The Treasury

Solid Energy Information Release

March 2013

Release Document

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information, or who is the subject of the information

[3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[6] 9(2)(j) - to protect the commercial position of the person who supplied the information, or who is the subject of the information; to enable the Crown to carry out commercial activities without disadvantage or prejudice; and to enable the Crown to negotiate without disadvantage or prejudice

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[8] Information is out of scope or not relevant.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [3] appearing where information has been withheld in a release document refers to section 9(2)(f)(iv).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

CROWN OWNERSHIP MONITORING UNIT

Treasury Report: 2011 Solid Energy Draft Statement of Corporate Intent

Date:	20 December 2011	**Report No:**	T2011/2395

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	**Agree** to recommendations	Friday 23 December 2011
Minister for State Owned Enterprises (Hon Tony Ryall)	**Agree** to recommendations and **sign** letter to Chair	Friday 23 December 2011
Associate Minister of Finance (Hon Steven Joyce)	For your information	None
Associate Minister of Finance (Hon Dr Jonathan Coleman)	For your information	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[4]	Analyst, Sector Monitoring	[1]		✓
James Cunningham	Manager, Sector Monitoring	[1]		

Minister of Finance's Office Actions (if required)

None.

Minister for State Owned Enterprises' Office Actions (if required)

Once recommendations have been agreed to, send letter to Chair.

Enclosure: **Yes (attached)**

Treasury Report: 2011 Solid Energy Draft Statement of Corporate Intent

Purpose of Report

1. This report advises shareholding Ministers on the changes Solid Energy New Zealand Ltd (Solid Energy) has made to the company's commercial valuation disclosure in its revised draft 2011/12 Statement of Corporate Intent (SCI).

2. The revised draft Solid Energy SCI is attached to this report, and a letter for the Minister for State Owned Enterprises to send to Solid Energy's Chair, if you agree.

Background

3. In our report on Solid Energy's draft 2011/12 SCI (report T2011/2143 refers), COMU advised, in its view, that the Solid Energy SCI commercial valuation disclosure did not meet the standard of disclosure and the level of transparency which shareholding Ministers' had requested of all SOE boards.

4. In your letter, Ministers requested that the Solid Energy Board reconsider its commercial valuation disclosure and provide a revised draft 2011/12 SCI by 30 November 2011, suitable for tabling in the House of Representatives.

5. Solid Energy has duly provided a revised draft 2011/12 SCI.

Comment

6. In the latest draft 2011/12 SCI, the Solid Energy Board has made significant amendments to its commercial valuation disclosure. We consider that the SCI now meets the minimum standard of disclosure and provides the level of transparency which shareholding Ministers had requested of all SOE boards. We therefore recommend that shareholding Ministers should now ask Solid Energy to submit its final 2011/12 SCI for tabling in the House of Representatives when Parliament resumes sitting.

Recommended Action

We recommend that you:

a **note** that shareholding Ministers wrote to the Solid Energy Board requesting that it reconsider the commercial valuation disclosure in its draft 2011/12 Statement of Corporate Intent (SCI) (report T2011/2143 refers)

b **note** that, in COMUs view, Solid Energy's revised SCI commercial valuation disclosure now meets the minimum standard of disclosure and provides the level of transparency which shareholding Ministers had requested of all SOE boards, and

c **agree** that the Minister for State Owned Enterprises should sign the attached letter to the Chair of Solid Energy, requesting it submits its final 2011/12 SCI for tabling in the House of Representatives when it resumes sitting.

Agree/disagree.	*Agree/disagree.*
Minister of Finance	Minister for State Owned Enterprises

James Cunningham
Manager, Sector Monitoring

Hon Bill English	Hon Tony Ryall
Minister of Finance	**Minister for State Owned Enterprises**

Office of Hon Tony Ryall

Minister of Health
Minister of State Services

Mr John Palmer
Chair
Solid Energy New Zealand Ltd
CHRISTCHURCH 8140

Dear Mr Palmer

Revised Draft 2011/12 Statement of Corporate Intent (SCI)

Thank you for submitting a revised draft 2011/12 SCI for Solid Energy New Zealand Limited (Solid Energy).

It is pleasing that shareholding Ministers' previous concerns with Solid Energy's commercial valuation disclosure have now been addressed in the revised SCI. In particular, we consider that the commercial valuation disclosure in your SCI now meets the minimum standard of disclosure and provides the level of transparency which shareholding Ministers had requested of all SOE boards.

