains below the benchmark, suggesting the October-December 2016 quarter will again see a reduction in what buyers are prepared to pay.

Throughout the months since the initial capital restructure was agreed, Solid Energy has consistently met and on many measures, exceeded, the extremely challenging cost-reduction, production and other targets we had agreed with the other parties to that agreement. The Chief Executive's report will deal with these achievements in more detail. On behalf of the Board, I simply wish to acknowledge the dedication and efforts of Solid Energy management and staff in meeting these targets in difficult times.

Since the capital restructure, the company has never missed an interest payment or payments to creditors. Additionally, and with the assistance of the shareholder at balance date in 2013-14, it had also maintained a positive equity position.

By early calendar 2015, with the latest independent price outlook again extending the expected depth and duration of the slump, the Board formed the view that it was increasingly unlikely the company would be able to refinance, let alone repay its borrowings once they began to fall due from September 2016. Expected additional year-end write-downs in the value of the export holdings was also modelled, which indicated a likely move into negative equity. A further restructuring of the Stockton-based export operation mitigated but could not eliminate this downside risk.

In the Board's view, given that no further equity injections could be expected, the realistic options were immediate liquidation or some arrangement which would allow a longer, managed sell-down of assets in order to maximise the proceeds available to creditors. The company therefore took the initiative by starting talks with its banks and shareholder on a good-faith basis, ahead of the anticipated financial stress. The company's aim was to consider how the interests of creditors and other stakeholders, including employees and customers, could be protected as much as possible. A subsequent, and even-more pessimistic, price outlook in April underlined the sense of urgency in those discussions.

The events that unfolded prior to balance date obviously have significant impacts on the balance sheet and other financial information contained in this report.

The main impacts to note are:

- That the accounts are not presented on a going-concern basis, but rather as held-for-sale.
- That the negative $95 million equity position reflects both the continued reduction in the value of the export business, but also the loss from equity of unsaleable items such as Crown rehabilitation indemnities.

Post-balance date talks with our creditors and shareholder resulted in putting the company into Voluntary Administration and, in early September 2015, the adoption by creditors of the Board's proposal as a Deed of Company Arrangement (DOCA). Given the significant impact this post-balance-date event has on the company's balance sheet, in this Annual Report we have produced financial statements as at 30 June 2015, and also a re-stated statement of financial position showing the impact of the DOCA. The Balance Sheet Comparison table below shows what the situation would have been (still on a non-going-concern basis) had the DOCA agreements been in place at 30 June 2015.

The DOCA will result in a better outcome for employees and trade creditors. Furthermore, the Board believes the DOCA will result in a more favourable ultimate outcome for the Participant Creditors than would have been the case in an immediate liquidation. The Board thanks all creditors which supported its proposal, and also our shareholder, whose support was critical to the success of the DOCA negotiations.

Notwithstanding the enormously challenging market conditions facing the company, the Board and management have continued to place a heavy emphasis on health and safety in all areas of our business. This focus was the dominant factor in the Board's decision not to re-enter the Pike River mine. While the Board strongly believes that this was the right decision, it was nevertheless a difficult one because of the emotional impact on the families of the lost men, an impact of which all directors were acutely aware.

Our former Chair, Pip Dunphy, resigned from the Board in February. On behalf of my fellow Board members, I wish to thank her for her contributions and leadership.

I would also like to thank my fellow directors for their commitment and contributions to guiding the company through an extremely difficult period.

Andy Coupe
Acting Chair
30 September 2015

Balance Sheet Comparison

	Pro Forma DOCA 30 June 2015 $M	Actual 30 June 2015 $M
Assets		
Cash and cash equivalents	65.0	47.7
Locked cash	-	17.3
Trade and other receivables	44.8	44.8
Derivatives	0.7	0.7
Inventories	54.0	54.0
Assets classified as held for sale	30.9	30.9
Derivative collateralisation	5.3	5.3
Deferred tax asset	-	117.5
Property, plant and equipment	66.4	66.4
Mining assets	44.3	44.3
Stripping in advance	16.6	16.6
Crown receivable	139.5	103.7
Intangible assets	0.8	0.8
Total assets	468.3	550.0
Liabilities		
Accounts payable and accruals	44.5	44.5
Derivatives	2.4	2.4
Provisions	240.6	240.6
Term lease liability	-	10.0
Interest-bearing & other borrowings	180.8	347.1
Total liabilities	468.3	644.6
Net assets	-	(94.6)

Underlying Earnings Adjustments

Year Ended 30 June (NZ$ million)	2015	2014
Impairments/(Impairment Reversal)		
Export operations	152.3	105.0
Spring Creek Mine	5.5	-
Underground Coal Gasification (UCG)	(0.3)	(0.5)
Briquette Plant	-	(0.4)
Nature's Flame	-	0.9
Land and Mineral Rights	(1.1)	4.8
Huntly East Mine	0.9	0.8
Pike Mine	4.5	-
Reefton operations	5.5	-
Corporate	1.4	-
Crown Receivable	87.9	-
Total Net Impairments	256.6	110.6
One-Off Items		
Redundancies	5.0	8.2
Restructuring costs	4.4	8.0
Non-core operations	1.4	4.1
Total One-Off Items	10.8	20.3
Total Underlying Earnings pre deferred tax adjustments	267.4	130.9
Deferred tax adjustments	(144.9)	-
Total Underlying Earnings Adjustments	122.5	130.9
NPAT as reported	(176.7)	(181.9)
Underlying Earnings	(54.2)	(51.0)

CHIEF EXECUTIVE'S REPORT

In a year where the coal price continued to fall, Solid Energy's objective was to ensure our operational and investment discipline was aimed at reducing risk through detailed planning and a focus at site level on margin and efficiency. With the last of the non-core businesses exited during the year, our focus lay entirely on safe and efficient coal production.

During the year in review it was particularly pleasing that both our main lagging safety measures showed strong improvement year-on-year, with the Lost Time Injury Frequency Rate falling to 0.48 for the year, the result of just one recordable lost time injury. The All Injury Frequency Rate improved by 35%, falling from 11.08 to 7.2 at the end of the year.

In conjunction with the lag indicators, significant effort has been put into implementation of the new regulations and the development of "Safe and Certain", a programme aimed directly at the control of fatal risk in our workplaces.

This focus on potentially fatal risks flowed through to the programme of work at the Pike River mine site. After a rigorous risk-assessment process supported by independent technical advisors, in November 2014 it was decided that we could not re-enter the Pike River mine drift.

Our analysis showed that, despite every effort to control or eliminate risks to life, there remained a number of potentially fatal risks. The project proved to be undoubtedly challenging and complex but we believe the right outcome was achieved and appreciate the input from all stakeholders. Work continues as we move to seal the main drift and hand over the site.

With the company underpinned by a more simplified and efficient structure, further significant cost improvements were made resulting in a 16% reduction in cash operating costs. With the downward pressure on export pricing continuing, our response to the market conditions resulted in a further reduction in cost per tonne and a reduction in overall volumes from 3.3 million tonnes to 2.8 million tonnes.

Productivity measures (production tonnes per person and overburden movements per person) both increased during the year, by 5% and 10% respectively. Over the year, staffing reduced by more than 30%, mainly as a result of a restructure of our Export Business unit late in the year.

Against a backdrop of a very challenging business environment, the year in review has resulted in full achievement of our headline targets across production, sales, revenue, costs and capital.

I want to take the opportunity to thank all of our employees and contactors for the effort during the year. With the next phase for the company set and underpinned by the Deed of Company Arrangement, our focus remains on safe and efficient operations as we move to execute these arrangements.

Dan Clifford
Chief Executive
30 September 2015

FINANCIAL PERFORMANCE

	2015 ($M)	2014 ($M)	Change
Revenue	369.8	449.2	(79.4)
Operating costs excluding impairment and restructuring	(399.6)	(497.3)	97.7
Earnings before interest and taxation	(299.4)	(160.7)	(138.7)
Net Profit/(Loss) after Taxation (NPAT)	(176.7)	(181.9)	5.2
Total Underlying Earning Adjustments (next of Tax)	122.5	130.9	(8.4)
Underlying Earnings after Tax	(54.2)	(51.0)	(3.2)
Net Cashflow from Operating Activities	(0.6)	29.4	(30.0)
Shareholders' Funds	(94.6)	12.5	(107.1)
Dividends Paid	Nil	Nil	-

2015 BUSINESS PERFORMANCE

2015 ACHIEVEMENTS AGAINST STATEMENT OF CORPORATE INTENT TARGETS		2015 TARGET	2015 ACHIEVED	2014 ACHIEVED
Value				
Operations	Sales Units (million tonnes)	3.1	3.1	3.4
	Production Units (million tonnes)	2.8	2.8	3.3
Shareholder Returns	Dividend Paid ($M)	0	0	0
	Dividend Yield[1]	0%	0%	0%
	Dividend Payout[2]	Nil	Nil	Nil
	Return on Equity[3]	Not meaningful	Not meaningful	Not meaningful
Profitability	Return on Capital Employed[4]	-15%	-98%	-38%
	Operating Margin[5]	-1%	1%	4%
Leverage/Solvency	Gearing Ratio[6]	86%	148%	96%
	EBITDAF ($M)	-4.0	3.5	15.9
	Interest Cover (times)[7]	-0.2	0.2	0.7
Future Value	Capital Investment ($M)	14	8	12
Health & Safety	All Injury Frequency Rate[8]	7.3	7.2	9.7
	Lost Time Injury Frequency Rate[9]	2.8	0.48	1.5
Environment	Regulatory, abatement and enforcement notices	0	0	1

1. Dividends paid / Average commercial value
2. Dividends paid / Net cash flow from operating activities less depreciation expense
3. Net profit after tax / Average shareholders' equity
   a) The calculation of Average shareholder equity is assumed to be ordinary equity only and therefore excludes the value of the redeemable preference shares
   b) The business plan does not provide for IFRS fair value movements or asset revaluations
4. EBIT/ Average capital employed: The calculation of average capital employed includes the value of redeemable preference shares
5. EBITDAF/ Revenue
6. Net debt / (Net debt + equity): The calculation of equity includes the value of redeemable preference shares
7. EBITDAF / Interest expense
8 Number of injuries per 1,000,000 hours worked requiring medical aid or greater treatment
9. Number of injuries per 1,000,000 hours resulting in more than one lost work day or shift

OPERATIONS, MARKETS AND RESOURCES

Operations

Coal production across all mine sites ended the year slightly ahead of budget at 2.831 Mt (2014 production: 3.329 Mt). Coal sales tonnes, at 3.121 Mt, was also slightly favourable to budget (2014: 3.435 Mt), while total overburden movement across all opencast mines was 14.374 million bank cubic metres (bcm), compared to a budget of 16.073 Mbcm.

At our Waikato underground, Huntly East Mine, coal production and development metres were below budget by 22% and 20% respectively, due to more challenging than anticipated geological conditions. This resulted in both lower sales tonnes and revenue, both down 24% on budget for the year. Despite the more challenging mining conditions, costs continued to be closely managed and finished the year on budget.

At the Reddale Opencast Mine near Reefton, overburden movement and coal production were down by 46% on budget for the year, mainly due to unfavourable weather and mining conditions.

As outlined in earlier sections of this report, the quarterly benchmark for internationally traded hard coking coal dropped through each quarter of the year, from US$120 a tonne to under US$110 at year-end. A review of the Export Coal business unit resulted in a decision towards year-end to reduce coal production by 33% to approximately 1 Mt a year and all other associated operations at the mine by concomitant amounts, with forward production and marketing aimed at the company's longest-standing and relatively higher-value customer relationships, primarily coke and steelmakers in Japan and India. The value of those long-standing relationships was shown in the company's ability to maintain tonnages, albeit at the lower market rates.

In terms of product mix, the export portfolio was reshaped to a greater proportion of hard and semi-hard coking coal cargos.

