

# Quarterly Report

*to 30 June 2011*

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## Summary

**Coal:** Annual coal production was up 6.1% at 4 million tonnes (Mt) compared with 3.8 Mt in 2010 due mainly to strong performance at Stockton Mine and despite the interruptions caused by several major earthquakes during the year. Coal production for the quarter of just over 1 Mt was 17.8% lower than the corresponding quarter of 2010 due mainly to reduced output at Rotowaro Mine. The production at this mine had been increased in the fourth quarter of 2010 to supply a large order to New Zealand Steel.

Coal sales for the year were up 6.2% to 4.1 Mt versus 3.8 Mt in 2010 due to strong export sales. More than half the year's exports were sold to India. Coal sales for the quarter were down 18.6% to 1.01 Mt compared to the same period last year (2010: 1.25 Mt). Export sales for the quarter were down 4.3% to 493,000 tonnes due to interruptions caused by the June earthquakes in Christchurch (2010: 515,000). New Zealand sales dropped 28.7% in the quarter to 521,000 tonnes (2010: 731,000 tonnes), as a large order from New Zealand Steel boosted the 2010 fourth quarter result.

The two earthquakes which hit Canterbury on 13 June had a significant impact on Solid Energy's fourth quarter shipping schedule as Lyttelton Port suffered extensive damage to the coal receipt and ship loading facilities. Coal stockpiled at the port could not be loaded onto waiting coal ships between 13 and 30 June.

A significant milestone for the quarter was the restart of coal extraction at Spring Creek Mine in May 2011 following significant investment in the mine's infrastructure to ensure the mine continues to operate safely following two heatings in November 2010.

**Biodiesel:** Production for the quarter was 558,000 litres, up 84.8% on 2010 (302,000 litres). Sales in the quarter were up 97.6% to 579,000 litres on the same period last year (2010: 293,000 litres).

**Wood pellets:** Production for the quarter was down 9.1% to 10,000 tonnes (2010: 11,000 tonnes). At 20,000 tonnes, wood pellet sales were up 66.7% in the quarter compared with the same period last year (2010: 12,000 tonnes).

# Operations

## Coal

Coal production for the year was up 6.1% to 4.02 Mt (2010: 3.8 Mt). At **Stockton Mine** production increased by 27.2% in the year despite a very wet winter which constrained mining as well as delays in opening up the new Millerton pit. Production was down 24.4% in the year at **Spring Creek Mine** as we suspended mining for six months, following heatings in November 2010, while we upgraded the mine's infrastructure.

Coal sales for the year were 4.05 Mt, up 6.2% on last year (2010: 3.8 Mt), but less than planned due to ship loading issues at Lyttelton following the June earthquakes. A number of vessels were pushed into the 2012 financial year. Exports were up 18.5% in the year to 2.02 Mt (2010: 1.7 Mt), with New Zealand sales down marginally at 2.03 Mt (2010: 2.11 Mt) due to the timing of major customer shipments.

At **Huntly East Mine** we commenced construction of a new \$30 million ventilation shaft to service the mine's northern section. Production at Huntly East and **Rotowaro Mine** stayed in line with the 2010 year. At Rotowaro Mine, we awarded the mining contract to Stevenson Mining Ltd, who will take over from HWE Mining from December 2011.

Production at **New Vale Mine** in Southland was up 7.5% on 2010 as we supplied more coal to meet increased demand from Fonterra's Edendale Dairy factory. Small-scale mining recommenced at **Ohai Mine** following the discovery of saleable coal during rehabilitation of the site.

	2010/11 Q4	2009/10 Q4	% Change	2010/11 Year	2009/10 Year	% Change
<b>Coal Production Volume (kt)</b>						
Stockton	428	409	4.6%	1,609	1,265	27.2%
Rotowaro	285	564	-49.5%	1,259	1,340	-6.0%
Spring Creek	120	101	18.8%	403	533	-24.4%
Huntly East	90	107	-15.9%	373	367	1.6%
New Vale	70	60	16.7%	301	280	7.5%
Other	27	-	-	76	4	-
<b>Total</b>	<b>1,020</b>	<b>1,241</b>	<b>-17.8%</b>	<b>4,021</b>	<b>3,789</b>	<b>6.1%</b>
<b>Coal Sales Volume (kt)</b>						
Export	493	515	-4.3%	2,023	1,707	18.5%
New Zealand	521	731	-28.7%	2,030	2,108	-3.7%
<b>Total</b>	<b>1,014</b>	<b>1,246</b>	<b>-18.6%</b>	<b>4,053</b>	<b>3,815</b>	<b>6.2%</b>

## Biodiesel New Zealand

Production of biodiesel for the year was up 33.5% to 1.8 million litres (2010: 1.3 million litres) with sales volumes up 60.3% to 2.1 million litres (2010: 1.3 million litres) on the back of strong sales to the commercial and industrial sectors.

