

Quarterly Report

to 31 March 2011

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Summary

Despite the catastrophic Christchurch earthquake in February 2011, performance for the year to date remains strong across all our operating businesses, supported by strong commodity market prices. Compared with the same period last year, coal sales were up 18%, biodiesel sales up 73% and wood pellet sales up 262%. Coal, biodiesel and wood pellet production for the year to date all increased, while our New Development projects — lignite conversion, underground coal gasification and coal seam gas — are making good progress.

While the company's Christchurch head office had some minor damage and was closed to all but key staff for 10 days, mining and other operations and assets around New Zealand were relatively unaffected by the February earthquake and continued to operate. The major disruption was to our export coal distribution operation; the Midland rail line from the West Coast needed repairs and the Port of Lyttelton suffered extensive damage.

A major focus for the business throughout the period has been the welfare of our Christchurch staff and their families. We gave financial assistance and other support to a number of staff who were forced out of their homes by the earthquake, or who suffered other hardships.

The Board declared an interim dividend of \$20 million on 28 March 2011 which was paid to the shareholder, the Government, on 31 March 2011.

Operations

Coal

At just over 3.0 million tonnes (Mt), coal sales were up 18% for the year to date, compared with the same period last year (2.6 Mt). This is despite delayed shipments, due to the earthquake, and minimal production at **Spring Creek Mine** near Greymouth since last November when we suspended operations following two heatings at the mine and the Pike River Mine explosion. New Zealand sales were up almost 10% for the year to date compared with the same period last year.

Following the earthquake staff worked closely with the Lyttelton Port of Christchurch and KiwiRail; the first coal train unloaded at the port on 5 March and ship loading restarted on 15 March, although at a reduced rate using a temporary loading process. This was a major achievement and a tribute to the working relationship and cooperation of our supply partners.

At 3.0 Mt, coal production for the year to date was up 16% overall on the same period last year with significant production increases at Stockton (38%) and Rotowaro (26%) Mines. In late February we resumed development at Spring Creek Mine's new Rapahoe East sector following the implementation of a comprehensive safety improvement programme and now expect to restart extraction in May.

Production at **Stockton Mine** was marginally affected by the earthquake's impact on the export coal route as the mine's stockpile capacity was stocked out and by delays in accessing Millerton's hard coking coal reserves.

Production at **New Vale Mine** in Southland was up on the same period last year. A crusher deployed to the mine from Ohai is now operating and increasing productivity.

Production at our Waikato mines for the year to date was up 21% on the same period last year. At **Huntly East Mine** we increased production and approved construction of \$30 million development to construct a new ventilation shaft to service the mine's northern section. At **Rotowaro**

Mine, we are advancing our assessment of options for mining when the contract with the current contractor expires.

The international coal market remains strong on the back of continued demand from India and China. Coal prices continue to trend upwards quarter by quarter, with spot prices for hard coking coal currently more than US\$300/tonne.

	2010/11 YTD	2009/10 YTD	Change %
Coal Sales Volume (kt)			
Export	1,529	1,193	28.2%
Domestic	1,517	1,382	9.8%
Total	3,046	2,575	18.3%
Coal Production Volume (kt)			
Stockton	1,180	856	37.9%
Rotowaro	975	776	25.6%
Spring Creek	283	432	(34.5%)
Huntly East	283	260	8.8%
New Vale	231	219	5.5%
Total	2,952	2,543	16.1%

Biodiesel New Zealand

Demand for our high-quality Biogold™ fuel continues to increase. Sales were up 73% and production up 21% year to date, compared to the same period last year. Feedstock for fuel production continues to come primarily from increasing used cooking oil collection volumes and increasingly virgin oil processed from oil seed (canola) crop. Virgin oil will become the dominant feedstock as production tracks with increasing demand.

	2010/11 YTD	2009/10 YTD	Change %
Sales Volume (kL as B100)			
Biodiesel	1,510	871	73.4%
Production Volume (kL as B100)			
Biodiesel	1,187	982	20.9%

Nature's Flame

Wood pellet sales for the year to date were up 262% on last year, boosted by production from our new wood pellet plant at Taupo. Production at the three pellet plants (Taupo, Rotorua and Rolleston) was up by 89% year to date on the same period last year. A third bulk export shipment was sent in March 2011 to the European utility sector. We also made significant progress on developing a strong presence in Europe's high-value residential heating market, exporting a further 2,000 tonnes of retail-ready bagged pellets in containers, and in securing significant New Zealand commercial customers.

	2010/11 YTD	2009/10 YTD	Change %
Sales Volume (kt)			
Pellets	29	8	262.5%
Production Volume (kt)			
Pellets	36	19	89.4%

New Developments

Underground Coal Gasification: Detailed design and construction of the Huntly pilot plant is now underway. The pilot plant remains on schedule for "light up" to commence an 18-month trial in the second half of 2011.

Coal Seam Gas: Construction of the Huntly pre-commercial wells and infrastructure is underway. These wells will commence gas production in late 2011, supplying up to 1Mwh of electricity into the National Grid, power for about 650 homes. In Taranaki, our exploration drilling programme continues with encouraging results.

Lignites: We lodged consent applications for a demonstration-scale briquette plant with Environment Southland and Gore District Council in March 2011. The timing of plant completion and commissioning is dependent on the length of the resource consenting process.

Health, Safety and Environment

Performance against Statement of Corporate Intent Targets

	2010/11 YTD Actual	2010/11 Full Year Target
Health and Safety		
All Injury Frequency Rate ^[5]	21.1	21
Lost Time Injury Frequency Rate ^[6]	6.95	4.7
Environment		
Regulatory, abatement and enforcement notices	0	0

Notes

1. Number of injuries per 1,000,000 hours requiring first aid or greater treatment
2. Number of injuries per 1,000,000 hours resulting in more than one lost work day or shift

Business Outlook

Coal export prices continue to trend upwards quarter by quarter. Demand for coal in New Zealand markets remains stable. Our wood pellet business continues to make strong progress towards sustainable long-term profitability.

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