

# **The Treasury**

## **Solid Energy Information Release**

**March 2013**

### **Release Document**

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

## Treasury Report: Supplementary POL paper: Solid Energy: Shareholder Approval for Major Transaction - Spring Creek Mine

|                        |                          |                           |                             |
|------------------------|--------------------------|---------------------------|-----------------------------|
| <b>Date:</b>           | 27 February 2007         | <b>Treasury Priority:</b> | High                        |
| <b>Security Level:</b> | COMMERCIAL-IN-CONFIDENCE | <b>Report No:</b>         | T2007/228<br>SEL-035/A61630 |

### Action Sought

|   | Action Sought   | Deadline         |
|---|---|------------------|
| Minister of Finance<br>(Hon Dr Michael Cullen)          | <b>Sign</b> the attached paper and <b>submit</b> it to Cabinet Office | 27 February 2007 |
| Associate Minister of Finance<br>(Hon Phil Goff)        | Note  | None             |
| Associate Minister of Finance<br>(Hon Trevor Mallard)   | <b>Sign</b> the attached paper and <b>submit</b> it to Cabinet Office | 27 February 2007 |
| Associate Minister of Finance<br>(Hon Clayton Cosgrove) | Note  | None             |

### Contact for Telephone Discussion (if required)

| Name              | Position                                      | Telephone | 1st Contact |
|-------------------|---|-----------|-------------|
| Chris Jones       | Senior Advisor, CCMAU                         | [1]       |             |
| Mike Moore        | Manager - Energy, Land and Environment, CCMAU | [1]       | ✓           |
| Matthew Morrison  | Senior Analyst, Commercial Investments        | [1]       |             |
| Jean-Pierre Andre | Senior Analyst, Commercial Investments        | [1]       |             |

**Enclosure:** Yes

27 February 2007

SE-2-14-0

**Treasury Report:** Supplementary POL paper: Solid Energy:  
Shareholder Approval for Major Transaction - Spring  
Creek Mine

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**Executive Summary**

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Following Monday's meeting of the Cabinet Business Committee, there were a range of questions concerning Solid Energy's proposed transaction regarding Spring Creek mine (T2007/187 refers).

The attached paper for Cabinet Policy Committee (POL) addresses these questions and recasts the Cabinet paper to be consistent with suggestions from the Minister for State Owned Enterprises. So this paper can be heard on 28 February 2007, it needs to be submitted to Cabinet Office on 27 February 2007.

Don Elder, the Chief Executive of Solid Energy, will be available to answer further detailed questions should they arise at POL. Solid Energy has been consulted in the preparation of the POL paper.

**Recommended Action**

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We recommend that you **sign** the attached POL paper and **submit** it to Cabinet Office on 27 February 2007.

**Jean-Pierre Andre**  
Senior Analyst, Climate Change, Energy  
Commercial Operations  
for Secretary to the Treasury

**Michael Moore**  
Manager - Energy, Land and  
Environment, CCMAU

Media Staff

Referred: Yes/No

**Hon Dr Michael Cullen**  
Minister of Finance

**Hon Trevor Mallard**  
Minister of State-Owned Enterprises

27 February 2007

Chair  
CABINET POLICY COMMITTEE

## **SOLID ENERGY AND CARGILL JOINT VENTURE – SPRING CREEK MINE**

### **Introduction**

1. This paper outlines Solid Energy's proposal to recreate a joint venture arrangement for the purpose of continuing to develop and operate the Spring Creek underground coal mine on the West Coast of the South Island, including the continued employment of about 130 people.
2. Shareholding Ministers consider the proposed transaction is consistent with Government policy, and is a positive investment opportunity that supports a significant number of jobs in the region. The proposed transaction restores Spring Creek to the joint venture status it had prior to 2002.
3. While shareholding Ministers are required to approve only the Operating Agreement that is ancillary to this proposal, this paper discusses the full proposed transaction.

