Public Version of Application

COMMERCE ACT 1986: BUSINESS ACQUISITION

Section 66: Notice Seeking Clearance

The Registrar

Business Acquisitions and Authorisations

Commerce Commission

PO Box 2351

WELLINGTON

and email: records@comcom.govt.nz

Pursuant to section 66(1) of the Commerce Act 1986 notice is hereby given seeking clearance of a proposed business acquisition.

PART 1: TO BE COMPLETED BY ALL APPLICANTS

THE BUSINESS ACQUISITION

1. The business acquisition for which clearance is sought

1.1 The business acquisition for which clearance is sought is the acquisition by Solid Energy New Zealand Limited or a wholly-owned subsidiary ("Solid Energy") of the entire share capital in Newvale Coal Co Limited ("**Newvale**" or "**Company**") pursuant to the agreement for sale and purchase dated 18 August 2006 attached as Appendix A ("**Agreement**").

1.2 The acquisition of the shares in Newvale and its assets referred to in 1.1 above means the entire undertaking of the company including all assets and liabilities of the Company including but not limited to mining licences, permits, consents, feasibility studies and mining information, all plant and equipment and all other property and interests acquired or held by or on behalf of the Company.

1.3 In broad terms, the grounds on which Solid Energy contends that the Commission should give a clearance in respect of the proposed acquisition are:

1.3.1 Approximately **[ ]** of the coal produced from the Newvale mine is sold to **[ ]** under a coal supply contract **[ ]**

1.3.2 All of the coal produced from the Newvale mine is lignite coal. The relevant market for consideration is the mining and distribution of lignite and sub bituminous (together referred to as thermal) coal in the southern half of the South Island (including South Canterbury). In this application "thermal coal" means lignite or sub-bituminous coal or blends which may also include bituminous coal;

1.3.3 the acquisition will not result in a substantial lessening of competition by Solid Energy in the above market due to constraints imposed by competitors (domestic and international), the possibility of new entrants, the fact that

thermal coal may be blended with higher calorific value bituminous coals, the low cost of entry into lignite mining and constraints from other energy sources;

1.3.4 all other current suppliers in the market have the potential to increase production in response to any attempt by Solid Energy to restrict supply and/or increase the price of thermal coal;

1.3.5 Solid Energy's Ohai opencast mine in Southland has approximately **[ ]** tonnes of economically recoverable reserves of sub-bituminous coal remaining. Its principal supply customer is **[**

]

1.3.6 the recent acquisition (September 2006) of the Straith mine at Ohai by Eastern Corporation Limited (**Eastern**) demonstrates that new competitors are coming into the market. It is Eastern's stated intention to have this mine produce 100,000 tonnes of thermal coal annually (from a total in ground resource of 2.85 million tonnes). Operations are due to commence in October 2006.

NOTICE

2. Who is the person giving this notice?

2.1 This notice is given on behalf of Solid Energy New Zealand Limited:

2 Show Place
Addington
PO Box 1303
Christchurch

Telephone: (03) 345 6000
Facsimile: (03) 345 6016
Attention: Warren Maslin
(email: warren.maslin@solidenergy.co.nz)

With all correspondence to:
Lane Neave
Lawyers
PO Box 13149
Christchurch

Telephone: (03) 364 6453
Facsimile: (03) 379 8370
Attention: Bill Dwyer
(DD: (03) 364 6459)
(email: bill.dwyer@laneneave.co.nz.)

CONFIDENTIALITY

3. Do you wish to request a confidentiality order for:

3.1 The fact of the proposed acquisition?

No.

3.2 Specific information contained in or attached to the notice?

Yes, the information deleted on the attached "Public Version" of this notice (**Confidential Information**).

3.2.1 If so, for how long?

Until the applicant and Newvale notify the Commission in writing that particular information is no longer confidential to the participants.

3.2.2 Why?

The Confidential Information that has been deleted is commercially sensitive and contains valuable information which is confidential to the participants. The information includes market share information from internal analysis carried out by Solid Energy and, in the event the acquisition does not proceed, disclosure of the information would give an unfair advantage to the participants' competitors. Disclosure of these commercial assessments would also affect Newvale's commercial position.

In respect of the Confidential Information the applicant and Newvale seek a confidentiality order under section 100 of the Commerce Act 1986, on the grounds that the information is commercially sensitive and valuable information which is confidential to the participants and disclosure of it is likely to give an unfair advantage to competitors of the participants and/or unreasonably prejudice the commercial position of the participants.

In respect of the Confidential Information the applicant and Newvale each claim confidentiality under section 9(2)(b)(ii) of the Official Information Act 1982. The applicant and Newvale each request that they be notified of any request made under the Official Information Act for release of the Confidential Information, and that the Commission seek their views as to whether the Confidential Information remains confidential and commercially sensitive, at the time responses to such requests are being considered.

DETAILS OF THE PARTICIPANTS

4. Who are the participants (i.e. the parties involved)?

4.1 The participants are:

4.1.1 Solid Energy as the acquirer, and

4.1.2 Marie Elizabeth Highsted and Reginald John Highsted (as trustees of the Reg and Marie Highsted Family Trust), Paul Timothy Highsted, Brett Richard Highsted and Mark Reginald Highsted (as trustees of the Bret Highsted Family Trust, and of the Paul Highsted Family Trust, and of the Mark Highsted Family Trust) as vendors.