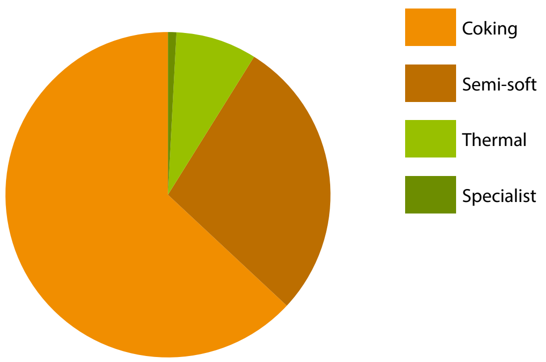
Markets

Domestically, both North and South Island market conditions remained competitive although relatively stable throughout the year. In a post-balance date move, major North Island customer Genesis Energy terminated its coal supply contract following Solid Energy's 13 August 2015 move into voluntary administration.

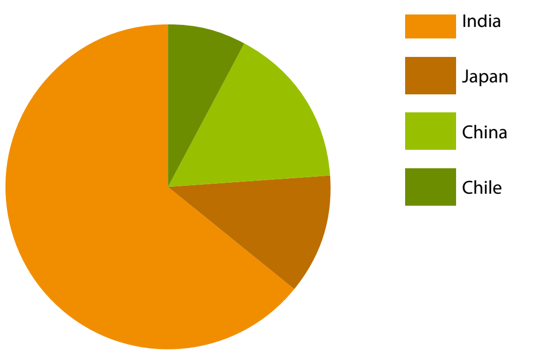
Solid Energy completed life-of-mine reviews during the year of all its productive coal resources, aiming to ensure each is in line with the business unit's projected market conditions and future coal demand.

Solid Energy has one mining area in development, at our Maramarua site in North Waikato. There, stripping began in June, with approximately 35,000 bcm moved in the final month of the year. Since the late-1950s Solid Energy and its predecessor State Coal Mines have intermittently mined the Maramarua resource, the last large-scale effort ending in the 1990s with the closure of the Meremere Power Station. Current plans for the resumption of mining at Maramarua are for it to contribute about 15,000 tonnes of coal a month to the company's North

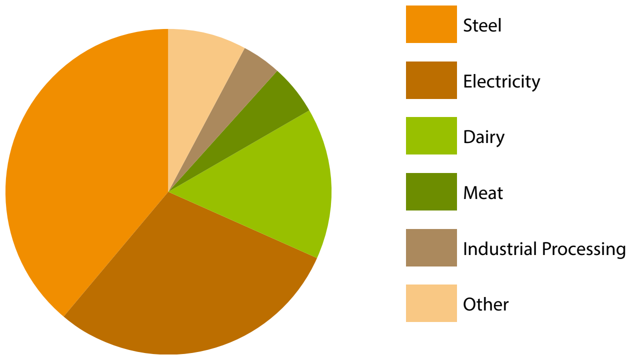
2015 Export Sales by Coal Type



2015 Export Sales by Export Market



2015 New Zealand Sales by Sector



Island production over about five years. Much of the equipment for the redevelopment and mining has been sourced from other Solid Energy sites around the country.

Resources and reserves

At year-end Solid Energy had access to approximately 140 Mt of hard and semi-hard coking coal and specialist coal resources and 14.7 Mt of reserves. North Island steel/thermal coal resources at year-end were approximately 374 Mt, including 12 Mt of reserves. South Island thermal coal resources, excluding lignite, were approximately 55 Mt. Lignite resources in Southland were approximately 708 Mt, including 7.8 Mt of reserves.

Resource proving during the year focused on resources which had the ability to add resource value in the short- to medium-term, including:

- Development of coal mining in the Mt. Davy hard coking coal mining permit in cooperation with a third party
- Successful development and mining of a new opencast pit in the Ohai Coal Mining Licence area.
- Resumption of mining at our Maramarua Mining Permit area.
- Expansion of mining options at our Reddale Mining Permit area
- Studies into options for the Upper Waimangaroa resource blocks in Buller.

The company's review of its permit holdings continued during the year, with six permits identified as no longer having sufficient strategic value to warrant their holding costs. Solid Energy has made good progress during the year towards achieving the required reporting standards as defined by the 2012 JORC Code. This 2015 statement – summarised below – has been produced according to the company's resource and reserve reporting standards.

COAL RESOURCES AT 30 JUNE 2015

		RESOURCES (MT) including reserves			RESERVES (MT)		
Export	**Product**	**Measured**	**Indicated**	**Inferred**	**Proven**	**Probable**	**Marketable**
Buller	HCC/SHCC	0.7	14.2	9	0.54	2.7	3.2
	SSCC	0.9	14.5	31	0.72	2.2	2.9
	Thermal	0.6	4.6	4	0.69	5.9	4.0
	Sub-Total	2.2	33.3	43.2	2.0	10.8	10.2
	Total						
Grey	Specialist						1.1
	HCC/SHCC	3.5	5.0	8			
	SSCC	11.5	8.8	30	1.97	0	0.4
	Thermal	0.0	0	29			0.4
	Sub-Total	15.0	13.7	66.9	2.0	0.0	1.8
	Total	17.1	47.0	110.1	3.9	10.8	12.0
South Island Domestic	**Product**	**Measured**	**Indicated**	**Inferred**	**Proven**	**Probable**	**Marketable**
Reefton	Thermal	0.3	2.4	14	0.17	0.0	0.2
	SSCC	3.7	0.7	0			
Southland/Otago	Thermal						
	Lignite	145.9	247.2	315	4.08	3.7	7.8
	Sub-Total	149.9	250.3	330	4.25	3.7	8.0
North Island Domestic	**Product**	**Measured**	**Indicated**	**Inferred**	**Proven**	**Probable**	**Marketable**
North Island	Steel/Thermal	139.0	113.7	121	3.66	2.7	5.4
	Sub-Total	139.0	113.7	121	3.66	2.7	5.4
	Total (Domestic)	288.9	364.0	451	7.91	6.4	13.4
	Grand Total	306.0	411.0	561	11.83	17.2	25.4

Solid Energy has used the 2012 JORC Code as a guideline for reporting its 2015 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

The diligent and committed efforts demonstrated by our employees, contractors and others on our sites resulted in some outstanding annual results. Our lost time injury frequency rate of 0.48 represents a single LTI in the period. The all injury frequency rate of 7.20 (2014: 11.08) represented 15 recordable injuries during the year.

A focus of the year was the preparation and planning to ensure all sites were compliance-ready ahead of the new legislation which came into force on 1 January, 2015. The legislative change was also used as an opportunity to refresh our overall health and safety strategy and framework.

Key focus areas included defining our people-and process-safety. For this, a working group created a strategy, activity framework and action plan for the future. We undertook a programme to benchmark and review our safety processes with the aim of "challenging the norm". Our key safety performance indicators were developed to also encompass engagement, behavioural and process safety outcomes and achievement measured by looking beyond simply meeting or exceeding KPI targets.

A push to learn more from our own precursor events and from other workplace incidents has fostered a greater awareness and understanding of the hazards present within our industry and supported our drive towards greater consistency and identification of core, mandatory standards.

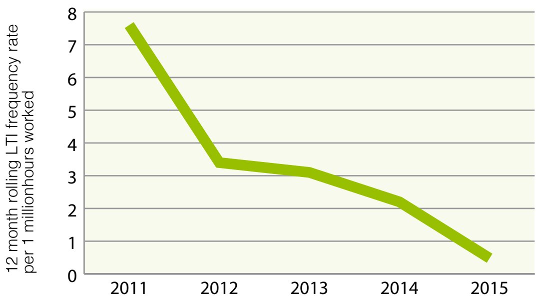
Looking ahead into FY16, we are seeking to embed the foundations laid in the review year. Fatal hazard education and awareness, application of a set of Life Saving Rules and a drive to achieve a "Safe and Certain mindset" within our employees and contractors are important goals.

People

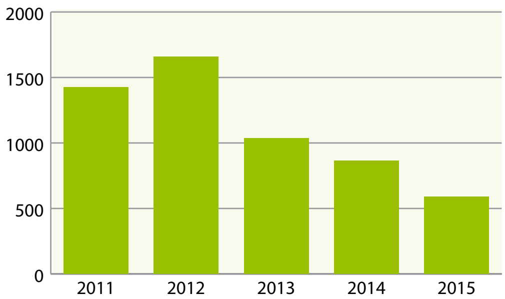
In August 2014, a review of corporate and support roles was undertaken, resulting in a structure which better reflected the reduced scope and scale of the company's mining operations following a prolonged period of restructuring which began in August 2012.

At Stockton Opencast Mine in May 2015, all jobs were reviewed following a decision to reduce coal production by 33% and overburden/waste movement by 64%. At the same time we confirmed a new structure at our already-mothballed Spring

Lost-time Injury Frequency Rate

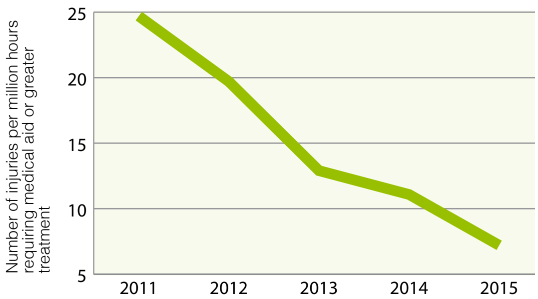


Staff Numbers (Permanent and Fixed Term)*

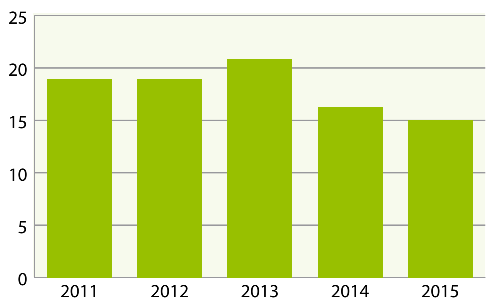


* Excludes contractors

All Injury Frequency Rate



Staff Turnover (%)*



* Excluding redundancies

Creek Mine site which would continue to preserve the asset's optionality while further work was done into potential options for resuming mining there.

At the end of the year we commenced a restructure within our West Coast Domestic Operations team with a new structure introduced in July 2015.

In the second half of the year we commenced recruitment for a workforce of 10 to support the planned resumption of mining at our Maramarua site in Waikato.

Compliance with the competency requirements in the Health and Safety in Employment (Mining Operations and Quarrying Operations) Regulations 2013 was a considerable focus during the year. Implementation for this programme of work began in December 2014 and is scheduled to be completed by January 2016. During the year, particular effort went into ensuring our employees who hold Mine Manager Certificates of Competence (CoCs) undertook the necessary training to gain the additional unit standards they needed by January 2016.

At year-end we employed 589 permanent and fixed-term staff members (2014: 862). Turnover in the year, excluding redundancies, dropped to 15% (2014: 16.3%).

Environment and Community

Solid Energy's environmental performance for the year included two exceptional results. For the first time, we completed a year with no statutory non-compliance environmental events recorded at any of our sites (2014: 15 events reported).

Second, we finished the year with more land rehabilitated than was newly disturbed, with our net disturbed land area at all operations decreasing by 44.8 hectares in the year to a total of 1784.8 hectares. Overall we completed rehabilitation of 76.6 hectares (2014: 71 hectares). Our principal opencast mines, Rotowaro and Stockton, both exceeded their rehabilitation targets, between them completing 62.6 hectares of final rehabilitation.

Provision for land rehabilitation after mining is completed is a significant liability, built into mine budgets throughout their productive lifetimes. The company uses a consistent approach to estimate the future costs of rehabilitating and closing off land after mining and the total liability estimate has this year increased to $189.3 M (2014: $166.1M), primarily as a result of a change to the applicable discount rates. The total includes $73.9M of pre-1987 land disturbance liabilities which the company manages on behalf of the Crown (2014: 60.1M).

The post-balance date adoption of a Deed of Company Arrangement (DOCA) includes some changes in respect of rehabilitation provisioning. More about the DOCA can be found in the Notes to the Financial Statements.

While it has been some years since Solid Energy was able to offer financial support to clubs and community groups in our areas of operations, our mine managers continued to hold meetings with neighours and community leaders during the year with the aim of ensuring these important stakeholders are aware of the company's operational changes and plans.