Ministers wish the board, management and staff every success for the year ahead.

Please now submit 65 copies of Solid Energy's final 2011/12 SCI to COMU for tabling in the House of Representatives when it resumes sitting.

Yours sincerely

Hon Tony Ryall
Minister for State Owned Enterprises
on behalf of shareholding Ministers

cc Dr Don Elder, CEO, Solid Energy New Zealand Ltd

SOLID ENERGY
Coals of New Zealand

Statement of Corporate Intent
(For Three Years Commencing 1 July 2011)

This Statement of Corporate Intent (SCI) is submitted by Solid Energy New Zealand Limited (Solid Energy) pursuant to Section 14 of the State-Owned Enterprises Act 1986 (the Act). It sets out Solid Energy's objectives and performance targets for the three years to 30 June 2013, and describes the nature and scope of the activities to be undertaken to achieve these objectives.

CONTENTS

1. KEY OBJECTIVES

Solid Energy's business is to ...

Maximise value for New Zealand through responsible custodianship and development of strategic natural resources and generate a sustained long-term return greater than the market cost of capital for businesses with a similar risk profile.

What

Develop our natural resources to capture maximum wealth for New Zealand while ensuring our development occurs in a socially acceptable and environmentally sustainable manner thereby maintaining our license to operate:

- Be the partner of choice for the development of New Zealand's natural resources
- Leverage our unique New Zealand experience, knowledge and technology to add value to other niche resource developments in other locations

How

Own and operate a portfolio of natural resource assets that optimize value for the company.

- Own and control assets where Solid Energy is the natural owner. Operate assets where we can apply our innovative exploration, conversion and production techniques to add value
- Focus on technologies that maximise resource recovery and minimise environmental impacts
- Prioritise our people and capital on the best opportunities having regard to our competitive position and capability

Solid Energy's Business Sustainability Principles

We will manage our business in accordance with sustainability principles that consider our specific expectations for value, our people and communities, health & safety, the environment and our reputation. For our business to be sustainable in the long term we will carry out all our activities in such a way that we achieve our current business objectives without unreasonably compromising our ability to meet our future objectives. To do this we will:

1. Operate in accordance with a management framework that integrates our sustainability principles into all our business practices.
2. Have a long-term business plan that takes into account the future effects of our current activities and decisions.
3. Consider the global and national business environment, our shareholder's expectations, and other factors unique to our business and operating locations, in our plans and management practices.
4. Have resilient objectives, strategies, operational and risk management practices based on sound information and analysis.
5. Acknowledge our responsibilities, as a leading producer and supplier of energy, to enhance security of supply, availability of affordable energy to support economic prosperity and social wellbeing, and to protect New Zealand's environment.
6. Operate in accordance with best-practice principles of corporate governance.
7. Respect cultures, customs and values in our dealings with our people and all our relevant stakeholders.
8. Support the development, safety, health and wellbeing of our people and our communities.
9. Engage with our stakeholders openly, clearly and honestly.
10. Set specific business sustainability objectives and measure ourselves against these.

2. NATURE AND SCOPE OF ACTIVITIES

Solid Energy develops and supplies natural resource based products and services in New Zealand and internationally. Our specific business activities are as described in our business plan and are primarily carried out in New Zealand. They include:

- Resource development, production, processing and marketing of:
    - coal and lignites, including derived products;
    - biomass, including wood pellets and biofuels;
    - gas and syngas from coal and biomass;
    - other natural resources that utilise our capabilities to provide future options and value.
- Conversion of coal, biomass and other natural resources to value added products including electricity, solid fuels, transport fuels and chemical products.

These activities are supported by:

- Logistics management, transportation and distribution of these products;
- Marketing, sales and trading (in New Zealand and internationally) of these products, and complementary solutions and services;
- Provision of energy and integrated energy systems, including energy efficiency solutions, based around our core products and services;
- Management of land and resources required for these activities;
- Greenhouse gas mitigation and management in support of these activities;
- Research and development activities connected with these activities to improve our business and create new related opportunities.

Solid Energy may also pursue the development of related business activities that are consistent with our key objectives and business plan and add value to our business.

Solid Energy may undertake these activities by way of full ownership, asset or share purchase, joint ventures, franchising arrangements, subcontracting, agency or any combination of these approaches.