### **Executive Summary**

4. Up until 2002, Spring Creek mine was a joint venture between Solid Energy and Todd Energy (Todd). Todd left the joint venture in 2002 because of [REDACTED] and to focus on its petroleum interests, leaving Solid Energy as the sole owner. In 2006, following a review of the mine's economics, Solid Energy planned to stop operations at Spring Creek, and maintain the mine on a care and maintenance basis only. In the hope of avoiding this Solid Energy searched for a party to take a long-term interest in the mine, either as a customer or investment partner. This proposal would return the mine to a joint venture arrangement with Solid Energy retaining a majority 51% share. The joint venture will ensure the development of the mine for at least 5 years and support the jobs of about 130 employees on the West Coast. Without the joint venture these outcomes cannot be achieved. Underground mining is a specialised field, and if the mine were to close Solid Energy would lose a significant portion of its underground mining technical expertise, which would be very expensive to re-establish.
5. The joint venture partner is Cargill International SA (Cargill), a large US multi-national company. Cargill will bring a more secure future to the mine in a number of ways: it will enter a five year contract to buy coal; it brings specialist international marketing expertise in thermal coal (most of Solid Energy's other export coal is hard coking coal which has different markets); it has extensive international customer networks; and it will provide access to up to [REDACTED] in project finance to develop the mine on terms that Solid Energy would be unlikely to access. Solid Energy has assessed the net present value (NPV) of the transaction is approximately [REDACTED]. Under the counterfactual of continued sole ownership by Solid

Energy the NPV is between [REDACTED] Solid Energy's Board therefore recommends shareholders approve the Operating Agreement.

6. Under the joint venture arrangement, a 49% interest in the assets in the Spring Creek underground mine (land, equipment, coal, and permits) would be sold to Cargill for [REDACTED]. Solid Energy would own the other 51% through a limited liability subsidiary company. The Solid Energy parent company would continue to operate the mine with existing employees and be paid for these services on a cost recovery basis. The joint venture would carry the significant risks associated with underground mining, which would otherwise be solely carried by Solid Energy. The use of a limited liability subsidiary company ensures that the parent company is insulated from the liabilities of the joint venture. Nevertheless, the usual governance arrangements and high behavioural expectations for the operations of subsidiaries of State-Owned Enterprises would be preserved. The Owner's Expectations Manual specifically states shareholding Ministers expect that the parent company is accountable to the Minister for State Owned Enterprises for the subsidiary's activities and performance, and will ensure that public accountability documents include such information.

7. The proposed agreement does not breach of the Government's policy barring state asset sales. This is because the proposal does not involve the Crown selling any of its shares in Solid Energy, the issuing of equity in Solid Energy, or Solid Energy selling down a significant proportion of its overall business. In fact it restores the Spring Creek mine to the joint venture status it had pre-2002. Government policy is not intended to interfere with the normal process of SOEs shaping and developing their businesses in response to changing circumstances, which may require changes in asset mixes. The arrangement is motivated by Solid Energy seeking to secure a future for its staff and investment in Spring Creek, and is consistent with a successful business changing its asset mix to meet its business environment.

8. Cargill like many large multinationals with operations spread throughout the world has from time to time been accused of unethical corporate behaviour. We examined these allegations and have not seen any evidence that Cargill is a company that would cause the Government undue concern if were to be associated with an SOE. Cargill has corporate social responsibility policies in place to avoid reputational damage from poor social and environmental outcomes in the countries in which operates. Cargill states it is pro-actively applying these policies and we have not found evidence to the contrary. It is our requirement that the joint venture will meet the high behavioural and ethical expectations of the Government.

9. In summary, we consider the joint venture is a positive step for Solid Energy's long-term commercial prospects consistent with its statutory objective of being a successful business, and which supports about 130 existing jobs and the further development of the Spring Creek mine. The proposed transaction does not breach the Government's asset sale policy. The proposal also needs to be considered in the context of the alternative of continued 100% Solid Energy ownership, which is likely to lead to the pre-mature shut-down of operations at Spring Creek and consequential job losses.

10. Cargill also has significant expertise in the production of biofuels and is one of the largest suppliers of biofuels in the US. A positive business relationship with Cargill may produce other associated benefits.