THE BOARD OF SOLID ENERGY

ANDY COUPE LLB

Acting 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)

KEIRAN HORNE BCM, BA

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

Directorships
Breastscreen Otago Southland Ltd
Crown Asset Management Ltd

Other
Institute of Chartered Accountants, Member
Institute of Directors, Member
INSOL New Zealand, 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)

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)

Pip Dunphy (to 5 February 2015) also held office as Director during the year.

Solid Energy New Zealand Ltd is a state-owned enterprise (SOE) incorporated as a private limited-liability company on 24 February 1987. The shareholders 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 vision 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. These rules also require Solid Energy to announce publicly detailed financial results at the end of each half and full financial year.

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), approving overall strategy and annual budgets, 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.

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.

Training

Structured opportunities are provided to build a Director's knowledge through initiatives such as visits to Solid Energy sites around New Zealand. Knowledge is also built through involvement with the CE and other senior employees in Board meetings and business briefings, attendance at development sessions focused on specific topics of relevance and an induction programme specifically tailored to the needs of incoming Directors.

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)	$99,824
Keiran Horne (appointed 1 January 2014)	$90,796
Rabin Rabindran (appointed 1 January 2014)	$53,945
David Reece (appointed 9 June 2014)	$51,837
Neville Sneddon (appointed 8 November 2012)	$53,517
Former Directors serving in the 2015 Financial Year	
Pip Dunphy (appointed 10 December 2012; resigned 5 February 2015)	$101,432

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 2015

RESULTS

	2015 $M
Net Loss for the period after tax	(176.7)
Dividends paid	Nil
Equity at beginning of period	12.5
Shareholder’s equity at 30 June 2015	(94.6)
This equity was represented by:	
Total assets of	550.0
Total liabilities of	644.6

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	see notes	GROUP 2015 $M	GROUP 2014 $M
Revenue	4(A)	369.8	449.2
Cost of sales	4(B)	(386.6)	(477.2)
Gross profit/(loss)		**(16.8)**	**(28.0)**
Other income	4(C)	5.3	13.9
Exploration, evaluation and development expenses		(0.3)	(0.6)
Corporate services and administrative expenses	4(D)	(20.8)	(23.4)
Other expenses and restructuring costs	4(E)	(0.5)	(12.3)
Impairment	4(F)	(256.6)	(110.6)
Results from operating activities		**(289.7)**	**(161.0)**
Realised and unrealised gains on derivatives	4(G)	(5.8)	3.4
Finance income	4(G)	9.4	1.2
Finance expenses	4(G)	(34.7)	(26.1)
Net finance income/(expense)		**(31.1)**	**(21.5)**
Share of (loss) of jointly controlled entities		(0.8)	(0.1)
(Loss)/profit before income tax		**(321.6)**	**(182.6)**
Income tax benefit	5	144.9	0.7
(Loss)/profit after tax		**(176.7)**	**(181.9)**
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)	3.3
Cashflow hedges - reclassified to profit or loss		(0.9)	1.5
Income tax benefit/(expense) on fair value of cashflow hedges	5(E)	(0.7)	(0.7)
Net change in fair value of available-for-sale financial assets		(1.1)	(1.3)
Other comprehensive (loss)/income for the year, net of income tax		**(2.8)**	**2.8**
Total comprehensive (loss)/income for the year		**(179.5)**	**(179.1)**
Total comprehensive (loss)/income attributable to:			
Members of the parent		(179.5)	(179.1)
Total comprehensive (loss)/income for the year		**(179.5)**	**(179.1)**

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

		GROUP	
	see notes	2015 $M	2014 $M
Assets			
Cash and cash equivalents	6	47.7	70.4
Locked cash	6	17.3	1.3
Trade and other receivables	7	44.8	59.0
Derivatives		0.7	3.8
Inventories	11	54.0	74.3
Assets classified as held for sale	21	30.9	62.3
Derivative collateralisation	10	5.3	-
Deferred tax asset	5	117.5	-
Property, plant and equipment	13	66.4	148.2
Mining assets	14	44.3	91.8
Stripping in advance	12	16.6	64.7
Crown receivable	17	103.7	60.1
Intangible assets		0.8	0.2
Total assets		**550.0**	**636.1**
Liabilities			
Accounts payable and accruals	15	44.5	61.7
Derivatives		2.4	0.7
Term lease liability	18	10.0	10.4
Interest-bearing & other borrowings	16	347.1	342.9
Provisions	17	240.6	205.1
Investment deficit in joint venture		-	0.8
Liabilities associated with assets classified as held for sale	21	-	2.0
Total liabilities		**644.6**	**623.6**
Net assets		**(94.6)**	**12.5**
Equity			
Issued capital	19	133.3	60.9
Redeemable Preference Shares	19	100.0	100.0
Retained earnings		(328.0)	(151.3)
Other reserves		0.1	2.9
Total equity		**(94.6)**	**12.5**

Signed for and on behalf of the Board of Directors, which authorised the issue of the Financial Report on 29 September 2015.

Andy Coupe (Acting Chair)

Keiran Horne (Director)

The accompanying notes form an integral part of these financial statements, in particular refer to Note 28 for details of significant subsequent events that occurred after balance date.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2015

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 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	19	72.4	-	-	-	-	72.4
As at 30 June 2015		133.3	100.0	(328.0)	-	0.1	(94.6)
As at 1 July 2013		60.9	-	30.6	(2.4)	2.5	91.6
Total comprehensive income/(loss) for the year		-	-	(181.9)	4.1	(1.3)	(179.1)
Transactions with owners in their capacity as owners:							
Issue of Redeemable Preference Shares	19	-	100.0	-	-	-	100.0
As at 30 June 2014		60.9	100.0	(151.3)	1.7	1.2	12.5

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

	see notes	GROUP 2015 $M	GROUP 2014 $M
Cash flows from/(used in) operating activities			
Cash was provided from:			
Customers		421.6	486.7
Dividends received		-	0.2
		421.6	486.9
Cash was applied to:			
Payments to suppliers and employees		(422.2)	(457.5)
		(422.2)	(457.5)
Net cash flows from operating activities	20	(0.6)	29.4
Cash flows from/(used in) investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment and held for sale assets		34.1	39.0
Proceeds from sale of other non-current assets		-	0.1
		34.1	39.1
Cash was applied to:			
Purchase of property, plant and equipment		(5.3)	(4.0)
Collateralised derivatives		(5.3)	-
Investment in intangible assets		(0.7)	(0.7)
Investment in mining assets		(3.2)	(8.1)
		(14.5)	(12.8)
Net cash flows from investing activities		19.6	26.3
Cash flows from/(used in) financing activities			
Cash was provided from:			
Issue of Redeemable Preference Shares		-	25.0
Repayment of lease receivable		-	1.1
Interest received		1.7	1.0
		1.7	27.1
Cash was applied to:			
Payment of interest on interest-bearing borrowings		(21.8)	(22.9)
Repayment of other interest-bearing borrowings		(1.8)	(1.8)
Payment of Crown indemnity fee		(2.5)	-
Repayment of lease liability		(1.3)	(0.5)
Transfer to locked cash account	28(F)	(16.0)	(1.3)
		(43.4)	(26.5)
Net cash flows from/(used in) financing activities		(41.7)	0.6
Net increase/(decrease) in cash and cash equivalents		(22.7)	56.3
Opening cash and cash equivalents		70.4	14.1
Closing cash and cash equivalents	6	47.7	70.4

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''), and its subsidiaries as detailed in Note 23(B).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Preparation and Statement of Compliance

The financial statements for the year ended 30 June 2015 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).

Going Concern Assumption

The financial statements have been prepared on a non-going-concern basis.

On 17 September 2015, the group (other than Nature's Flame Italia SRL (in Liquidation)) became a party to a Deed of Company Arrangement ('DOCA') which will see the assets of the group offered for sale over the next 2.5 years. Refer to Note 28 for further detail on these agreements. At the end of that process, residual pre-administration debt of the group will be extinguished, with the intention that the group companies (other than Nature's Flame Italia SRL (in Liquidation)) will be liquidated on a solvent basis.

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 9. As disclosed in Note 4(F) the group has recognised an impairment expense of $256.6 million. This has contributed to an after tax loss of $176.7 million and negative net assets of $94.6 million. Liabilities are measured at the carrying amount in accordance with contractual or legislative requirements. The carrying amount is calculated on an historical costs basis except for:

- Derivative financial instruments that have been measured at fair value;
- Provisions and Crown receivable which are measured at net present value;
- 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.

New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, with the exception of the impact of the following accounting standards which have been adopted for the year ended 30 June 2015:

a) The following accounting standards have been adopted but have not had any significant impact on the financial statements:

- NZ IAS 32 Offsetting Financial Assets and Financial Liabilities
- NZ IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- NZ IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
- NZ IFRIC 21 Levies
- NZ IAS 19 Defined Benefit Plans: Employee Contributions
- NZ IFRS 1, FRS 44, NZ IFRS 4, NZ IFRS 7 Annual Improvements to NZ IFRSs 2010-2012 Cycle

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.

(ii) Solid Energy has elected not to early adopt the following relevant standards which have been issued but are not yet effective for the group:

- NZ IFRS 9 Financial Instruments (effective for the reporting period commencing 1 July 2018)
- NZ IFRS 15 Revenue from Contracts with Customers (effective for the reporting period commencing 1 July 2017)
- NZ IAS 16 and NZ IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation (effective for the reporting period commencing 1 July 2016)
- NZ IAS 1 Disclosure Initiative (effective for the reporting period 1 July 2016)
- NZ IFRS 5, NZ IFRS 7, NZ IAS 19, NZ IAS 34 Annual Improvements to NZ IFRSs 2012-2014 Cycle (effective for the reporting period 1 July 2016)

It is expected that the above standards will not have a significant impact on the group's financial statements.

(B) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Solid Energy and its subsidiaries at year end ("the group"). 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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) Business Combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or operations are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination.

Except for assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in profit or loss, but only after a reassessment of the identification and measurement of the net assets acquired.

(D) 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.

(E) Revenue, Finance Income and Other Income

Revenue, finance income and other income are recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue

Sale of goods

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.

Finance Income

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Other Income

Rental income

Rental income arising on properties is accounted for on a straight-line basis over the lease term.

(F) Income Tax

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 liabilities are recognised for all taxable temporary differences:

i) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

ii) in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

i) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

ii) deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(G) 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.

(H) Share Capital

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.

(I) Property, Plant and Equipment

The group has five classes of property, plant and equipment:

- Land, buildings and structures;
- Leasehold improvements;
- Plant and equipment;
- Leased infrastructure asset; and
- Capital work in progress.

Depreciation and Impairment

Land is carried at cost less any impairment losses. Land is not depreciated. Capital work in progress is carried at cost less any impairment losses. Capital work in progress is not depreciated. When an item of capital work in progress is commissioned it transfers to the appropriate property, plant and equipment category and depreciation commences.

All other property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the assets' expected economic life. Leased assets are depreciated over the shorter of the lease term and their useful economic lives. The expected economic lives of assets are as follows:

- Buildings and structures	10 to 25 years
- Leasehold improvements	Lease term
- Plant and equipment	5 to 15 years
- Leased infrastructure asset	30 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Property, plant and equipment under construction are recorded as work in progress and are not depreciated until they are ready for productive use.

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date. For an asset that does not generate largely independent cash inflows, the fair value less costs to sell is determined for the cash-generating unit to which the asset belongs.

Where the carrying values exceed the estimated fair value less costs to sell, the assets or cash-generating units are written down to their fair value less costs to sell. Impairment losses are recognised in profit or loss.

(J) Mining Assets

Mining assets includes exploration and evaluation, mines in development and mines in production, for both tangible and intangible assets.

Tangible mining assets

(i) Exploration and evaluation

Exploration, evaluation and development expenditure is stated at cost and is accumulated in respect of each identifiable area of interest. Expenditure is only carried forward to the extent that it is expected to be recouped through the successful development of the area of interest (or alternatively by its sale), or where activities in the area have not yet reached a stage which permits a reasonable assessment of the existence, or otherwise, of economically recoverable reserves.