In carrying out any of these activities Solid Energy will manage our assets and liabilities prudently, comply with all legislative requirements, and consult with Shareholding Ministers in accordance with the provisions in this SCI and as agreed separately.

3. OUTLOOK AND STRATEGY

Solid Energy's business strategy is based on continuing strong global demand for energy and other commodities driven primarily by China and India, accompanied by continuing supply side constraints for most commodities.

Our Value Proposition

Solid Energy will provide an economic step change for New Zealand through the sustainable development of our natural resources by investing in the expansion of our existing business and develop new business options

We will develop a wide portfolio of early stage projects providing options for future growth and advancing only the best projects based on rigorous assessment of value, return, risk and execution capability

We will continue to strengthen our competitive advantages by investing in technology, exploration and deepening our stakeholder and community relationships to create permanent value.

We will continue our focus on improvements in productivity and health & safety across our entire business, as we implement further organisation development in people, systems and assets.

Our Key Business Strategies

- West Coast Coal:
    - Increase our coking coal sales, production and logistics capacity Develop Millerton and Cypress pit extensions at Stockton
    - Accelerating the development of prospective coal resources to support long term market continuity and expansion
    - Acquire additional third party controlled resources when and if it becomes available
    - Continue to improve performance at existing operations to secure cash flows
- Waikato Coal
    - Sustain existing operations and look for market growth opportunities
    - Develop the Maramarua coal resource to grow our customer base
    - Continue to improve performance at existing operations to secure cash flows
- Southland Lignites

    - Commission the Mataura lignite briquetting plant
    - Continue to advance our lignite-to-products projects where supported by demand and rigorous project assessment
- Renewables:
    - Increase production capacity where supported by market prices and development
- Gas Developments
    - Continue to advance our coal seam gas developments in Huntly and Taranaki
    - Commission Underground Coal Gasification pilot plant in Huntly
- Develop other natural resources that utilise our capabilities to provide future options and value
- Develop GHG emissions reduction and management activities that support our business plans

Our Partnership Strategy

- Solid Energy may bring additional capital, expertise, technology and customers to our developments where partnership creates additional value or minimises risk

Our Capital Strategy

- Solid Energy will allocate our capital to maximise future value while maintaining our balance sheet strength and returning capital to shareholder through regular dividend payments
- We will continually assess the performance of each of our operating assets and projects to ensure that our invested capital is allocated efficiently

4. BUSINESS OBJECTIVES AND PERFORMANCE TARGETS

In order to achieve our business objectives and business sustainability principles, Solid Energy has specific overall objectives and performance targets in each business sustainability area.

Value	Maximise shareholder value by generating a sustained long-term return greater than the market cost of capital for a business with a similar risk profile
People	Continually attract, retain and develop highly skilled, motivated and committed staff that perform at a high level, are well led, and see us as an excellent employer
Health & Safety	Have healthy people, with no harm to anyone, ever
Environment	The cumulative result of all the activities we undertake will have a positive net effect on the New Zealand environment
Reputation	Act in accordance with best relevant practice in all our activities and stakeholder interactions so that we are seen as a valued part of New Zealand's economy, society and local communities

Solid Energy has a comprehensive performance management system. Our business plan objectives, milestones and a complete suite of targets are defined at all levels within the company and these form the basis for individual performance expectations. The SCI defines the high level public performance targets. Performance targets for the **Solid Energy Group** are as follows:

Performance Target			2011/12	2012/13	2013/14
Value: Operations	Sales units	Coal (Mt)	4.8	5.2	5.3
		Pellets (kt)	47	75	108
		Biodiesel (Ml as B100)	3	2	2
		CSG Gas (TJ)	19	35	240
		Briquettes (kt)	0	63.8	85.7
	Production Units	Coal (Mt)	4.1	5.1	5.4
		Pellets (kt)	47	76	108
		Biodiesel (Ml as B100)	3	2	2
		CSG Gas (TJ)	19	35	240
		Briquettes (kt)	0	63.8	85.7
Value: Shareholder Returns	Dividend paid ($M)		50	65	65
	Dividend Yield[1]		1.8%	2.3%	2.3%
	Dividend Payout[2]		37%	100%	45%
	Return on Equity[3]		25%	16%	18%
Value: Profitability	Return on Capital Employed[4]		25%	17%	17%
	Operating Margin[5]		23%	20%	18%
Value: Leverage/Solvency	Gearing Ratio [6]		35%	41%	41%
	Interest Cover[7]		11.6x	8.0x	8.2x
	Current Ratio[8]		1.7x	1.8x	1.6x
Future Value	Capital Investment ($M)		167	152	154
Health and Safety	All Injury Frequency Rate [9]		20.8	10% reduction	10% reduction
	Lost Time Injury Frequency Rate [10]		5.2	10% reduction	10% reduction
Environment	Annual Net Environmental Effect (NEE) [11]		-252	+2.5%	+2.5%
	Regulatory, abatement and enforcement notices		0	0	0

