



SOLID ENERGY
Coals of New Zealand

Interim Report

31 December 2001

Financial Performance

A number of factors combined to produce an unexpectedly strong net surplus of \$15.9 million for the six months ended 31 December 2001 (2000: \$1.84 million).

Sales turnover in the half year was a record \$133.55 million, a 19% increase over the same period last year (2000: \$111.83 million).

Demand within New Zealand was strong, with the year's unusually dry winter accounting for significantly increased sales for electricity generation.

In addition, the anticipated rise in the New Zealand dollar commenced later and more slowly than forecast and coincided with a spike in US dollar export prices to boost export revenues. Unfortunately this was short-lived and prices have already dropped back towards their long-term downwards trend lines, a pattern typical of many commodity products.

Although the historical foreign exchange portfolio that has dogged the company's recent performance had a lessened impact during the period, a substantial amount of foreign exchange contracts still remain and will continue to negatively impact on financial performance well into the 2002/3 financial year.

As a result of the unexpectedly strong performance for the half year, Solid Energy has been able to make a \$20 million part repayment of the subordinated loan provided by the shareholder (the New Zealand Government) in September 1999. A further \$27 million remains outstanding.

Future Outlook

While pleasing, the financial performance of the past six months will be difficult to sustain. Falling long-term export prices and gradual appreciation in the New Zealand dollar are imposing continuing pressure on Solid Energy's profit margins.

Solid Energy remains mindful of its recent financial performance and is adopting a conservative approach to securing its long-term sustainable future. The company's focus is now on undertaking crucial capital investment, alongside its business partners, to both replace its diminishing developed coal reserves and to protect its margins through achieving increased economies of scale in production and distribution facilities.

Solid Energy is one of New Zealand's largest exporters and continues to strive to capitalise on the opportunities available. The company has a key role as custodian of one of the country's cheapest and most abundant energy resources and will continue to develop these responsibly to support New Zealand's key primary industries and to support long-term energy security.



Tim Saunders
Chairman
14 February 2002



Dr Don Elder
Chief Executive Officer
14 February 2002

Performance Highlights

	6 months to 31 December 2001	6 months to 31 December 2000	12 months to 30 June 2001
Sales turnover	\$133.55 million	\$111.83 million	\$219.2 million
Earnings before interest and tax	\$18.43 million	\$4.74 million	\$12.0 million
Surplus after tax	\$15.86 million	\$1.84 million	\$6.0 million
Return on shareholders funds (annualised)	53.43%	9.3%	14.74%
Return on average assets (annualised)	23.85%	2.7%	4.46%
Tonnes of coal sold	1.67 million	1.52 million	2.97 million
Tonnes of coal exported	0.86 million	0.87 million	1.66 million

Consolidated Statement of Financial Performance

For the six months ended 31 December 2001 - unaudited

		6 months ended 31 December 2001 \$'000	6 months ended 31 December 2000 \$'000	12 months ended 30 June 2001 \$'000
	Notes			
Sales		133,551	111,830	219,229
Operating surplus before taxation		15,859	1,456	5,564
Income tax credit/(expense)	3	-	382	408
NET SURPLUS		15,859	1,838	5,972

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

Consolidated Statement of Movements in Equity

For the six months ended 31 December 2001 - unaudited

	6 months ended 31 December 2001 \$'000	6 months ended 31 December 2000 \$'000	12 months ended 30 June 2001 \$'000
Equity at the beginning of the period	43,508	37,536	37,536
Net surplus	15,859	1,838	5,972
Distributions to minority interests during the period	-	-	-
EQUITY AT THE END OF THE PERIOD	59,367	39,374	43,508

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

Consolidated Statement of Financial Position

As at 31 December 2001 - unaudited

	As at 31 December 2001 \$'000	As at 31 December 2000 \$'000	As at 30 June 2001 \$'000
EQUITY			
Share capital	60,900	60,900	60,900
Accumulated (deficit)/surplus	(1,533)	(21,526)	(17,392)
Total equity	59,367	39,374	43,508
Subordinated debt	27,105	43,650	45,424
Total shareholder interest	86,472	83,024	88,932
TERM PROVISIONS	13,267	11,838	13,533
LONG-TERM LOANS	167	18,473	10,243
CURRENT LIABILITIES			
Bank Overdraft	-	-	379
Accounts payable & accruals	16,759	20,716	14,218
Current portion of provisions	6,452	522	522
Short-term loans	5,156	2,644	3,556
Company tax payable	-	56	-
	28,367	23,938	18,675
TOTAL EQUITY AND LIABILITIES	128,273	137,273	131,383
FIXED ASSETS			
	42,541	41,712	43,726
MINING PROPERTIES	33,062	41,676	35,360
INVESTMENTS	569	883	571
DEFERRED TAX ASSET	1,085	1,085	1,085
CURRENT ASSETS			
Cash at bank	1,387	1,022	-
Short-term deposits	6,128	8,000	7,195
Accounts receivable	18,474	20,119	17,788
Inventories	11,634	12,359	10,420
Stripping in advance	13,393	10,417	15,238
	51,016	51,917	50,641
TOTAL ASSETS	128,273	137,273	131,383