(ii) Mines in development

Once a decision is made to proceed with commercial production, the expenditure incurred on successful areas of interest is reclassified as "Mines in development".

(iii) Mines in production

Mining assets are transferred to "Mines in production" in the year production commences.

Mine production assets, comprising successful areas of interest, subsequent development expenditure and capitalised rehabilitation provisions are amortised to profit or loss over the remaining productive life of the operation on a unit of production basis, subject to a maximum remaining productive life of 20 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision is made to abandon the area.

Intangible mining assets

Mineral reserve assets comprise mining rights and mining licences and are classified between exploration and evaluation, mines in development and mines in production as per tangible assets above. Mineral reserve assets are stated at cost less any accumulated amortisation and impairment loss. Amortisation is charged to profit or loss on mineral reserve assets on a straight-line basis over the estimated useful life of the mineral right. The estimated useful life of mineral right assets is subject to a maximum of 20 years.

(K) 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.

Development stripping

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.

Production 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.

Amortisation

The stripping in advance asset is subsequently amortised using the units of production method over the life of the identified component of coal that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of coal.

(L) Intangible Assets

Emission Trading Scheme (ETS) units

Purchased ETS units are recognised as an intangible asset and measured at cost. ETS units are purchased in order to settle ETS obligations and are therefore not amortised.

(M) Leases

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.

Group as a lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in profit or loss as finance costs. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease payments. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The cost of improvements to leasehold properties is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

(N) Impairment

Mining assets

The carrying amount of property, plant and equipment, mineral reserve assets, exploration, evaluation and development expenditure and stripping in advance are reviewed at each reporting date. For any asset that does not generate largely independent cash flows, the fair value less costs to sell is determined for the cash-generating unit to which the asset belongs. If the carrying amount of the asset (or cash-generating unit) exceeds this amount, the asset (or cash-generating unit) is written down to the fair value less costs to sell. As the group is not considered to be a going concern, there is no assessment of the value in use amount of the assets.

(O) Inventories

Inventories of by-product and saleable coal are valued at the lower of weighted average cost or net realisable value. By-product coal is contaminated and diluted coal which requires significant further processing to become saleable. When both saleable coal and by-product coal, or different grades of coal, are produced from an operation the costs are allocated based on the relative net realisable values of the two products at the point they become separately identifiable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Inventories of materials, consumable supplies and maintenance spares expected to be used in production are valued at weighted average cost. Surplus and obsolete inventories are valued at net realisable value if lower than cost.

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.

(P) Derivative Financial Instruments and Hedging

The group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Solid Energy's treasury policy does not allow derivative financial 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 unless the derivatives meet the criteria for hedge accounting (see below).

Cash flow hedges

Cash flow hedges (forward foreign currency contracts) are used to hedge the foreign currency risk of forecast transactions which meet the conditions for hedge accounting. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss. For all cash flow hedges, the gains or losses that are recognised in equity are transferred to profit or loss in the same year in which the hedged forecasted transaction affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the year.

De-recognition of derivative financial instruments

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.

(Q) Accounts Receivable

Trade receivables

Accounts receivable, which generally have 30-90 day terms, are recognised and carried at the invoice amount less an allowance for any uncollectible amounts.

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.

(R) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits with an original maturity of three months or less and bank overdrafts and overnight cash facilities.

(S) Provisions

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, for example the Crown's share of end of mine life rehabilitation costs, 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, except for rehabilitation costs (see below).

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.

Rehabilitation costs

The group is required under the terms of its mining licences to rehabilitate mine sites at the end of their productive lives to a condition consistent with the group's environmental policies. 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Mobile plant costs

Mobile plant costs comprise mobilisation, demobilisation and mobile plant leased maintenance cost provisions. Mobilisation costs are those costs incurred in relocating contractor mobile plant to the mine site at the start of the contract. Mobilisation costs are initially recorded in prepayments and amortised over the life of the contract. Mobilisation assets are included within prepayments and mobilisation liabilities are included within provisions.

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.

(T) Crown Receivable

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

(U) Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in profit or loss when the liabilities are de-recognised and as well as through the amortisation process.

Borrowing Costs

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

Other borrowing costs are recognised as an expense as incurred.

(V) Accounts Payable

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.

(W) Employee Entitlements

Long-term employee entitlements

Long-term employee entitlements such as long service leave and other entitlements that are vesting are recognised when they accrue to employees. Liabilities are accrued on an actuarial basis in respect to entitlements that are vested and expected to crystallise in the future.

Short-term employee entitlements

Short-term employee entitlement obligations such as salaries and wages and annual leave are expensed as the related service is provided.

Defined contribution plans

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

(X) Assets Classified as Held for Sale

Assets or disposal groups comprising assets and liabilities are classified as held for sale when they are expected to be recovered primarily through sale, are actively marketed at the reporting date and are expected to sell within 12 months of the reporting date. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the group's accounting policies. Thereafter the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, mining assets and property, plant and equipment are no longer amortised or depreciated.

Assets or disposal groups expected to be recovered through sale but which don't meet the criteria noted above are not classified as held for sale.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(A) Use of Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. 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.

The group has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Recoverable amount of assets

Assumptions are required to be made in order to assess the fair value less costs to sell of assets for the purpose of impairment assessments. 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. Judgement is also required to allocate corporate overheads to appropriate cash generating units. Refer to Note 9 for detailed assumptions.

Determination of coal reserves and resources

Estimated recoverable reserves and resources are used to determine the amortisation of mine production assets, in accounting for stripping in advance costs, performing impairment testing and forecasting the timing of rehabilitation 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.

Rehabilitation

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.

Deferred Taxation

Judgement is required in assessing whether deferred tax assets are recognised for unused tax losses and temporary differences. Deferred tax assets are recognised only if it is probable that future taxable profits will be available to utilise those losses. Determination of future taxable profits requires assumptions to be made regarding future sales values of the business assets and estimated debt remission.

(B) Determination of Fair Value

A number of the group's accounting polices and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining fair values is disclosed in Note 9.

4. REVENUE, INCOME AND EXPENSES

	see notes	GROUP 2015 $M	GROUP 2014 $M
(A) Revenue			
Sale of goods		369.8	449.2
		369.8	449.2
(B) Cost of sales			
Coal production costs		(284.7)	(336.9)
Renewables production costs		(7.2)	(8.5)
Depreciation & amortisation	13,14	(34.2)	(60.5)
Distribution, direct selling and other costs		(60.5)	(71.3)
		(386.6)	(477.2)
(C) Other income			
Rental income		2.1	2.7
Surplus on sale of property, plant and equipment		3.2	11.2
		5.3	13.9
(D) Corporate services and administrative expenses comprise:			
Bad debts		-	-
Auditor's remuneration comprises:			
Audit or review of the financial statements		(0.4)	(0.4)
Other assurance-related services		-	-
Total Auditor's remuneration		(0.4)	(0.4)
Director's fees comprises:			
Standard director's fees		(0.3)	(0.3)
Additonal fees		(0.2)	(0.1)
Total Director's fees		(0.5)	(0.4)
Depreciation		(2.5)	(3.9)
Corporate services		(8.1)	(9.0)
Other administrative expenses including personnel, travel, professional services, utilities and premise costs		(9.3)	(9.7)
		(20.8)	(23.4)
(E) Other expenses and restructuring costs			
Restructuring costs and redundancies comprising:			
Reefton operations		(0.3)	-
Huntly East Mine		-	(4.4)
Stockton		(6.2)	(4.0)
Corporate		(2.9)	(7.8)
Total restructuring costs and redundancies	(i)	(9.4)	(16.2)
Fair value movement	(ii)	8.9	3.9
		(0.5)	(12.3)

(i) Restructuring costs include redundancy entitlements and legal and professional services fees paid to consultants for restructuring advice.

(ii) Fair value movements includes the revaluation of borrowings denominated in US$ (refer Note 16(B)), revaluation of the rehabilitation provision and related crown debtor, as well as movements in the provision for onerous contracts.

	see notes	2015 $M	2014 $M
(F) (Impairment)/impairment reversal			
(Impairment)/impairment reversal of property, plant and equipment, mining assets and stripping in advance	(i)-(v)	(168.7)	(110.6)
Impairment of crown receivable	(vi)	(87.9)	-
		(256.6)	(110.6)

4. REVENUE, INCOME AND EXPENSES (continued)

(i) **Export Operations** - Sustained weak export coal markets have resulted in a further reduction in projected future value for the Export Operation's cash generating unit (CGU). An impairment of $152.3 million has been recognised as a result (2014: $105.0 million). Refer to Note 9 for further details of the assumptions used in the assessment of fair values.

(ii) **Other Mining Operations** - During the 2015 financial year the Reefton Operations and Spring Creek Mine cash generating units have been impaired by $11.0 million based on the expected fair value less costs to sell. An impairment of $0.9 million has also been recognised in relation to unused mobile plant at Huntly East Mine that is no longer in compliance (2014: $0.8 million impairment in relation to ceased ventilation shaft development expenditure). Refer to Note 9 for further details of the assumptions used in the assessment of fair values.

(iii) **Land and Mineral Rights** - During the 2015 financial year Solid Energy recorded a $1.1 million impairment reversal against land held for sale based on updated market valuations (2014: $4.8 million impairment).

(iv) **Discontinued Operations** - During the 2015 financial year assets at the former Pike River mine site have been impaired by $4.5 million based on the expected sales proceeds. The sale of remaining assets at the UCG pilot plant in Huntly has resulted in an impairment reversal of $0.3 million. During the 2014 financial year, an impairment of $0.9 million was recognised on the Nature's Flame business and impairment reversals totalling $0.9 million was realised as a result of the sale of assets at the UCG pilot plant in Huntly and the domestic-scale briquetting plant in Mataura.

(v) **Corporate Assets** - During the 2015 financial year, corporate assets have been impaired by $1.4 million based on the expected sales proceeds.

(vi) **Crown Receivable** - An impairment of $87.9 million has been recognised to record the value of the rehabilitation indemnities at their estimated value assuming the mining operations are sold. Refer Note 17(B) for further details.

	see notes	GROUP 2015 $M	GROUP 2014 $M
(G) Finance related income/(expenses)			
Realised and unrealised gains/(losses) on derivatives:			
Net gain/(loss) on fair value of cash flow hedges transferred from equity on realisation		(3.2)	2.6
Ineffective portion of changes in fair value of cash flow hedges		(2.6)	0.8
		(5.8)	**3.4**
Finance income:			
Interest income from bank deposits		2.0	1.0
Other finance income		7.4	-
Dividend income		-	0.2
		9.4	**1.2**
Finance expenses:			
Interest expense		(24.2)	(22.9)
Foreign exchange option costs		(0.5)	-
Other finance expenses		(1.8)	(2.7)
Discount rate unwind on term provisions		(8.2)	(0.5)
		(34.7)	**(26.1)**
Net finance income/(expenses)		**(31.1)**	**(21.5)**
(H) Included within cost of sales and administrative expenses are:			
Depreciation	13	(29.0)	(42.1)
Operating lease payments		(22.7)	(27.4)
Personnel costs:			
Wages and salaries		(62.4)	(77.2)
Contributions to defined contribution plans		(2.6)	(3.5)
		(65.0)	**(80.7)**

5. INCOME TAX

	see notes	GROUP 2015 $M	GROUP 2014 $M
(A) Income tax (benefit)/expense			
Income tax (benefit)/expense can be reconciled to accounting (loss)/profit as follows:			
Accounting (loss)/profit before tax		(321.6)	(182.6)
Tax at the group's statutory income tax rate of 28%		(90.0)	(51.1)
Tax effect of items recognised through equity		28.1	-
Tax effect of remission income		-	3.9
Group losses utilised in respect of current year		(1.8)	-
Recognition of previously unrecognised temporary differences	5 (D)	(117.5)	-
Unrecognised movement in temporary differences	5 (D)	64.2	15.8
Unrecognised current year tax losses	5 (D)	-	32.3
Other		(0.5)	(1.6)
Aggregate income tax expense/(benefit)		**(117.5)**	**(0.7)**
Charged to Income			
- Deferred tax	5(D)	(117.5)	(0.7)
- Current tax		(27.4)	-
		(144.9)	**(0.7)**
Charged to Equity			
- Deferred tax	5(E)	-	-
- Current tax	5(E)	27.4	-
		27.4	**-**
Aggregate income tax expense/(benefit)		**(117.5)**	**(0.7)**
(B) Recognised tax assets and liabilities			
Deferred income tax at 30 June relates to the following:			
Deferred tax assets		117.5	0.7
Deferred tax liabilities		-	(0.7)
Net deferred tax assets/(liabilities)		**117.5**	**-**
(C) 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	3.1
Imputation credit account closing balance		**234.0**	**234.1**

(D) 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 $275.0 million (2014: $282.8 million) tax losses and $174.3 million (2014: $365.3 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.