Notes:

Figures equity account for 51% of Spring Creek Mining Company except for production which shows 100% of SCMC production

1. Dividends paid / Average commercial value, note average commercial value assumed to equal opening value 2011/12
2. Dividends paid / Net cash flow from operating activities less depreciation expense

3. Net profit after tax / Average shareholders' equity, the business plan does not provide for any IFRS fair value movements or asset revaluations
4. EBIT / Average capital employed
5. EBITDAF/Revenue
6. Net debt / (Net debt + equity)
7. EBITDAF / Interest expense
8. Current assets / Current liabilities
9. Number of injuries per 1,000,000 hrs requiring first aid or greater treatment
10. Number of injuries per 1,000,000 hrs resulting in more than one lost work day or shift
11. Solid Energy's Net Environmental Effect (NEE) score assessing 16 separate environmental factors

4.1 Performance Target Discussion

Next year's financial targets reflect a projected increase in operational performance as overall production volumes increase year on year. Our financial targets also reflect our assumption that international coal prices will fall over the year after starting the year at close to historical highs.

We are maintaining strong targets across our non-financial business outcomes with significant improvements targeted for our health and safety performance and our rehabilitation achievements.

4.2 Carbon Emissions

Solid Energy's performance can be significantly affected by New Zealand's climate change legislation and government policies. The Emissions Trading Scheme (ETS) applies to stationary energy as of 1st July 2010, and as such, Solid Energy has applied the cost of carbon emissions as currently understood across the three year SCI period. The gross and net costs are projected as follows:

($M)	2011/12	2012/13	2013/14
Gross Carbon costs	32.76	39.45	77.09
Costs that can be recovered through existing provisions in our commercial arrangements	30.47	35.52	75.25
Net cost to Solid Energy	2.30	3.93	1.84

The estimated value of the crown's investment also considers the cost of carbon, however the actual cost across the valuation period is highly uncertain.

5. ACCOUNTING POLICIES

Solid Energy will maintain accounting policies in accordance with the Financial Reporting Act 1993 and New Zealand International Financial Reporting Standards (NZ IFRS). Solid Energy's current accounting policies are attached as Appendix 1.

6. CAPITAL STRUCTURE

Solid Energy will target a balance of debt and equity that achieves consistent financial ratios allowing prudent balance sheet management and financial flexibility to be achieved, while optimising the cost of capital and ensuring that we can continue to invest in our significant growth pipeline. The objective is to ensure that the level of debt does not exceed a level that could be serviced under a realistic set of adverse conditions, recognising Solid Energy's particular strategic, market and operational risks.

The requirements of our capital investment programme across the three year planning period are likely to require an increase in our gearing target from 35% to 40%. Based on our current plans and dividend projections it is likely that we will exceed these gearing targets in the three year period. Where this possibility exists we will discuss it with the shareholder at the time. A range of financing and partnering structures are being considered as part of major project studies.

7. PROFIT DISTRIBUTION POLICY

Solid Energy will distribute funds surplus to our investment and operating expectations, subject to meeting the solvency requirements of the Companies Act 1993.

The actual amount is subject to bi-annual review by the Directors of Solid Energy. Solid Energy generally aims to pay two dividends each year. Our dividends are normally paid based on maintaining a 35 to 40% gearing ratio, projected a minimum of one year ahead.

The three year dividends projected in the performance targets in Section 4 are based on the significant funding requirements of the company's status quo business strategy. They allow the company to continue planned investment while maintaining a gearing ratio consistent with a prudent approach to managing the balance sheet, considering the forward-looking risk in a business of this nature exposed to international commodity markets and currencies. Solid Energy acknowledges the shareholder's current policy priorities and recognises that the potential conflicts between these policies and the company's dividend projections will need to be re-addressed on a bi-annual basis.