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

Consolidated Statement of Cash Flows

For the six months ended 31 December 2001 - unaudited

	6 months ended 31 December 2001 Notes	6 months ended 31 December 2000 \$'000	12 months ended 30 June 2001 \$'000
Cash flows from (used in) operating activities			
Cash was provided from:			
Customers	120,145	103,845	226,749
GST received	434	1,083	–
Interest on short-term deposits	369	321	827
	120,948	105,249	227,576
Cash was applied to:			
Payments to suppliers and employees and settlement of liabilities	(84,768)	(95,712)	(203,390)
GST paid	–	–	(293)
Tax paid	–	(1,471)	(1,471)
Interest on short-term borrowings	(379)	(395)	(394)
Interest on long-term borrowings	(551)	(1,421)	(2,972)
	(85,698)	(98,999)	(208,520)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(8)	35,250	6,250
Cash flows from/(used in) investing activities			
Cash was provided from:			
Short-term Investment	–	–	–
Disposal of fixed assets	440	514	1,138
	440	514	1,138
Cash was applied to:			
Purchase of property, plant and equipment	(6,226)	(3,067)	(8,043)
Investment in mine properties	(288)	(948)	(4,163)
Exploration, evaluation and development	–	–	(128)
	(6,514)	(4,015)	(12,334)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(6,074)	(3,501)	(11,196)

Consolidated Statement of Cash Flows

For the six months ended 31 December 2001 - unaudited

	6 months ended 31 December 2001 Notes	6 months ended 31 December 2000 \$'000	12 months ended 30 June 2001 \$'000
Cash flows from (used in) financing activities			
Cash was provided from:	–	–	–
Cash was applied to:			
Subordinated Loan	(20,000)	–	–
Long-term loans	(10,077)	(6,927)	(15,156)
	(30,077)	(6,927)	(15,156)
NET CASH INFLOW FROM FINANCING ACTIVITIES	(30,077)	(6,927)	(15,156)
Net increase/(decrease) in cash held	(901)	(4,178)	(7,296)
Add opening cash brought forward	3,260	10,556	10,556
Ending cash carried forward	2,359	6,378	3,260
Cash balances in Statement Of Financial Position			
Cash at bank	1,387	1,022	(379)
Liquid portion of short-term deposits	6,128	8,000	7,195
Short-term loans	(5,156)	(2,644)	(3,556)
Ending cash carried forward	2,359	6,378	3,260

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

Notes to the Financial Statements

For the six months ended 31 December 2001 - unaudited

1. Accounting entity

These financial statements are for Solid Energy New Zealand Ltd; its subsidiaries Marama Investments Ltd, Terrace Coal Ltd, Reefton Coal Ltd, CoalCorp Insurance Services Ltd, its investment in an associate company, Greymouth Coal Ltd and its share in the Greymouth Coal unincorporated joint venture.

These financial statements have been prepared in accordance with Financial Reporting Standard No. 24 and should be read in conjunction with the 2001 Annual Report.

2. Accounting policies

There have been no changes in accounting policies during the six months ended 31 December 2001. The accounting policies stated in the 2001 Annual Report have been consistently applied.

3. Taxation

There is no tax payable in the current period due to the extent of the existing accumulated losses which amount to approximately \$60 million.

4. Valuation of fixed assets and mine properties

The agreement by which Solid Energy purchased the business from the Crown recognises potential land claims that may be lodged under the Treaty of Waitangi Act 1975. The effect on the valuation of assets resulting from potential claims can not be quantified.

However under the Treaty of Waitangi (State Enterprises) Act 1988, the Crown will compensate Solid Energy for any loss that occurs upon the resumption of any interest in land by the Crown.

5. Contingencies

The Company is required, by various legislation controlling its mining activities, to rehabilitate to an agreed condition, the land on which its mining activities occur. The final cost of rehabilitation cannot be established with certainty. The provision for rehabilitation costs at 31 December 2001 was \$18.75 million.

The Group's assets and undertakings are largely self-insured.