## **Background**

11. Spring Creek is an underground mine located near Greymouth which produces low ash and low sulphur thermal and semi-soft coking coal for the domestic and export markets. Spring Creek has only been in full Crown ownership since 2002. Prior to 2002 the mine was

a joint venture between Solid Energy and Todd Coal Limited. Todd exited [REDACTED] coupled with its wish to focus on its petroleum interests.

12. While excellent coal resources of 136 million tonnes have been identified at the mine, the geology is very difficult and production levels since 2002 have been significantly below Solid Energy's forecast. Over recent years a number of write-downs have occurred with the mine, the most significant being \$43 million in 2005. In 2005 Solid Energy reviewed the economics of the mine. In 2006 Solid Energy planned to cease production at Spring Creek and the mine was to be held on a care and maintenance basis for 5 years in the expectation that future market prices may support its reopening. In 2006 Solid Energy indicated that it was searching for an investor to at least partially underwrite the development costs and risks of the mine.

## **Proposal**

### **Summary of the proposed transaction**

13. Solid Energy intends to recreate a joint venture arrangement for the mine with Solid Energy retaining 51% ownership of the mine. Under the joint venture arrangement, a 49% interest in the assets in the Spring Creek underground mine (land, equipment, coal, and permits) would be owned by Cargill in return for [REDACTED]. Under the proposed sale, Solid Energy would retain all employees (approximately 130), and through a long-term contract for the provision of operating services to the new joint venture mining company be paid for mining services on a cost recovery basis. Spring Creek produced 175,000 tonnes in 2005 and 432,000 tonnes in 2006. Under the proposal production is forecast to ramp up to 800,000 tonnes per annum from late 2007.

14. It is the Operating Agreement that requires shareholder approval under the Companies Act. Cargill brings a more secure future to the mine by providing a guaranteed customer for at least five years. Solid Energy's Board recommends shareholders approve the transaction because of its judgement about the net benefits arising from that transaction relative to the status quo of a struggling mining operation that faces premature shutdown.

15. Other key elements of the transaction include:

- Cargill provide a [REDACTED] project finance facility to support the mine's development;
- Solid Energy retains the right to supply a minimum of [REDACTED] of coal to South Island domestic industrial companies; and
- Solid Energy provides rail and port facilities for the coal produced.

### **What shareholders have been asked to approve**

16. Shareholders have been asked to formally approve the Operating Agreement by way of a special shareholder resolution. The special shareholder resolution is required because the length and scope of the Operating Agreement is such that it would constitute a major transaction under the Companies Act. The Operating Agreement is just one of five agreements that form the overall transaction. Assessment of the Operating Agreement is only practical in the context of the transaction as a whole, therefore Solid Energy has provided information on the whole transaction and we have formed our recommendations based on an assessment of the whole transaction.

## Strategic Justification

17. The proposed transaction is to ensure the viability of Spring Creek for its existing about 130 employees on the West Coast, and to further develop the potential of the mine. Underground mining is a specialised field, and if the mine were to close Solid Energy would lose a significant portion of its underground mining technical expertise, which would very expense to re-establish.

18. Cargill brings new international marketing opportunities for Spring Creek's thermal coal by leveraging off its international operations and networks. Coal is a differentiated product with specialised markets and customer requirements. While Solid Energy has had significant success in exporting hard coking coal to steel producers primarily in Asia, it has less experience in international thermal coal markets further afield. Cargill believes that, through its expertise in shipping, it can overcome distance to market disadvantages and sell Spring Creek coal to European markets at price premiums..

19. Cargill would also provide a source of project finance [REDACTED] that Solid Energy would not be likely to get otherwise.<sup>1</sup> This finance is anticipated to be used next year for mine development work, the benefits of which will be reaped in 2008.

20. Cargill's key interest is securing access to export coal for its thermal coal markets. It is unlikely that Cargill could achieve its goal through simply a long-term contract with Solid Energy for Spring Creek coal, as ownership provides it with more options for future mine development. Solid Energy has not been able to secure long-term contracts at prices that make the mine viable.