(E) Charged to equity

Amounts charged or credited directly to equity include the net change in fair value of cash flow hedges ($0.7 million credit) and the tax on contributions from the Ultimate Parent ($28.1 million charge).

6. CASH, CASH EQUIVALENTS AND LOCKED CASH

	see notes	GROUP 2015 $M	GROUP 2014 $M
Cash and cash equivalents comprise the following:			
Cash at bank and in hand		39.3	62.3
Short-term deposit		8.4	8.1
Total cash and cash equivalents		**47.7**	**70.4**

The short-term deposit is a guarantee for an environment bond (see Note 26).

Locked cash comprise the following:			
Cash at bank		17.3	1.3
Total locked cash		**17.3**	**1.3**

Solid Energy can only access this account with agreement from the bank syndicate and the Crown. Refer to Note 28(F) for details of the release of this cash after balance date.

7. TRADE AND OTHER RECEIVABLES

	see notes	GROUP 2015 $M	GROUP 2014 $M
Trade receivables		41.2	50.9
Allowance for impairment loss	(A)	(0.1)	-
		41.1	**50.9**
Prepayments		3.7	8.1
Total trade and other receivables		**44.8**	**59.0**

(A) Allowance for impairment loss

Trade receivables are non interest-bearing and are generally on 30-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

At June 30,the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days	91+days PDNI*
	$M	$M	$M	$M	$M
2015 Group	41.2	39.4	0.3	-	1.5
2014 Group	50.9	50.4	-	0.5	-

*Past due not impaired (PDNI)

Receivables past due but not considered impaired are: $1.5 million (2014:Nil). This outstanding balance is mainly in respect of claims relating to the rehabilitation indemnity and is considered to be fully collectable.

8. FINANCIAL INSTRUMENTS

The group's financial instruments comprise trade receivables, accounts payable, interest-bearing and other borrowings, lease liabilities, cash and cash equivalents, locked cash, cash collateralisation of derivatives and derivatives. The following tables provide an analysis of financial assets and financial liabilities by category:

Group	see notes	Loans and Receivables	Other financial liabilities	Derivatives classified as held for trading	Derivatives designated cash flow hedging instrument	Total
As at 30 June 2015		$M	$M	$M	$M	$M
Assets:						
Cash and cash equivalents	6	47.7	-	-	-	47.7
Locked cash	6	17.3	-	-	-	17.3
Trade and other receivables (excluding prepayments)	7	41.1	-	-	-	41.1
Derivatives	9,10	-	-	0.7	-	0.7
Cash collateral given for financial instruments	10	5.3	-	-	-	5.3
Total financial assets		111.4	-	0.7	-	112.1
Liabilities:						
Derivatives	9,10	-	-	(2.4)	-	(2.4)
Interest-bearing & other borrowings	16	-	(347.1)	-	-	(347.1)
Term lease liability	18	-	(10.0)	-	-	(10.0)
Accounts payable and accruals (excluding employee entitlements)	15	-	(35.2)	-	-	(35.2)
Total financial liabilities		-	(392.3)	(2.4)	-	(394.7)

Group	see notes	Loans and Receivables	Other financial liabilities	Derivatives classified as held for trading	Derivatives designated cash flow hedging instrument	Total
As at 30 June 2014		$M	$M	$M	$M	$M
Assets:						
Cash and cash equivalents	6	70.4	-	-	-	70.4
Locked cash	6	1.3	-	-	-	1.3
Trade and other receivables (excluding prepayments)	7	50.9	-	-	-	50.9
Derivatives	9,10	-	-	2.9	0.9	3.8
Total financial assets		122.6	-	2.9	0.9	126.4
Liabilities:						
Derivatives	9,10	-	-	(0.5)	(0.2)	(0.7)
Interest-bearing & other borrowings	16	-	(342.9)	-	-	(342.9)
Term lease liability	18	-	(10.4)	-	-	(10.4)
Accounts payable and accruals (excluding employee entitlements)	15	-	(54.6)	-	-	(54.6)
Total financial liabilities		-	(407.9)	(0.5)	(0.2)	(408.6)

8. FINANCIAL INSTRUMENTS (continued)

Risk Exposures and Responses

The main risks arising from the group's operations are commodity price risk, foreign currency risk, credit risk and liquidity risk. The group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange risk and assessments of market forecasts for foreign exchange and commodity prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections.

The group manages the financial market risks arising from operations to within acceptable levels of risk tolerance, in accordance with the group treasury policy.

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 inventory and mineral rights. Export coking coal prices can fluctuate significantly, with the spot price ranging from US$221 per tonne to US$82 per tonne for export coking coal over the last three years. 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 to the group's export receipts and import and certain other payments which are primarily denominated in US$. The group also has foreign currency risk with respect to the direct and indirect calculation of inventory and mineral right valuations and debt not denominated in NZ$.

The group's treasury 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 2015, the group had hedged 82% (2014: 96%) of its 0-3 months foreign currency firm commitments and 77% (2014: 0%) of its 3-6 months foreign currency firm commitments.

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 in accordance with Note 2 (Q) Accounts Receivable, 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 in accordance with the Rescheduled Finance Agreement.

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.

Refer to Note 16 for details of current debt facilities and Note 28(C) for details of refinancing after balance date.

Sensitivity analysis

Refer to Note 9(A) for sensitivity analysis on the export operations relating to foreign currency risk.

9. FAIR VALUES

The following table sets out an analysis of items that are measured subsequent to initial recognition at fair value and are 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)

9. FAIR VALUES (continued)

		2015				2014			
		Level 1 $M	Level 2 $M	Level 3 $M	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Group									
Mining operation assets	(A)	-	-	46.6	**46.6**	-	-	-	**-**
Held for sale assets	(B)	1.1	-	26.6	**27.7**	5.6	-	28.5	**34.1**
Crown receivable	(C)	-	-	103.7	**103.7**	-	-	-	**-**
Derivatives	(D)	-	(1.7)	-	**(1.7)**	-	3.1	-	**3.1**

(A) Mining operation assets

Of the $127.2 million of mining operation assets (including property, plant and equipment, mining assets and stripping in advance), $46.6 million (2014: Nil) is carried at fair value less costs to sell.

The fair value of mining assets, stripping in advance and property, plant and equipment 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.

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.

Details of key assumptions regarding the assets carried at fair value less costs to sell are as follows:

Export Operations

The carrying value of export operations has been impaired to reflect the assessed fair value less costs to sell based on the following assumptions. Whilst these assumptions remain the Directors' best estimate, the sales process is yet to formally commence and the actual assumptions applied by a purchaser could be materially different.

· Average sales of 1.29 Mt per year over a 12-year mine plan, with 31.6 Mt of resources valued beyond this period (2014: average sales of 1.47 Mt per year over a 10-year mine plan, with 32.1 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. They have forecast two metallurgical coal price scenarios (Base Case and a Downside). The average of these two scenarios has been used as shown in the table below, which is denominated in USD:

FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
88	105	107	122	120	124	128	132	133	130	128	132

· The exchange rate applied is the NZD/USD forward curve as at 30th June 2015 off the spot rate of 0.68 (June 2014: NZD/USD forward curve as at 1 July 2014 off the spot rate of 0.88)

· Market - predominantly existing export customers in Asia;

· Logistics costs are assumed to remain on existing contractual terms;

· Stockton Yellow Goods are assumed to be leased on similar terms that reflect the remaining economic value of the assets at the time of contract expiry;

· Post-tax nominal discount rate of 15% reflecting the weighted average cost of capital of a potential purchaser (2014: 8.7% post tax real). 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:

Key Assumption	Sensitivity	Change in Fair Value less Costs to Sell ($M)
Discount Rate	±2%	∓$8
Coal Price	±US$5/tonne	±$38
Exchange Rate	±1 cent	∓$15
Costs	±$5/tonne	∓$33

9. FAIR VALUES (continued)

North Island Operations

The fair value less costs to sell of North Island operations has been assessed to be higher than the carrying value, therefore no adjustment to the carrying value has been made.

The following table summarises the key assumptions used in assessing the fair value less costs to sell and the sensitivity 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 580kt per annum	Not provided	Not provided
Mine Life	7 years	Not provided	Not provided
Discount Rate	9.5% post tax nominal	±2%	∓$5M
Sales Price	Various contracted sales prices	±$5/tonne	±$17M
Costs	Current budgeted costs with assumed inflation of 1.9%	±$5/tonne	∓$17M

* A negative change in the fair value less costs to sell does not equate to an impairment of a corresponding amount because the assessed fair value less costs to sell is significantly higher than the carrying value.

Southland Operations

The fair value less costs to sell of Southland operations has been assessed to be higher than the carrying value, therefore no adjustment to the carrying value has been made.

The following table summarises the key assumptions used in assessing the fair value less costs to sell and the sensitivity 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 318kt 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	±$2.5/tonne	±$10M
Costs	Current budgeted costs with assumed inflation of 1.9%	±$2.5/tonne	∓$10M

* A negative change in the fair value less costs to sell does not equate to an impairment of a corresponding amount because the assessed fair value less costs to sell is significantly higher than the carrying value.

Other Operations

The carrying value of mining operation assets of other operations totals $12.7 million and is carried at a combination of historical cost and fair value less costs to sell.

(B) Held for sale assets

The group has $27.7 million (2014: $34.1 million) of held for sale assets carried at fair value less costs to sell.

The fair value of land classified as held for sale 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.

(C) Crown receivable

The fair value of the Crown receivable has been estimated based on the specific terms of the indemnities, including any ability of the group to assign the indemnities to future potential mine owners.

As at 30 June 2015 the group recognised an impairment of $87.9 million based on the existing terms of the indemnity agreements. As set out in Note 28, subsequent to balance date the indemnity agreements with the Crown, as described in Note 17(B), have been replaced with new indemnity agreements.

(D) Derivatives

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. 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. Refer to Note 10 for further details of derivatives.

10. DERIVATIVES

Derivative financial instruments have been used by the group in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates.

Foreign currency cash flow hedges

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.

Changes in the fair value of derivatives recognised as a gain/(loss) in profit and loss for the group during the year totalled ($2.6) million (2014: $0.8 million).

The nominal value of derivatives at reporting date was as follows:

	GROUP	
	2015 $M	2014 $M
Assets		
Nominal value of qualifying cash flow hedges		
Foreign currency forward contracts	5.3	44.8
Interest rate swap contracts	-	115.0
	5.3	**159.8**
Liabilities		
Nominal value of qualifying cash flow hedges		
Foreign currency forward contracts	25.7	-
FX collar options	42.8	-
Interest rate swap contracts	-	108.6
	68.5	**108.6**
Exchange rate at year end (US$)	0.678	0.876

Under the Rescheduled Finance Agreement, fixed collateralisation of $3.5M (2014: Nil) and variable collateralisation up to the value of the mark to market of the derivative book is held on deposit with ANZ. At 30 June 2015 the variable collateralisation amounted to $1.8M (2014: Nil).

11. INVENTORIES

	GROUP	
	2015 $M	2014 $M
Coal stock - work in progress	10.4	23.3
Coal stock - finished goods	32.1	36.9
Materials and stores	11.5	14.1
	54.0	**74.3**

During the year ended 30 June 2015, the group wrote down the value of stores by $1.3 million reflecting slow moving and obsolete stores (2014: $1.0 million).