8. INFORMATION TO BE PROVIDED TO SHAREHOLDERS

To enable Shareholding Ministers to be fully aware of investment plans and intentions and to assess the value of their investment in Solid Energy, the following information will be provided:

(a) Detailed budget for the next year;

(b) Detailed financial projections for the next three years;

(c) A strategic and business plan for the group

(d) Any proposals likely to represent a major change in Solid Energy's balance sheet ratios or to involve capital expenditure significantly above that foreshadowed in the three year financial projections.

(e) A quarterly report, including a summary and commentary on the previous quarter's financial performance and commentary on our outlook to year end. This report will include, as appropriate, a discussion of significant variances from previously forecast performance;

(f) A Half-Year Report, including an unaudited profit and loss statement, balance sheet, statement of cash flows and such other details as are necessary to enable an informed assessment of performance; and

(g) An Annual Report and audited financial statements.

In accordance with Section 18 of the Act, the Company will provide other information relating to the affairs of the company as requested by Shareholding Ministers.

9. CAPITAL EXPENDITURE, ACQUISITION, DIVESTMENT AND SHAREHOLDER CONSULTATION

Except in relation to product sales contracts, Solid Energy will, in addition to the information above, and in relation to any single transaction, or connected series of transactions that commit the company, consult with Shareholding Ministers on items over agreed thresholds including but not limited to:

- substantial capital investment;
- substantial expansion of activities outside our core business;
- subscriptions for or sale of shares or equity interests in any company that are material, involve a significant overseas equity investment, or are outside our scope of business;
- sale or other disposal of a substantial part of the business.

10. ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT

Where the Government instructs Solid Energy to undertake activities or assume obligations which will result in a reduction in our profit or net worth, the Board will seek compensation sufficient to allow the financial position of the Company to be restored to the position it would have been in but for the Government's instructions. The Crown's Permanent Process for Land Disposal, which applies to all Crown Agencies, may trigger this provision.

No requests for compensation are currently under consideration.

11. VALUE OF THE CROWN'S INVESTMENT

The Board's estimate of the current commercial value of the Crown's investment in the Solid Energy Group is $2.8 billion.

Key points about the manner in which that value was assessed are:

- The valuation was calculated as at 30 June 2011.
- The valuation is from the perspective of the value-in-use to Solid Energy of its business operations. It does not represent the market value of Solid Energy if it was sold.
- The discounted cash flow (DCF) methodology was used to calculate a Net Present Value (NPV) of the Coal and Renewable business units, on an after-tax basis.
- The Unconventional Gas projects and the Lignite Conversion projects were valued on a reserve multiple basis.
- The DCF / NPV was based on the real (i.e. not inflation-adjusted) future cash flows on operational and future projects in the Coal and Renewable business units.
- The DCF for future projects has been risk adjusted to reflect the stage of development.
- A real discount rate of 8% was assumed
- The valuation is based on Solid Energy's internal view of future prices and is not based on market consensus price curves
- The valuation was prepared internally by the Solid Energy's finance team. The methodology used was the same as last year, which was externally peer reviewed in the prior year.
- The current commercial value of the Crown's investment of $2.8 billion (often referred to as the equity value) was calculated by taking the enterprise value of $3.0 billion and deducting net debt of $222 million.

The valuation compares with a commercial value as at 30 June 2010 of $3.5 billion. The key reasons for the change in commercial value are:

- A net decrease in the valuation of the Coal business of $497 million due to:
  - Mine Plan changes at Spring Creek and Rotowaro
  - Schedule of exploration programme and costing
- A net decrease in the valuation of the Renewable business of $139 million due to:
  - Lower price curve for exported products
  - Slower market development
- An increase in the valuation of the Lignite conversion projects of $136 million due to:
  - Stage gates on key projects realised
  - Further land and minerals have been secured
- Closing debt of $222M included this year

APPENDIX 1: STATEMENT OF ACCOUNTING POLICIES

1. Corporate Information

These financial statements are for Solid Energy New Zealand Ltd ("Solid Energy"), its subsidiaries and jointly-controlled entities as per note 28. 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 2011 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 1993, and the State Owned Enterprises Act 1986.

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

The financial statements have been prepared on an historical cost basis, except for:

- Investment property, biological assets, derivative financial instruments and available-for-sale financial assets that have been measured at fair value;
- Provisions which are measured at net present value; and
- Tangible mining assets which include capitalised rehabilitation provisions.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

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 except as follows:

Where necessary the analysis of certain comparatives has been amended 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 IAS 24 Related Party Disclosures (Revised) (effective for the reporting period commencing 1 July 2011)

The changes to the standard affect the definition of related party relationships and their disclosures. The changes will have no direct impact on the amounts included in the group's financial statements.