## Assessment

### *Consistency with Government Policy*

21. The Government has a clear policy not to conduct a state asset sales programme. The proposal does not involve the Crown selling any of its shares in Solid Energy, issuing equity in Solid Energy, or Solid Energy selling down a significant proportion of its overall business. The sale is motivated by Solid Energy seeking to secure a future for its staff and investment in Spring Creek. Government policy is not intended to interfere with the normal activities of SOEs to shape and develop their businesses in response to changing circumstances, which may require changes in asset mixes.

22. Solid Energy is a company with assets of \$450 million, and sales of 2.5 million tonnes internationally and 2.2 million tonnes domestically (total revenue of \$600 million). The Spring Creek mine is relatively small compared to the overall company assets and operations, but nonetheless is significant in terms of its underground mining operations and employee numbers (about 130 out of 658). This is because Solid Energy uses contractors for many of its open cast mining operations. From a regional perspective, Solid Energy and Spring Creek represent a significant presence on the West Coast.

23. The transaction enables Solid Energy to establish a long-term strategic alliance with a large international company with better international customer links and expertise in internationally trading thermal coal. It would also mitigate much of Solid Energy's commercial risk inherent to the Spring Creek mine through the joint venture effectively carrying the



significant risks associated with underground mining. Responsible Ministers consider that, in the circumstances faced by Solid Energy, the proposed transaction is a better long-term strategy than the alternatives of maintaining 100% ownership with Solid Energy, which is likely to result in a premature shut down of the mine.

24. Cargill like most large multinationals with operations spread throughout the world has been accused of unethical corporate behaviour. We have looked into these allegations and have not seen any evidence that would suggest that it is a company that would cause the Government undue concern if were to be associated with an SOE. Two of the main allegations are:

- Deforestation in Brazil
- Use of child labour.

25. Regarding the allegations around deforestation associated with Cargill's activities, we understand they stem from Cargill buying soy from Brazil at prices that have led local farmers to convert forest into soy farms. This is not very different from Fonterra paying for milk fat in New Zealand at prices that lead to dairy conversion from forested land. Regarding child labour, we understand the allegations arise because Cargill, like Nestlé, buys cocoa beans from countries where child labour occurs. Cargill has publicised specific actions it is taking to put these policies into action. They include:

- Cargill states it only purchases soy from producers who are in compliance with the Brazilian Forest Code or are actively working towards full compliance with that code;
- In the Amazon, raw material purchase contracts stipulate that Cargill has the right to refuse deliveries of soy or refuse payment if the company learns that slave or child labour was used in the production;
- Cargill adheres to national laws that require those working on its own palm oil plantations to be at least 15 years old in Indonesia and age 16 on plantations in PNG;
- Cargill has committed to the 2001 Harkin-Engel Protocol which dedicates industry to specific actions to ensure that cocoa is produced responsibly, without the use of abusive child labor. Members of the United States Congress and U.S. governmental agencies, the International Labor Organization, trade associations, other relevant third party stakeholders and the Cote d'Ivoire government witnessed this protocol.

26. We have consulted with the Ministry of Foreign Affairs and Trade about Cargill. We have no evidence that Cargill is breaching its policies. Background information on Cargill's Environmental and Social Principles is attached to this paper (sourced from Cargill's website).

27. An issue in this transaction is that the joint venture will be formed on an unlimited liability basis because this provides some United States taxation benefit to Cargill. However, Solid Energy has informed shareholders it has put the necessary safeguards in place to ensure there is no recourse to Solid Energy, in the event of default. Solid Energy has created a company structure that ensures no recourse from the joint venture by insulating itself through a limited liability subsidiary.