A claim has been made against the company for losses by third parties claimed to be a consequence of mining activity. Provision has been made to the extent these losses are considered to be valid claims.

6. Capital Commitments

Capital commitments as at 31 December 2001 are estimated at \$1.5 million.

Notes to the Financial Statements

For the six months ended 31 December 2001 - unaudited

7. Off-balance sheet risk – foreign currency contracts

Foreign currency forward exchange contracts and option agreements are used to manage foreign currency exposure. It is Solid Energy New Zealand Ltd's policy to cover forward export receipts and major import payments. Fluctuations in foreign currency exchange rates gives rise to market risk. Contracts have been entered into with various counterparties having such credit ratings and in accordance with such dollar limits as set forth by the Board of Directors. The notional principal or contract amounts outstanding at 31 December 2001 are as follows:

	As at 31 December 2001 \$'000	As at 30 June 2001 \$'000
Foreign currency forward exchange contracts	51,618	92,375
Foreign currency options bought	–	–
Foreign currency options sold	–	–
Average exchange rate (USD)	0.5027	0.5986

The estimated fair values (marked to market revaluation) of these financial instruments are as follows:

	31 December 2001		30 June 2001	
	Book value \$'000	Fair value \$'000	Book value \$'000	Fair value \$'000
Foreign currency forward exchange contracts loss	–	19,164	–	43,811
Foreign currency options loss	–	–	–	–
Total	–	19,164	–	43,811
Exchange rate at balance date (USD)	–	0.4236	–	0.4060

The company expects to deliver against all of its foreign exchange contracts during the normal course of business.

Notes to the Financial Statements

For the six months ended 31 December 2001 - unaudited

8. Reconciliation of surplus after taxation to net cash flows from operating activities

	6 months ended 31 December 2001 \$'000	6 months ended 31 December 2000 \$'000	12 months ended 30 June 2001 \$'000
NET SURPLUS AFTER TAXATION	15,859	1,838	5,972
NON CASH ITEMS:			
Depreciation	5,387	5,547	11,786
Amortisation	4,197	1,935	4,475
Impairment of fixed assets and mining properties	–	454	411
Deferred taxation	–	–	–
	9,584	7,936	16,672
MOVEMENTS IN WORKING CAPITAL:			
Accounts payable and accruals	2,542	(3,443)	(3,058)
Current portion term loans & provisions	5,930	519	–
Accounts receivable	(687)	(6,591)	(6,170)
GST	–	1,083	–
Inventories	(1,213)	2,016	3,955
Stripping in advance	1,845	(626)	(5,447)
Company tax	–	1,849	(1,905)
	8,417	(5,193)	(12,625)
OTHER BALANCE SHEET MOVEMENTS:			
Term provisions	(266)	(150)	1,845
OTHER ADJUSTMENTS:			
Deficit/(surplus) on sale of fixed assets	(474)	(33)	(346)
Non-cash Stripping	470	–	5,035
Depreciation offset to writedown provision	(20)	(12)	(1,136)
Accrued interest on long-term debt	1,680	1,864	3,639
	1,656	1,819	7,192
NET CASHFLOWS FROM OPERATING ACTIVITIES	35,250	6,250	19,056

Registered Office

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Directors and Senior Management

As at 31 December 2001

Directors

Timothy E C Saunders	Chairman – MBA, BCom (Economics) – Auckland
Ian Donald	BCom, ACA, DipAg, DipVFM, ANZIV – Auckland
Bernard P Duncan	DipAg, DipBusSt – Christchurch
Michael W Hawarden	BSc (Mining Engineering), MA (Economics), PMD – Christchurch
Christine B Southey	LLB, BA Hons – Wellington
John M Walters	BA, LLB – Auckland
Alistair A Ward	BCom Hons (Economics) – Auckland (Retired 31 December 2001)
Anthony G Williams	Greymouth (Appointed 15 November 2001)

Senior Management Team

Don M Elder	Chief Executive Officer – DPhil, BEng Hons (Civil)
Warren J Maslin	Chief Financial Officer – BCom, CA
Steve H Bell	Chief Mining Engineer – BMinTech Hons, Mine Manager's Certificate Class A
Alison P Brown	Legal Counsel and Company Secretary – LLM Hons
Barry J Bragg	General Manager Solid Energy International – BMS, CA
Steve A Riddell	General Manager Solid Energy South – Registered Mine Surveyor
Craig L Smith	General Manager Solid Energy North – BSc Hons (Mineral Technology), First Class Mine Manager's Certificate (Queensland), Mine Manager's Certificate Class A