12. STRIPPING IN ADVANCE

	see notes	GROUP 2015 $M	2014 $M
Reconciliation of carrying amounts			
Opening balance as at 1 July		64.7	99.7
Stripping capitalised		15.0	28.9
Stripping expensed		(10.0)	(29.3)
Impairment	4 (F) (i)	(53.1)	(34.6)
Closing balance as at 30 June		**16.6**	**64.7**

13. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of net carrying amounts

GROUP	Land, Buildings & Structures	Leasehold improvements	Plant & Equipment	Leased Infrastructure Asset	Capital Work in Progress	Total
Year ended 30 June 2015	$M	$M	$M	$M	$M	$M
At 1 July 2014 net of accumulated depreciation and impairment	52.6	1.1	90.3	1.7	2.5	148.2
Additions - externally acquired	-	-	0.4	-	4.9	5.3
Other cost adjustments	2.9	-	-	-	-	2.9
Transfers from capital work in progress	1.6	-	3.2	-	(4.8)	-
Disposals	(3.1)	(0.4)	(0.4)	-	-	(3.9)
Impairment	(5.9)	-	(47.9)	(1.6)	(1.0)	(56.4)
Reclassified as held for sale	(0.4)	-	(0.3)	-	-	(0.7)
Depreciation charge for the year	(2.5)	(0.5)	(26.0)	(0.1)	-	(29.0)
At 30 June 2015 net of accumulated depreciation and impairment	**45.2**	**0.2**	**19.4**	**-**	**1.6**	**66.4**
At 30 June 2015						
Cost	90.1	1.1	449.7	15.1	8.3	564.3
Accumulated depreciation and impairment	(44.9)	(0.9)	(430.3)	(15.1)	(6.7)	(497.9)
Net carrying amount	**45.2**	**0.2**	**19.4**	**-**	**1.6**	**66.4**
Year ended 30 June 2014						
At 1 July 2013 net of accumulated depreciation and impairment	89.3	2.1	143.9	2.8	16.2	254.3
Additions - externally acquired	-	-	-	-	4.0	4.0
Transfers from capital work in progress	2.2	-	11.2	-	(13.4)	-
Disposals	(26.4)	(0.1)	(1.3)	-	-	(27.8)
Impairment	(7.6)	-	(25.3)	(1.0)	(4.3)	(38.2)
Reclassified as held for sale	(2.0)	-	-	-	-	(2.0)
Depreciation charge for the year	(2.9)	(0.9)	(38.2)	(0.1)	-	(42.1)
At 30 June 2014 net of accumulated depreciation and impairment	**52.6**	**1.1**	**90.3**	**1.7**	**2.5**	**148.2**
At 30 June 2014						
Cost	114.7	5.2	453.2	15.1	8.2	596.4
Accumulated depreciation and impairment	(62.1)	(4.1)	(362.9)	(13.4)	(5.7)	(448.2)
Net carrying amount	**52.6**	**1.1**	**90.3**	**1.7**	**2.5**	**148.2**

During the year, the group impaired property, plant and equipment by $56.4 million (2014: $38.2 million) (refer Note 4 (F) (i) - (v)).

14. MINING ASSETS

	see notes	GROUP 2015 $M	GROUP 2014 $M
Tangible mining assets	(A)	36.7	83.1
Intangible mining assets		7.6	8.7
Total mining assets		**44.3**	**91.8**

(A) Tangible mining assets

	see notes	GROUP 2015 $M	GROUP 2014 $M
Reconciliation of net carrying amounts			
Opening balance as at 1 July		83.1	147.4
Additions - internal development		3.3	8.1
Other cost adjustments		16.6	(16.7)
Impairment	4(F)(i)-(ii)	(60.0)	(35.0)
Amortisation charge for the year		(6.3)	(20.7)
Closing balance as at 30 June		**36.7**	**83.1**

15. ACCOUNTS PAYABLE AND ACCRUALS

	see notes	GROUP 2015 $M	GROUP 2014 $M
Trade accounts payable and accruals		35.2	51.9
Payables to joint venture		-	2.7
Employee entitlements		9.3	7.1
Total accounts payable and accruals		**44.5**	**61.7**

(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 23.

(C) Interest rate risk, foreign exchange and liquidity risk

Information regarding foreign exchange and liquidity risk exposure is set out in Note 8.

16. INTEREST-BEARING & OTHER BORROWINGS

	see notes	GROUP 2015 $M	GROUP 2014 $M
Medium Term Notes	(A)	81.2	81.2
Bank loans		239.3	239.3
Other borrowings		26.6	20.6
Other interest-bearing borrowings		-	1.8
		347.1	342.9

(A) Medium Term Notes

Details of the notes are shown below:

	see notes	GROUP 2015 $M	GROUP 2014 $M
8% fixed rate note maturing December 2016		20.0	20.0
7% fixed rate note maturing March 2018		50.0	50.0
7% fixed rate note maturing November 2019		11.2	11.2
		81.2	81.2

(B) Interest rate risk, foreign exchange and liquidity risk

The weighted average interest rate of bank loans and notes, including commitment fees and margin fees at 30 June 2015 was 6.61% (2014: 7.04%). Other borrowings incur interest at LIBOR plus 1.5%. Other borrowings are denominated in US$.

Further information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 8.

(C) Assets pledged as security and restrictions on use

The Crown loan facilities (totalling $80M but undrawn at 30 June 2015) are secured by a General Security Deed over the personal, other and real property of the company and its guaranteeing subsidiaries, which grants to the Crown a first ranking security interest over its personal property, a charge over its other property and a mortgage to the Crown in its present and future interest in any real property.

Proceeds from certain divestments are required to be deposited into a Locked Account, from which no amount can be withdrawn without written consent from the bank syndicate and the Crown. The balance of this account at 30 June 2015 was $17.3 million (2014: $1.3 million) as shown in Note 6.

The notes ($81.2 million), bank loans ($239.3 million) and other borrowings ($26.6 million) are unsecured.

The notes, bank loans and Crown facilities are subject to repayments under an Excess Cashflow mechanism, which could accelerate repayment of the drawn facility prior to its maturity date of 7 September 2016. If early repayment occurs, this will be on a pro-rata basis, with no priority given to any lender.

(D) Defaults and breaches

The terms of the notes, bank loans and Crown facilities require the company and its guaranteeing subsidiaries to meet a number of financial and non-financial covenants and pledges on an ongoing basis.

At 30 June 2015, due to the negative equity position, the group was not in compliance with all covenants. As such, the notes and bank loans have been disclosed as current liabilities. Refer to Note 28(C) for details of refinancing completed subsequent to balance date.

At 30 June 2014, the group was in compliance with its covenants.

(E) Subsequent Events

Refer Note 28(C) for details of refinancing completed after balance date.

17. PROVISIONS

	GROUP			
	Mobile plant provision $M	Rehabilitation provision $M	Other $M	Total $M
Opening balance as at 1 July 2014	36.2	166.1	2.8	205.1
Arising during the year	11.0	1.8	10.7	23.5
Amounts incurred and charged	(8.3)	(8.7)	(1.0)	(18.0)
Change in cost estimates	-	12.7	(0.2)	12.5
Effect of change in discount rate and inflation estimates	-	14.4	-	14.4
Effect of discount rate unwind	-	3.1	-	3.1
Closing balance as at 30 June 2015	**38.9**	**189.4**	**12.3**	**240.6**
Opening balance as at 1 July 2013	28.9	215.0	11.1	255.0
Arising during the year	16.6	10.6	4.2	31.4
Amounts incurred and charged	(9.3)	(12.2)	(5.9)	(27.4)
Change in cost estimates	-	(51.9)	(6.6)	(58.5)
Effect of discount rate unwind	-	4.6	-	4.6
Closing balance as at 30 June 2014	**36.2**	**166.1**	**2.8**	**205.1**

(A) 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.

(B) 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. In accordance with Note 2(S) Provisions, increases in the provision for rehabilitation costs at operational mine sites were capitalised to mining assets and will be amortised to profit or loss over the remaining productive life of the operation on a unit of production basis. Any increases in provisions relating to closed sites are charged directly to profit or loss.

The discount rate estimate for rehabilitation costs uses a risk-free rate for discounting future rehabilitation costs. At 30 June 2015 the risk-free discount rate was assessed as ranging from 2.9% for cash flows in one years time to 5.5% for cashflows in greater than 20 years time (2014: 3.7% to 5.5%) nominal with inflation estimated at 1.6% to 2.5% (2014: 2.1% to 2.5%). The rates used are the rates published by the New Zealand Treasury for use in accounting valuations.

Due to the long-term nature of the rehabilitation requirements, the calculation of the provision includes the use of estimates, some of which are subject to significant uncertainty. The group continues to refine its estimates as more information and experience is gathered in relation to future costs, however there may be significant future variances from current estimates.

Crown receivable

The company has an indemnity from the Crown for the Crown's share of end of mine life rehabilitation costs relating to mining activities prior to 1 April 1987, and a further indemnity for rehabilitation costs relating to mining activities from 1 April 1987 to 22 September 2014 to the extent of $103 million (in September 2014 terms when discounted at 5.5% from the receipt date).

The value of these indemnities to the group under continued ownership of the mines is estimated at $191.6M at 30 June 2015. However restrictions around the ability for future mine owners to access these indemnities has resulted in an impairment of $87.9 million being recorded at 30 June 2015, bringing the value to $103.7 million on a sales basis. Refer to Note 28(D) for details of the indemnity completed after balance date.

	GROUP	
	2015 $M	2014 $M
Crown receivable	103.7	60.1

(C) Other provisions

Other provisions include provisions for onerous contracts, litigation costs and other required environmental costs.

18. LEASE LIABILITY

The group has a finance lease over the Cobden Bridge with a carrying amount of $10.0 million (2014: $10.4 million). The lease contract expires in 21 years. The lease has no terms of renewal, purchase options or escalation clauses.

Finance lease commitments - group as a lessee

	see notes	GROUP 2015 $M	GROUP 2014 $M
Up to 1 year		0.9	1.4
1 to 5 years		3.4	5.3
Over 5 years		10.7	15.6
Total minimum lease payments		**15.0**	**22.3**
Less amounts representing finance lease charges		(5.0)	(11.9)
Present value of minimum lease payments		**10.0**	**10.4**

Refer to Note 28(C) for details of subsequent adjustments to the terms of the finance lease.

19. EQUITY

	GROUP 2015 $M	GROUP 2014 $M
60,900,000 ordinary shares each fully paid	60.9	60.9
Net contributions from Ultimate Parent	72.4	-
100,000,000 Redeemable Preference Shares each fully paid	100.0	100.0
	233.3	**160.9**

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.
- 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 $28.1 million, of $72.4 million.

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

	GROUP	
	2015 $M	2014 $M
(Loss)/profit after taxation	(176.7)	(181.9)
Non-cash items		
Depreciation & amortisation	36.7	64.4
Impairment of property, plant and equipment, mining assets, stripping in advance and crown receivable	256.6	110.6
Share of loss of joint venture	0.8	0.1
Deferred taxation movement taken to profit or loss	(144.9)	-
	149.2	175.1
Movements in working capital		
Accounts payable and accruals	(17.6)	(14.0)
Accounts receivable	11.9	24.6
Non-current prepayments	-	1.1
Inventories	20.3	16.8
Stripping in advance	(5.0)	0.4
	9.6	28.9
Other statement of financial position movements		
Rehabilitation provision and Crown receivable	(24.3)	(2.9)
Other provisions	12.2	(1.0
Other balance sheet movements	12.5	0.5
	0.4	(3.4)
Items classified as investing/financing activities		
(Surplus) on sale of property, plant and equipment	(3.2)	(11.2)
Interest costs	21.8	22.9
Interest received	(1.7)	(1.0)
	16.9	10.7
Net cash flows from/(used in) operating activities	(0.6)	29.4

21. ASSETS CLASSIFIED AS HELD FOR SALE

Nature's Flame

The operations of Nature's Flame (previously owned by Solid Energy Renewable Fuels Ltd) were sold on 11 June 2015.

Surplus Land

The group is committed to an active programme to sell land, buildings and other related assets that are part of an approved divestment strategy. Refer to Note 9(B) for details of valuation of surplus land.