- NZ IFRS 9 Financial Instruments (effective for the reporting period commencing 1 July 2013)

The first phase of NZ IFRS 9 Financial Instruments addresses the classification and measurement of financial assets. At this stage it is expected that the new standard will only have a minor impact on the classification and measurement of Solid Energy's current financial assets.

- NZ IFRS 10 Consolidated Financial Statements (effective for the reporting period commencing 1 July 2013)

This standard introduces a new approach to determining which investees should be consolidated. The standard was issued in June 2011 and the impact on the group's financial statements has not yet been concluded.

- NZ IFRS 11 Joint Arrangements (effective for the reporting period commencing 1 July 2013)

This standard focuses on the rights and obligations of joint arrangements rather than the legal form. The standard was issued in June 2011 and the impact on the group's financial statements has not yet been concluded.

- NZ IFRS 12 Disclosure of Interests in Other Entities (effective for the reporting period commencing 1 July 2013)

This standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements and associates. The standard was issued in June 2011 and the impact on the group's financial statements has not yet been concluded.

- NZ IFRS 13 Fair Value Measurement (effective for the reporting period commencing 1 July 2013)

This standard replaces the fair value measurement guidance in individual IFRSs with a single source of fair value measurement guidance. The standard was issued in June 2011 and the impact on the group's financial statements has not yet been concluded.

(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, using consistent accounting policies. 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 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 has control.

Investments in subsidiaries held by Solid Energy are accounted for at cost in the separate financial statements of the parent entity. The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see note 2(C)).

Minority interests not held by the group are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from parent shareholder's equity.

(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 non-current 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 retranslated 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 is 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.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

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 jointly controlled entities, 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 carryforward 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) In respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures.

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.

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) Receivables and payables 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 cash flow statement 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) 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
- Capital work in progress

Depreciation

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.

- 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.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in profit or loss.

(I) Biological Assets

The group has two groups of biological assets, crop and forest assets.

Forest assets

Forest assets are measured at fair value less point-of-sale costs, which include all costs that would be necessary to sell the assets. A gain or loss arising on initial recognition, or from a change in fair value less estimated point-of-sale costs, is included in profit or loss for the period in which it arises.

Crop assets

Planted crop assets are stated, on initial recognition and at each reporting date, at fair value less estimated point-of-sale costs. Harvested crop assets are transferred to inventories at fair value less estimated point-of-sale costs at the point of harvest. A gain or loss arising on initial recognition, or from a change in fair value less estimated point-of-sale costs, is included in profit or loss for the period in which it arises.

(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 and active operations are continuing.

(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 production period of 20 years.

Accumulated costs in relation to an abandoned area are written off in full against revenue 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) Intangible Assets

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Intellectual property

Intellectual property is measured at cost less accumulated amortisation and accumulated impairment losses. The amortisation period is 5 years.

Emission Trading Scheme (ETS) Units

As of 1 July 2010 the transport, energy and industrial sectors joined the forestry sector in having obligations under the New Zealand Emission Trading Scheme (ETS). Solid Energy is required to account for CO_2 equivalent emissions associated with designated activities, principally the mining and selling of coal. Solid Energy, as a coal miner, is designated as a default participant for the coal that it mines and is required to surrender eligible emissions units associated with coal sold domestically and directly associated with mining coal that is subsequently exported apart from very large customers which are allowed to manage the obligation themselves.

Up to 31 December 2012, Solid Energy will be required to surrender 1 eligible emission unit for every 2 tonnes of CO_2 equivalent emitted.
These units can be sourced:

- Through the purchase of units;
- Directly from projects that reduce emissions;
- Via allocation by the Government as compensation for ETS costs; or
- By paying a fixed price of $25 per emission unit to the government.

New Zealand Units, Removal Units, Certified Emissions Reductions and Emission Reduction Units are all valid ETS units which can be purchased to satisfy ETS obligations. 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.

(L) Investment Property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the reporting date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the group as an owner-occupied property becomes an investment property, the group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(M) Interest in Jointly-Controlled Entities

Jointly-controlled entities are those entities over whose activities the group has joint control established by contractual agreement. The group has an interest in a joint venture that is a jointly controlled entity.