28. The usual governance arrangements and high behavioural expectations for the operations of subsidiaries of State-Owned Enterprises are preserved under the proposed transaction. Solid Energy is able to appoint three directors and Cargill two, to the Board of the joint venture. Solid Energy will be required to retain majority shareholder so it can control the joint venture and apply to it the same rigours of Ministerial expectations regarding behaviour and ethics that it applies to itself. This includes the "no surprises" and consultation doctrines that provide shareholding Ministers the ability to influence decision making and keep Cabinet informed about significant issues, like this one. The Owner's Expectations Manual specifically states Ministers' expectations that the parent company is accountable to



the Minister for State Owned Enterprises for the subsidiaries activities and performance and will ensure that public accountability documents include such information.

29. The agreement will be conditional on approval of the Overseas Investment Office (OIO) and approval by Crown Minerals to transfer the mining license to the new entity. We understand that Cargill has yet to apply for OIO approval.

30. Land totalling 61 hectares would be sold by Solid Energy to the joint venture. Of this land, 14 hectares is subject to a pastoral lease. The remainder of the land is directly related to and used for the purpose of the Spring Creek Mine. Solid Energy will also grant access to a further 257 hectares of land. This land is owned by Solid Energy but is subject to the Statutory Licences to be held by the joint venture. Solid Energy have informed us that they do not believe any land at Spring Creek is subject to a right of first refusal by local Iwi.

#### *Climate Change/Sustainability*

31. The majority of Spring Creeks' output is exported and the volume is tiny relative to international volumes of coal (less than 0.1% of internationally traded coal).

#### **Conclusion**

32. The benefits of the transaction include:

- Cargill provide expertise on international thermal coal trading/marketing;
- Access for up to [REDACTED] in finance for mine development from Cargill;
- Payment of [REDACTED] for purchase of 49% of the mine's assets;
- Ongoing employment for about 130 Solid Energy employees;
- Maintain underground mining expertise within Solid Energy;
- Development costs and risks shared with Cargill;
- Solid Energy continues to operate and manage the mine, transport the coal, and employ all the mine's employees;
- Increase likelihood of securing international customers for this particular coal; and
- Risk limitation through no-recourse structure (underground mining is high risk).

33. In summary, we consider this proposal is a positive step for Solid Energy's long-term commercial prospects consistent with its statutory objective of being a successful business, and supports 130 existing jobs and the further development of the Spring Creek mine. We do not consider that it breaches the Government's policy to not hold a state asset sales programme as no shares in Solid Energy will be sold, no equity in Solid Energy will be issued, the mine is of a small scale relative to the company's overall business, and it is consistent with a normal business modifying its asset mix to respond to its changing business environment. The proposal also needs to be considered in the context of the alternative which is the probable premature shut-down of operations at Spring Creek.

## **Consultation**

34. The Treasury and CCMAU have contributed to the preparation of this paper. DPMC has been informed. Solid Energy has been consulted and the Ministry of Foreign Affairs and Trade has been consulted about Cargill.

## **Financial Implications**

35. The financial implications for the Crown in any one year are relatively small, but add up over time. The transaction is very likely to have a positive effect on dividends to the Crown. The amount of the additional dividend returned to the Crown as a result of the transaction will be determined after the company's other capital needs and its gearing are considered.

36. Solid Energy has assessed the net present value (NPV) of retaining the Spring Creek mine in 100% Solid Energy ownership as being between [REDACTED]. Assuming the mine meets minimum production targets over the next 5 years the NPV of the proposed transaction (including the payment from Cargill) is approximately [REDACTED]. Assuming successful development of the mine beyond 5 years, out to 20 years, the NPV rises to as much as [REDACTED]. These values do not take into account the considerable risk reduction achieved through the access to non-recourse debt funding [REDACTED] from Cargill.

## **Human Rights**

37. There are no human rights implications.

## **Legislative Implications**

38. There are no legislative implications.

## **Regulatory Impact and Compliance Cost Statement**

39. There is no requirement for a Regulatory Impact and Compliance Cost Statement.

## **Publicity**

40. There is no need for Ministers to initiate media communication on this subject. Solid Energy will make all necessary announcements and ensure that Ministers are well-informed on the transaction's details should media queries arise. In particular, a set of shared question and answers is being prepared to accompany Solid Energy's media release.