22. 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	
	2015 $M	2014 $M
Up to 1 year	23.7	29.4
1 to 5 years	6.2	38.0
Over 5 years	3.4	3.8
Total minimum lease payments	**33.3**	**71.2**
Total future minimum sublease payments due	**0.4**	**1.9**

Certain mobile plant leases have been restructured after balance date. Refer to Note 28(G) for details.

(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 2015 the group is committed to spending a minimum of $69.5 million (2014: $101.6 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 2015 are estimated to be $1.4 million (2014: $1.1 million).

23. 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 17(B), the liabilities of Solid Energy and its subsidiaries are not in any way guaranteed by the Government of New Zealand.

The group signed a Deed of Indemnity and Bond Facility with the Crown during the year. Refer to Note 19 for further details.

23. RELATED PARTY TRANSACTIONS (continued)

(B) Subsidiaries

The consolidated financial statements include the financial statements of Solid Energy and the subsidiaries in the following table:

Name	Country of incorporation	Equity Interest 2015 %	Equity Interest 2014 %
Subsidiaries:			
CoalCorp Services Ltd (Subject to Deed of Company Arrangement) (previously CoalCorp Insurance Services Ltd)	New Zealand	100%	100%
Terrace Coal Mine Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Solid Energy Renewable Fuels Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Biodiesel New Zealand Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Coal Bed Methane Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Pike River (2012) Ltd (Subject to Deed of Company Arrangement) (previously Waikato Mining and Contracting Ltd)	New Zealand	100%	100%
Spring Creek Mine Holdings Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Coal New Zealand Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Coal New Zealand International Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Solid Energy Land Holdings Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Solid Energy Briquettes Ltd (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Nature's Flame Italia SRL (in Liquidation)	Italy	100%	100%
Spring Creek Mining Company (Subject to Deed of Company Arrangement)	New Zealand	100%	100%
Stockton Alliance Ltd (Subject to Deed of Company Arrangement) *	New Zealand	100%	50%

* Stockton Alliance Ltd became a wholly owned subsidiary of Solid Energy as at 1 April 2015. Prior to this it was held as an investment in joint venture, consisting of a 50% equity interest.

(C) Key management personnel:

Compensation for key management personnel:

	GROUP 2015 $M	GROUP 2014 $M
Short-term employee entitlements	2.1	2.0
Contributions to defined contribution plans	0.0	0.1
Termination benefits	0.1	-
Total compensation	**2.2**	**2.1**

(D) 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

CoalCorp Services Ltd, a 100% owned subsidiary, provides insurance services to Solid Energy, the value of these services during the year was $3.2 million (2014: $4.4 million). The company made claims totalling $Nil with CoalCorp Services Ltd during the year (2014: Nil).

No dividend was paid by CoalCorp Services Ltd to Solid Energy during the year (2014: $31.9 million).

23. RELATED PARTY TRANSACTIONS (continued)

Subsequent to balance date, CoalCorp Services Ltd has cancelled all insurance policies and its insurance licence. Each group company now holds insurance directly with the insurer. Refer Note 28(H) for further details.

Solid Energy owns the Spring Creek Mine, a 100% owned subsidiary, which was placed on care and maintenance in October 2012.

The costs recharged to Spring Creek during the year were $2.7 million (2014: $3.0 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 $0.4 million (2014: $0.1 million).

Stockton Alliance Ltd

From 1 April 2015, Stockton Alliance Ltd became a 100% owned subsidiary . Prior to this, Solid Energy was part of a 50/50 joint venture agreement with Downer EDI Mining (NZ) Ltd to provide staff to operate the Stockton Mine. During the year $25.8 million (2014: $31.8 million) was paid to Stockton Alliance Ltd for employees working at the Stockton Mine.

Terms and conditions of transactions with related parties

Outstanding related party trade receivable and trade payable balances at year end are unsecured, interest free (with the exception of CoalCorp Services Ltd), and settlement occurs in cash. There are no guarantees which have been provided or received for any related party receivables or payables.

(E) 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.

(F) Directors insurance

The group has arranged policies of Directors' Liability insurance which, together with an indemnity given to the Directors, 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.

24. DIVIDENDS

No dividend was paid during the year ended 30 June 2015 (2014: Nil).

25. CONTINGENT LIABILITIES

There were no significant contingent liabilities at 30 June 2015.

26. PERFORMANCE BONDS AND GUARANTEES

The group has performance bonds and guarantees in respect of environmental liabilities outstanding at 30 June 2015 totalling $25.6 million (2014: $66.6 million) which may be drawn down in the event the group fails to perform under various contracts and licenses. No loss is expected in respect of these bonds.

27. 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.

28. SIGNIFICANT AFTER REPORTING DATE EVENTS AND TRANSACTIONS

Subsequent to reporting date, the following significant events have taken place:

(A) Voluntary Administration (VA)

On 13 August 2015, the boards of directors of the Solid Energy companies placed the companies (as set out in Note 23(B)) into VA. Brendon Gibson and Grant Graham were appointed as Administrators. From that date the Administrators took full control of the group (including control of all assets), until a 'watershed' meeting on 17 September 2015 when the creditors voted that the group should execute a Deed of Company Arrangement (DOCA) and continue operating subject to its terms. From that date, the control of the group was returned from the Administrators back to the Directors.

(B) Deed of Company Arrangement (DOCA)

On 17 September 2015, each member of the group (other than Nature's Flame Italia SRL (in Liquidation)) became a party to a DOCA. Under the DOCA, Solid Energy will engage an investment bank to undertake an orderly, managed sale of its assets over the next 2.5 years. The existing Board will continue to govern Solid Energy. The Deed Administrators and a participants committee will also have roles during the period.

The DOCA divided the group creditors and their claims into a number categories, including:

28. SIGNIFICANT AFTER REPORTING DATE EVENTS AND TRANSACTIONS (continued)

- Trading Claims (generally, claims arising in respect of any member of the group (other than Nature's Flame Italia SRL (in Liquidation)) prior to the VA appointment date in the course of its day to day ordinary course of business activities), the majority of which have been paid following the DOCA being implemented;
- Pre-Administration Employee Claims (obligations owing to employees prior to the VA appointment date), which were paid following the DOCA being implemented when due for payment;
- Participant Creditor Claims (listed claims as set out in the DOCA, which includes (among others), the group's banks and medium term note holders), which shall be paid in accordance with the Restructured Debt Deed; and
- Post-Administration Creditor Obligations (generally, obligations arising or incurred by any member of the group (other than Nature's Flame Italia SRL (in Liquidation)) from the VA appointment date), which shall be paid from the available revenues and realisations of the group (other than Nature's Flame Italia SRL (in Liquidation)) in accordance with the DOCA and related documents.

All Trading Claims, Pre-Administration Employee Claims and Post-Administration Creditor Obligations rank ahead of the Participant Creditor Claims.

At the end of the 2.5 year process, residual pre-administration debt of the group will be extinguished, with the intention that the group members (other than Nature's Flame Italia SRL (in Liquidation)) will be liquidated on a solvent basis.

(C) Restructured Debt Deed (RDD)

On 17 September 2015 each member of the group (other than Nature's Flame Italia SRL (in Liquidation)) became a party to the RDD. The RDD amends, restates and compromises the debt claims of certain of Solid Energy's major creditors (the Participant Creditor Claims). Under the terms of the RDD, the Participant Creditor Claims are split into two tranches: Tranche A (which represents 1/3rd of the claim and is interest-bearing) and Tranche B (which represents the remaining 2/3rds of the claim and is non-interest bearing). Repayments are made under quarterly cash sweeps from proceeds arising under the sales process, with the balance of debt due and payable after 2.5 years. The RDD also provides that the debt claims are also limited recourse (effectively limited to the value of the available assets of the group).

(D) Rehabilitation Indemnities

On execution of the DOCA, 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 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 owners.

Local Authorities have also been given direct access to claim against the new indemnities (once cash out has occurred) in the event of non-performance of the mine owner's obligations. In return, the Regional and District Councils have agreed to waive any further historic rehabilitation claims against the Solid Energy group.

(E) General Security Deed (GSD)

On 17 September 2015, each member of the group (other than Nature's Flame Italia SRL (in Liquidation)) became a party to a General Security Deed. 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 group (other than Nature's Flame Italia SRL (in Liquidation)).

(F) Locked Cash

Upon the RDD becoming effective, the amount of $17.3 million which was previously held in a secured account with drawing restrictions, was made available to the group.

(G) Leases

The group's operating leases with ANZ Bank New Zealand Limited and CBA Asset Holdings (NZ) Limited were amended on 17 September 2015. The principal effect of the amendments was to provide that certain debt claims which the lessors have on the return of the leased assets will become participant claims under the RDD.

(H) CoalCorp Services Limited (CSL)

On 7 August 2015, CoalCorp Insurance Services Limited changed its name to CoalCorp Services Limited. The change of name was a consequence of CSL surrendering its licence under the Insurance (Prudential Supervision) Act 2010 to operate as a captive insurer for the group.

(I) Tax

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

(J) Subsequent Non-GAAP Pro Forma Balance Sheet

The non-GAAP pro forma balance sheet has been compiled by the group to illustrate the impact of the events set out in Notes 28(A) to 28(I) as if these agreements had been signed as at 30 June 2015. The non-GAAP pro forma balance sheet is a hypothetical position only and has assumed that the revalued participant creditor debt position is equal to the remaining total assets so that net equity is nil. This remains dependant on the assessed fair value less costs to sell for assets and the eventual position could be materially different at the end of the agreed sale process. Refer to Note (ii) below for further details.

28. SIGNIFICANT AFTER REPORTING DATE EVENTS AND TRANSACTIONS (continued)

Reconciliation from 30 June 2015 balance sheet to Non-GAAP pro forma balance sheet

	30 June 2015	2015 Indemnity	Locked Cash	Revalue Debt	Tax Adjustments	Pro Forma 30 June 2015
see notes		(i)	28(F)	(ii)	(iii)	
	$M	$M	$M	$M	$M	$M
Assets						
Cash and cash equivalents	47.7	-	17.3	-	-	65.0
Locked cash	17.3	-	(17.3)	-	-	-
Trade and other receivables	44.8	-	-	-	-	44.8
Derivatives	0.7	-	-	-	-	0.7
Inventories	54.0	-	-	-	-	54.0
Assets classified as held for sale	30.9	-	-	-	-	30.9
Derivative collateralisation	5.3	-	-	-	-	5.3
Deferred tax asset	117.5	-	-	-	(117.5)	-
Property, plant and equipment	66.4	-	-	-	-	66.4
Mining assets	44.3	-	-	-	-	44.3
Stripping in advance	16.6	-	-	-	-	16.6
Crown receivable	103.7	35.8	-	-	-	139.5
Intangible assets	0.8	-	-	-	-	0.8
Total assets	**550.0**	**35.8**	**-**	**-**	**(117.5)**	**468.3**
Liabilities						
Accounts payable and accruals	44.5	-	-	-	-	44.5
Derivatives	2.4	-	-	-	-	2.4
Provisions	240.6	-	-	-	-	240.6
Term lease liability	10.0	-	-	(10.0)	-	-
Interest-bearing & other borrowings	347.1	-	-	(166.3)	-	180.8
Total liabilities	**644.6**	**-**	**-**	**(176.3)**	**-**	**468.3**
Net assets	**(94.6)**	**35.8**	**-**	**176.3**	**(117.5)**	**-**

(i) We have adjusted the value of the Crown receivable on the subsequent non-GAAP pro forma balance sheet to reflect the value of the new rehabilitation indemnities (as detailed in note 28(D)) had these indemnities been in place, replacing the '87 and '14 indemnities, at 30 June 2015.

(ii) We have adjusted the value of the Interest-bearing & other borrowings on the subsequent non-GAAP pro forma balance sheet to reflect the value of remaining net assets. This reflects the limited recourse nature of the participant creditors' debt whereby any unpaid debt at the end of the DOCA period will be extinguished and the group liquidated on a solvent basis.

(iii) The deferred tax position was assessed for the subsequent non-GAAP pro forma balance sheet, resulting in a net deferred tax asset of nil.