The interest in a joint venture entity is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity. Under the equity method, the group's share of the results of the joint venture entity is recognised in profit or loss, and the share of movements in reserves is recognised in the statement of financial position.

(N) Other Investments

All other investments are initially recognised at fair value, being the consideration given and, in the case of an investment not at fair value, through profit or loss, including acquisition costs associated with the investment. After initial recognition, investments which are classified as available-for-sale, are measured at fair value.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the group has the positive intention and ability to hold to maturity. Other long-term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the group commits to purchase the asset.

(O) 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 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 income. 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.

Group as a lessor

Leases which transfer substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. Finance lease receivables are capitalised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Operating lease receipts are recognised as other income in profit or loss on a straight-line basis over the lease term.

(P) Impairment of Mining and Other Non-Current Assets

The carrying amount of land, mineral reserve assets, exploration, evaluation and development expenditure and stripping in advance are reviewed at each reporting date to determine whether there is an indication of an impairment loss. If any such indication exists, the assets recoverable amount is estimated. For any asset that does not generate largely independent cash flows, the recoverable amount 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 recoverable amount, the asset (or cash-generating unit) is written down. The recoverable amount of an asset is determined as the higher of its net selling value and value in use. Value in use is determined by estimating future cash flows and discounting them to their present value using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Equity instruments are deemed to be impaired when there is a significant or prolonged decline in the fair value below the original purchase price. The recoverable amount of the group's investments in held-to-maturity debt instruments and receivables carried at cost is calculated as the present value of estimated cashflows, discounted at the original effective interest rate. Receivables with a short duration are not discounted. When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(Q) 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 are produced from an operation the costs are allocated based on the relative net realisable value of the two products at the point they become separately identifiable.

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.

Inventories of harvested crops are valued at the lower of fair value less estimated point-of-sale costs at the point of harvest or net realisable value.

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.

(R) Stripping in Advance

Overburden and other waste materials are often removed in order to access the coal reserve. This activity is referred to as stripping.

- Development stripping is stripping that occurs during the initial development of a mine site
- Production stripping is stripping that commences at the time that saleable materials begin to be extracted from the mine.

Development Stripping

Directly attributable costs of development stripping are capitalised and classified as 'Stripping (non-current and current)'. Capitalisation ceases and depreciation of those capitalised costs commences at the time that saleable materials begin to be extracted from the mine. Depreciation of capitalised development stripping costs is determined on a unit of production basis for each separate area of interest.

Production Stripping

Total production stripping costs are charged to profit or loss in the period which matches the proportion of coal extracted to the total proven and probable reserves expected from the mine.

Assumptions regarding the remaining overburden, units of production and estimated mine life are reassessed on a quarterly basis.

Impairment

Stripping in Advance and Mining Properties are considered in combination with other assets of an operation for the purpose of undertaking impairment assessments.

(S) Derivative Financial Instruments and Hedging

The group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments 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. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement 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 and interest rate swaps) are used to hedge the foreign currency and interest rate 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.

Derecognition of derivative financial instruments

The derecognition 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.

(T) 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.

Related party receivables

An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operate to determine whether there is objective evidence that a related party receivable is impaired. When such evidence exists, the group recognises an allowance for the impairment loss.

(U) 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.

(V) 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

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 are provided for.

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 acceptable to the relevant authorities and 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.

Any increases in the rehabilitation provision that relate to the ongoing production of the mine are expensed as the obligation 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 NPV relating purely to discounting future values are reflected in interest expense.

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 removing mobile plant fleet from the mine site at the end of the contract.

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 mine site mobile plant equipment to a minimum standard under the lease agreements and to pay for costs associated with the removal of mobile plant fleets from the mine sites at the end of the contracts. The costs required to replace worn components and tyres on mine site mobile plant fleets are provided for based on the number of hours the mobile plant has been used for. Costs associated with the removal of the fleet at the end of the contracts are provided for at the start of the mining contract and are amortised over the life of the contract.

(W) Crown Receivable

The group has an indemnity from the Crown for its share of end of mine life rehabilitation costs relating to mining assets prior to 1 April 1987.

Measurement of the Crown receivable is on the basis of expected future costs discounted using a pre-tax market yield on government bonds.

(X) 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 derecognised 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.

(Y) Accounts Payable

Trade and other payables are carried at amortised cost; due to their short term nature they are not discounted. 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.

(Z) 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 employees 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.