## Recommendations

41. It is recommended that the Cabinet Policy Committee:

- a **note** that shareholding Ministers intend to support Solid Energy's proposal to create a 51% joint venture arrangement to continue the development and operation of the Spring Creek underground coal mine;
- b **note** that shareholding Ministers consider the proposed transaction is consistent with Government policy, and is a positive investment opportunity that supports a significant number of jobs in the West Coast region; and
- c **note** that Solid Energy has assessed the net present value of the transaction is approximately [REDACTED]; compared to the probable premature shutdown of the mine should Solid Energy retain 100% ownership.

Hon Dr Michael Cullen  
**Minister of Finance**

Hon Trevor Mallard  
**Minister for State Owned Enterprises**

## **ADDITIONAL BACKGROUND INFORMATION**

### **Cargill International SA – Background**

Cargill is an international provider of food, agricultural and risk management products and services. With 149,000 employees in 63 countries, the company is committed to using its knowledge and experience to collaborate with customers to help them succeed. For more information, visit <http://www.cargill.com>.

Cargill's global coal operations, headquartered in Geneva, were established in 2002 primarily as a trading and marketing business. It now has a number of long-term supply agreements and worked with the company's ocean transport business, in shipping around the world. As well as Geneva, Cargill's coal business has employees in Singapore, Russia, South Africa, the United States and India. This is Cargill's first investment in a coal mine in New Zealand.

### **Cargill – Social and Environmental Responsibility**

Cargill takes its environmental, health and safety and corporate citizenship responsibilities seriously and is conscious and very aware that some of its operations, in particular in the agricultural sector, have been open to criticism in some areas of the world. The company places high store on its reputation and publishes a set of guiding principles/business ethics for doing business which all employees are expected to abide by.

Cargill's policy is that it will function as a good corporate citizen in every country it operates. At a minimum this means compliance with the laws of all such countries. It also requires that all Cargill's business transactions will be the result of lawful and honest competition and that all its business is conducted in an ethical and moral manner. (See attached statement of guiding principles)

Specifically, Cargill is addressing the environmental and other concerns in the context of the company operating in some of the world's poorest regions. Cargill's website covers a number of the issues raised by Greenpeace and others. For example:

- In the Amazon which is home to 23.6 million people and one of Brazil's poorest regions, Cargill is working with The Nature Conservancy, the local Santarem Farmers Union and the farmer who sell soy to Cargill's local export facility to implement best management practices for environmental stewardship. In 2006 Cargill decided that it would only buy soy from producers who are in compliance with, or working towards compliance with, the Brazilian Forest Code. Cargill is also providing local farmers seeds and other crop inputs to grow rice and soy on pastureland deforested many years ago, as well as investing in the local community – for example renovating a local library and equipping it with books and computers.
- Cargill does not condone the use of slave labour of any kind. In the Amazon, raw material purchase contracts stipulate that Cargill has the right to refuse deliveries of soy or refuse payment if the company learns that slave or child labour was used in the production.
- Cargill does not accept or support the use of illegal, abusive, or enforced child labor within its operations anywhere in the world. Cargill adheres to national laws that require those working on its own palm oil plantations to be at least 15 years old in Indonesia and age 16 on plantations in PNG, provided that the job does not disrupt school attendance and that these employees are fully protected from potential economic exploitation and moral and physical hazards.