(K) Other Significant Events

There were no other significant events after reporting date.

EMPLOYEE REMUNERATION

Employee Remuneration

Of the employees detailed in the accompanying table, 27 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, seven were people who had been employed on individual employment agreements and 20 had been employed under the terms of the collective agreement.

The number of employees who earned more than $100,000 in the 2015 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, medical and life insurance.

Two incentive payments were made to employees on Individual Employment Agreements in the 2015 year, totalling $169,500. Production payments, totalling $319,071, were made during the financial year to 34 Collective Agreement employees at Huntly East Mine in accordance with the provisions of that agreement.

Remuneration Band	2015	2014
$100,000 - $110,000	52	43
$110,000 - $120,000	38	37
$120,000 - $130,000	36	39
$130,000 - $140,000	23	32
$140,000 - $150,000	20	16
$150,000 - $160,000	9	11
$160,000 - $170,000	11	16
$170,000 - $180,000	11	8
$180,000 - $190,000	8	6
$190,000 - $200,000	6	8
$200,000 - $210,000	3	11
$210,000 - $220,000	6	5
$220,000 - $230,000	5	5
$230,000 - $240,000		4
$240,000 - $250,000	1	
$250,000 - $260,000	2	1
$260,000 - $270,000		3
$270,000 - $280,000	1	1
$280,000 - $290,000	2	
$290,000 - $300,000	2	2
$310,000 - $320,000	1	1
$320,000 - $330,000		1
$340,000 - $350,000		2
$350,000 - $360,000		1
$370,000 - $380,000		1
$490,000 - $500,000		1
$510,000 - $520,000	1	
$550,000 - $560,000		1
$650,000 - $660,000	1	1

KPMG

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 2015

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. 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, consisting of Solid Energy New Zealand Limited (Subject Deed of Company Arrangement) and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

We have audited the financial statements of the Group on pages 17 to 47 that comprise the statement of financial position as at 30 June 2015, 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.

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 will result in the Group's assets being offered for sale over the next two and a half years.

Qualified Opinion - Our work was limited due to uncertainties over the future realisable value of mining operation assets

In our opinion, except for the possible effects of the limitation outlined below, the financial statements of the Group, which have been prepared on a non-going concern basis, on pages 17 to 47:

- present fairly, in material respects, the Group's:
  - financial position as at 30 June 2015; 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.

As stated in Note 9 on pages 33 to 35 and the related disclosures in Note 4F on pages 28 and 29 of the financial statements, the Board of Directors have recognised an impairment of $256.6 million of the Group's mining operation assets. 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.We consider these disclosures to be appropriate.

Although the Group has provided us with the information that is available to them, it is not possible to obtain sufficient evidence to confirm the fair value of the mining operation assets because there are uncertainties in measuring the future realisable value of the individual assets. This uncertainty could have a material effect on the statement of comprehensive income and the statement of financial position.

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 21 of the financial statements which outline that the financial statements have been prepared on a non-going concern basis. Subsequent to year end, the Group (apart from Nature's Flame Italia SRL (in Liquidation)) entered into a Deed of Company Arrangement with its creditors, which will result in the Group's assets being offered for sale over the next two and a half years. 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 estimated impact of the sale of the Group's mining operation assets

We draw your attention to the disclosure within Note 28 on pages 45 to 47 of the financial statements which provide additional information about the companies being placed in voluntary administration, the appointment of Administrators, and execution of the Deed of Company Arrangement and a Restructured Debt Deed which occurred after the Group's balance date. The execution of the Deed of Company Arrangement and Restructured Debt Deed are likely to have a material impact on the carrying value of the Group's assets and liabilities and its future operations and the disclosures within Note 28 on pages 45 to 47 illustrate the estimated impact on the financial position of the Group as if the Deed of Company Arrangement and Restructured Debt Deed had been signed as at 30 June 2015 in accordance with the adjustments as described in the note. We consider these disclosures to be appropriate.

Our audit was completed on 29 September 2015. 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 mining operation assets 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.

In addition to the audit we have carried out an assignment in the area of payroll internal controls assurance, which are compatible with audit independence requirements. Other than the audit and this assignment we have no relationship with or interests in the Group.

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

SOLID ENERGY

Interim Report

For the six months ended
31 December 2014

The Directors present the Solid Energy New Zealand Ltd and Group Interim Report for the six months ended 31 December 2014. This report has been prepared to comply with the requirements of the State Owned Enterprises Act 1986 and in accordance with the Solid Energy New Zealand Ltd Statement of Corporate Intent for three years commencing 1 July 2014.

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2014 - UNAUDITED

	Six months to 31 Dec 2014	Six months to 31 Dec 2013
	$M	$M
Revenue	184.8	236.1
Cost of sales	(199.4)	(245.2)
Gross profit/(loss)	(14.6)	(9.1)
Other income	3.6	4.1
Exploration, evaluation and development expenses	(0.1)	(10.6)
Corporate services and administrative expenses	(11.5)	(12.4)
Other expenses and restructuring costs	6.3	(12.4)
(Impairment)/impairment reversal	(112.0)	0.2
Results from operating activities	(128.3)	(29.6)
Realised and unrealised (losses)/gains on derivatives	(2.9)	0.3
Finance income	2.2	0.3
Finance expenses	(17.6)	(11.8)
Net finance income/(expense)	(18.3)	(11.2)
Share of (loss) of jointly controlled entities	-	(0.1)
(Loss)/profit before income tax	(146.6)	(40.9)
Income tax benefit	95.7	-
(Loss)/profit after tax	(50.9)	(40.9)
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss:		
Cashflow hedges – effective portion of changes in fair value	(1.0)	4.8
Cashflow hedges – reclassified to profit or loss	(1.3)	1.0
Available-for-sale financial assets – net change in fair value	0.1	(1.3)
Available-for-sale financial assets – reclassified to profit or loss	(0.7)	-
Income tax benefit/(expense) on fair value of cashflow hedges	0.7	(1.3)
Other comprehensive income for the period, net of income tax	(2.2)	4.5
Total comprehensive (loss)/income for the period	(53.1)	(36.4)

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 - UNAUDITED

	As at 31 Dec 2014 $M	As at 31 Dec 2013 $M	As at 30 Jun 2014 $M
Current assets			
Cash and cash equivalents	58.3	35.6	70.4
Locked cash	7.1	-	1.3
Trade and other receivables	44.6	71.0	56.1
Derivatives	0.4	0.5	0.9
Inventories	66.9	83.8	74.3
Crown receivable	10.4	4.3	5.0
Assets classified as held for sale	40.5	86.4	62.3
Total current assets	228.2	281.6	270.3
Non-current assets			
Trade and other receivables	0.2	3.3	2.9
Derivatives	0.1	3.9	2.9
Derivative collateralisation	6.3	-	-
Deferred tax asset	68.2	-	-
Stripping in advance	57.2	96.1	64.7
Property, plant and equipment	125.2	208.5	148.2
Mining assets	100.7	154.6	91.8
Crown receivable	94.4	75.9	55.1
Intangible assets	0.2	0.4	0.2
Total non-current assets	452.5	542.7	365.8
Total assets	680.7	824.3	636.1
Current liabilities			
Accounts payable and accruals	52.5	60.1	62.2
Derivatives	0.3	0.5	0.1
Interest bearing & other borrowings	343.6	-	20.6
Provisions	35.3	51.1	35.3
Liabilities associated with assets classified as held for sale	1.5	2.4	2.0
Total current liabilities	433.2	114.1	120.2
Non-current liabilities			
Term interest-bearing borrowings	-	344.2	322.3
Term lease liability	9.7	10.1	9.9
Derivatives	0.2	0.5	0.6
Investment deficit in joint venture	0.8	0.8	0.8
Term provisions	205.0	199.4	169.8
Total non-current liabilities	215.7	555.0	503.4
Total liabilities	648.9	669.1	623.6
Net assets	31.8	155.2	12.5
Equity			
Issued Capital	133.3	60.9	60.9
Redeemable Preference Shares	100.0	100.0	100.0
Retained earnings	(202.2)	(10.3)	(151.3)
Other reserves	0.7	4.6	2.9
Total equity	31.8	155.2	12.5

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

	Attributable to equity holders of the parent					
	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 2014	60.9	100.0	(151.3)	1.7	1.2	12.5
Total comprehensive income/(loss) for the period	-	-	(50.9)	(1.6)	(0.6)	(53.1)
Transactions with owners in their capacity as owners:						
Rehabilitation indemnity	72.4	-	-	-	-	72.4
As at 31 December 2014	**133.3**	**100.0**	**(202.2)**	**0.1**	**0.6**	**31.8**
As at 1 July 2013	60.9	-	30.6	(2.4)	2.5	91.6
Total comprehensive income/(loss) for the period	-	-	(40.9)	5.8	(1.3)	(36.4)
Transactions with owners in their capacity as owners:						
Issue of Redeemable Preference Shares	-	100.0	-	-	-	100.0
As at 31 December 2013	**60.9**	**100.0**	**(10.3)**	**3.4**	**1.2**	**155.2**

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

	Six months to 31 Dec 2014 $M	Six months to 31 Dec 2013 $M
Cash flows from/(used in) operating activities		
Cash was provided from:		
Customers	198.8	255.2
	198.8	255.2
Cash was applied to:		
Payments to suppliers and employees	(209.0)	(245.5)
Exploration and evaluation expenditure	(0.1)	-
	209.1	245.5
Net cash flows from/(used in) operating activities	(10.3)	9.7
Cash flows from/(used in) investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	23.9	2.6
	23.9	2.6
Cash was applied to:		
Purchase of property, plant and equipment	(1.1)	(1.1)
Investment in mining assets	(2.8)	(3.9)
	(3.9)	(5.0)
Net cash flows from/(used in) investing activities	20.0	(2.4)
Cash flows from/(used in) financing activities		
Cash was provided from:		
Issue of Redeemable Preference Shares	-	25.0
Repayment of lease receivable	-	0.4
Interest received	0.9	0.3
	0.9	27.5
Cash was applied to:		
Interest paid	(12.4)	(11.2)
Repayment of interest-bearing borrowings	(1.8)	-
Payment of Crown Indemnity fee	(2.5)	-
Repayment of lease liability	(0.2)	(0.3)
Transfer to locked cash account	(7.1)	-
	(24.0)	(11.5)
Net cash flows from financing activities	(23.1)	14.2
Net increase/(decrease) in cash and cash equivalents	(13.4)	21.5
Opening cash and cash equivalents	71.7	14.1
Closing cash and cash equivalents	58.3	35.6

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) and its subsidiaries and joint venture ('Solid Energy') as set out below.

Subsidiaries:

- Solid Energy Renewable Fuels Ltd (Subject to Deed of Company Arrangement)
- Biodiesel New Zealand Ltd (Subject to Deed of Company Arrangement)
- 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)
- 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)
- Solid Energy Briquettes Ltd (Subject to Deed of Company Arrangement)
- Coal New Zealand International Ltd (Subject to Deed of Company Arrangement)
- Coal Bed Methane 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).

Joint Venture:

- Stockton Alliance 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 31 December 2014 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 2015 annual financial statements.

The accounting policies stated in the 2015 annual financial statements 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 financial statements are presented in New Zealand dollars and all values are rounded to the nearest one-tenth of one million dollars ($ million).

The interim condensed consolidated financial statements have been prepared on a non-going-concern basis. Refer to Note 4.

3. SIGNIFICANT AFTER REPORTING DATE EVENTS AND TRANSACTIONS

Refer to the 2015 annual financial statements for details of significant after reporting date events and transactions.

4. GOING CONCERN

The financial statements have been prepared on a non-going-concern basis.

On 17 September 2015, the group (other than Nature's Flame Italia SRL(in Liquidation)) became a party to a Deed of Company Arrangement ('DOCA') which will see the assets of the group offered for sale over the next 2.5 years. At the end of that process, residual pre-administration debt of the group will be extinguished, with the intention that the group companies (other than Nature's Flame Italia SRL(in Liquidation)) will be liquidated on a solvent basis.

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Coals of New Zealand