The company's Biogold™ fuel brand continued to strengthen, with businesses such as Air New Zealand, Fulton Hogan and Christchurch City Council joining the growing customer base.

The volume and market share of used cooking oil collected increased over the year, securing additional feedstock for the growing fuel demand. Contracts for autumn-sown oilseed (canola) crops were completed with more than 50 growers from Southland to Manawatu. The first full year of operation at our seed storage and pressing facility at Rolleston resulted in more than 3 million litres of cold pressed canola oil and strong demand for cake, the stock feed by-product.

	2010/11 Q4	2009/10 Q4	% Change	2010/11 Year	2009/10 Year	% Change
<b>Production Volume (kL as B100)</b>						
Biodiesel	558	302	84.8%	1,766	1,323	33.5%
<b>Sales Volume (kL as B100)</b>						
Biodiesel	579	293	97.6%	2,074	1,294	60.3%

## Nature's Flame

Overall, our three wood pellet plants continued their strong production and sales performance in the year. Production increased 53.3% from 30,000 tonnes in 2010 to 46,000 tonnes this year, while sales volumes grew significantly, up 145% to 49,000 tonnes (2010; 20,000 tonnes). Sales of premium bagged fuel also grew significantly for the year, with nearly 9,000 tonnes of product exported to European residential markets, along with the despatch of two further bulk export shipments. Conversion of the New Zealand Defence Force's Waiouru Army base boiler to wood pellets also took place during the year which will use up to 6,000 tonnes of pellets per year. The conversion saves more than 10,000 tonnes of carbon emissions a year, generates almost no waste and reduces the workload on boiler staff.

	2010/11 Q4	2009/10 Q4	% Change	2010/11 Year	2009/10 Year	% Change
<b>Production Volume (kt)</b>						
Pellets	10	11	-9.1%	46	30	53.3%
<b>Sales Volume (kt)</b>						
Pellets	20	12	66.7%	49	20	145.0%

## New Developments

**Underground Coal Gasification:** Construction of the Huntly pilot plant is progressing well with design complete, and manufacture of the surface plant well underway. Ignition of the underground gasifier and production of the first syngas, is planned to occur later in the year.

**Coal Seam Gas:** Construction of the Huntly pre-commercial wells and infrastructure is complete. Initial gas production from these appraisal wells will commence over the next few months to confirm gas profiles, but will also power an onsite 1MW generator injecting electricity into the local network. Our Taranaki exploration drilling programme is nearing completion.

**Lignite Conversion - Briquettes:** We have been granted resource consents (notified in July) for construction of a lignite briquette plant producing 90,000 tonnes of low-moisture, higher-energy briquettes for the South Island industrial market, using coal from our existing New Vale mine. Preparatory site work will begin soon with construction underway in September, and the first briquettes expected to be produced in mid-2012.

**Lignite Conversion – Coal to Fertiliser:** Solid Energy continued the work it has had underway since 2005 to investigate the viability of lignite conversion projects, including a Coal-to-Fertiliser (CTF) plant. Working with agricultural fertiliser supplier Ravensdown a concept study was completed in March 2011 for a CTF plant to produce up to 1.2 million tonnes of urea per annum. Solid Energy considers the study supports a decision to continue directly to the next phase of project development and is currently in discussions with Ravensdown about future project options.

## Health, Safety and Environment

Performance against Statement of Corporate Intent targets:

	2010/11 Full Year Actual	2010/11 Full Year Target
All Injury Frequency Rate <i>Number of injuries per 1,000,000 hours requiring first aid or greater treatment</i>	23	21
Lost Time Injury Frequency Rate <i>Number of injuries per 1,000,000 hours resulting in more than one lost work day or shift</i>	7.5	4.7
Regulatory, abatement and enforcement notices	0	0

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