- An estimated 10 million people in West Africa are supported by over 1.2 million independent family cocoa farms. Cocoa is produced primarily by independent family farm with family members providing the farm labour. Children have traditionally worked as part of the family unit on these farms. Cargill has joined other members of the global chocolate and cocoa industry to promote efforts to improve growing and production practices and to work towards the elimination of abusive or enforced child labor in cocoa production.
- In addition to Cargill's individual efforts on child labour in cocoa, through its trade associations, the Chocolate Manufacturers of America, the European Cocoa Association, and the UK-based Biscuit, Cake, Chocolate and Confectionery Association, Cargill has committed to the 2001 Harkin-Engel Protocol which dedicates industry to specific actions to ensure that cocoa is produced responsibly, without the use of abusive child labor. Members of the United States Congress and U.S. governmental agencies, the International Labor Organization (ILO), non-governmental organizations (NGO's), trade associations, other relevant third party stakeholders and the Cote d'Ivoire government witnessed this protocol.
- There have also been allegations that Cargill did not follow proper permitting procedures in construction and operation of the Santarem facility in the Amazon. Cargill followed all the permitting requirements of the applicable governmental agencies for the construction and operation of the Santarem facility. As part of the permit process, Cargill commissioned third party experts to conduct a full environmental impact assessment. As part of this assessment, it also was confirmed that the facility was not located on a site of indigenous archaeological interest. There is an ongoing court case concerning whether Cargill should have done a particular type of environmental impact assessment before construction, even though it was not required by the government. Cargill says it will abide by the decision of the courts, when it is final.  
(Material sourced from Cargill website – [www.cargill.com](http://www.cargill.com))

### **Cargill - Statement of Principles**

*Cargill pays close attention to its role as a corporate citizen. We at Cargill define citizenship as 'our total impact on society and the environment'. The founding principles of our citizenship commitment provide a framework of values and behaviours for ethical business practices, safe workplaces and products, treating employees with respect, protecting the environment and providing positive, measurable improvements in our communities.*

*Citizenship also means sustaining economic growth. Economic vitality and the employment it supports are important to the well being of individuals and society. We cannot provide the benefits of good corporate citizenship if we are not a viable business or if our people lack meaningful work. Furthermore, we are in the vital business of producing food and other necessities of life. We help make the lives of others better by doing our business well.*

*We in Cargill are committed to responsible economic development, which we believe creates income to support thriving communities and enables responsible environmental management over time. Poverty limits options and hinders sustainable development.*

*Citizenship has long been part of Cargill's values. Increasingly others judge us by our demonstrable commitment to those values. Cargill strives to be a leader in corporate citizenship.*

*In striving to be a good corporate citizen, we aim to act with integrity and in an environmentally and socially responsible manner in every country where we are privileged to do business by respecting the economic, social, cultural, political and civil rights of those involved in all our operations. At a minimum, this requires compliance with the laws of all such countries, including laws relating to employment, human rights and the environment. In many cases we*

*go beyond these minimum requirements in applying our own standards in every country where we operate. We draw on best practice to inform our decisions and aim to continually improve.*

*In all areas where we do business we aim year on year to improve our processes to reduce our environmental footprint in our own operations and in our supply chain. Sometimes economic growth may challenge the ecological, balance and threaten traditional ways of life. We seek to achieve a balanced outcome for society and the environment that is sustainable over time.*

*When it comes to our employees Cargill is committed to valuing differences, respecting all individuals and maintaining an environment in which everyone is treated with dignity. This commitment is supported by the Company's long-standing policy of providing equal opportunities in employment to all qualified persons without regard to race, colour, religion or belief, gender, national origin, age, disability, marital status, sexual orientation or union affiliation.*

### **Spring Creek Mine - background**

Spring Creek Underground Mine was originally developed by Grey Coal Limited, a joint venture between Solid Energy and Todd Coal, opening in March 2000 with an expected annual production of 500,000 tonnes. The mine was placed in 'care and maintenance' in February 2001 after unforeseen and complex geology was encountered. Solid Energy bought out Todd's share of the joint venture Company in June 2002 and coal extraction restarted later that year. In late 2004 Solid Energy suspended mining due to concerns about development rates and coal quality issues; a comprehensive review of the mine was undertaken and a number of initiatives implemented to improve performance. Mining resumed in August 2005.

In early 2006 Solid Energy was faced with the prospect of closing Spring Creek Mine as it is a marginal operation which at that point has no economically viable credible mine plan. During 2006 Solid Energy explored one last option to produce a higher quality coal at Spring Creek which would suit both thermal and steel making markets and it was at this point discussions began with Cargill, first as a potential customer and then as an equity partner in the mine.

Solid Energy's total annual production was 4.67 million in 2006, with 2.47 million tonnes exported; our largest export mine is Stockton at more than 2 million tonnes.