ACQUIRER

4.2 The contact details for Solid Energy are:
Solid Energy New Zealand Limited
2 Show Place
Addington
PO Box 1303
Christchurch

Telephone: (03) 345 6000

Facsimile: (03) 345 6016
Attention: Warren Maslin
(email: warren.maslin@solidenergy.co.nz)

VENDOR

4.3 The contact details for Newvale Coal Co Limited:
P O Box 151
Gore

Telephone: (03) 208 9485
Facsimile: (03) 208 9457
Attention: Bret Highsted
(email: newvale@xtra.co.nz)

With all correspondence to:
Anderson Lloyd Cauldwell
481 Moray Place
Private Bag 1959
Dunedin

Telephone: (03) 471 5440
Facsimile: (04) 477 3184
Attention: Paul Hubbard
(email: paul.hubbard@alclegal.com)

5. Who is interconnected to or associated with each participant?

ACQUIRER

5.1 Solid Energy is a private company and a state-owned enterprise. The shareholders of Solid Energy are:

Trevor Colin Mallard	30,450,000 shares -	50%
(Minister for State Owned Enterprises)		
Michael John Cullen	30,450,000 shares -	50%
(Minister of Finance)		100%

Companies Interconnected or Associated with Solid Energy are:

Coalcorp Insurance Services Limited

Waikato Mining and Contracting Limited

Coal Bed Methane Limited

Terrace Coal Mine Limited

Coal New Zealand Limited

Coal New Zealand International Limited

Solid Energy Renewable Fuels Limited

Windflow Technology Limited

We attach as Appendix B a diagram outlining Solid Energy's shareholdings in the above companies.

5.2 We attach the following documents as Appendices C and D respectively by way of background information:

5.2.1 Solid Energy's Interim Report for the six months ending 31 December 2005; and

5.2.2 Solid Energy's Statement of Corporate Intent 2005.

VENDOR

5.3 Newvale is a private company, being wholly-owned by:

5.3.1 Marie Elizabeth Highsted and Reginald John Highsted (as trustees of the Reg and Marie Highsted Family trust) to the extent of 366,862 shares;

5.3.2 Paul Timothy Highsted, Brett Richard Highsted and Mark Reginald Highsted (as trustees of the Bret Highsted Family Trust) to the extent of 183,430 shares;

5.3.3 Paul Timothy Highsted, Brett Richard Highsted and Mark Reginald Highsted (as trustees of the Paul Highsted Family Trust) to the extent of 183,430 shares; and

5.3.4 Paul Timothy Highsted, Brett Richard Highsted and Mark Reginald Highsted (as trustees of the Mark Highsted Family Trust) to the extent of 183,430 shares.

6. Does any participant, or interconnected body corporate thereof, already have a beneficial interest in, or is it beneficially entitled to, any shares or other pecuniary interest in another participant?

6.1 In respect of Solid Energy: No.

6.2 In respect of Newvale: No.

6.3 Additionally none of the directors of Solid Energy hold directorship in any company which is involved in the market in which the business of Newvale operates.

7. What are the business activities of each participant?

SOLID ENERGY

7.1 In broad terms, Solid Energy undertakes the following business activities:

7.1.1 Solid Energy is a state-owned enterprise formerly called Coal Corporation of New Zealand Limited. Solid Energy is in the business of mining and processing coal and marketing and distributing that coal for the domestic and export market.

The mining operations are based around Huntly in the Waikato, Greymouth, Reefton and Westport on the West Coast and Ohai in Southland. Its

operations are backed by service and support centres in Christchurch. Solid Energy produces about 4.5 million tonnes of coal annually. Solid Energy is the coal supplier for New Zealand Steel Limited's Glenbrook Steel Mill near Auckland and a major supplier to the Huntly Power Station. The major export industries of dairy and meat use Solid Energy coal as an energy source. Solid Energy is also a major supplier to the New Zealand cement industry.

Internationally Solid Energy's main customers are in Japan, China, India, Chile, Australia, South Africa and Europe. Export customers value the quality of Solid Energy coal, often blending it with lower grade coals to improve the overall quality of the coal blend used. Solid Energy mines and controls the quality of its coal to meet the specifications of its customers.

Exported Solid Energy coal is mainly used in steel production with a smaller amount used for electricity generation but there is also a market for specialist product. These specialist uses include the manufacturing of silicon metal, carbon fibre and activated carbon. Activated carbon is used in filters for liquid and gas purification. Carbon fibre is used to manufacture products such as fishing rods, golf clubs and tennis rackets. Silicon metal is used in many steel and aluminium alloys.

Solid Energy has no mines which produce lignite.

7.1.2 Further information on Solid Energy is available at www.solidenergy.co.nz

NEWVALE

7.2 The vendors are family trusts that have no other mining interests.

7.3 The Newvale mine has been operated by the Highsteds for three generations and is located on the Waimumu lignite coal field in Eastern Southland. Newvale mine produces approximately **[ ]** tonnes of lignite a year.

8. What are the reasons for the proposal and the intentions in respect of the acquired or merger business?

8.1 The reason for this proposal is to enable Solid Energy to bring its expertise in mine planning and extraction to bear on the mining activities at the Newvale mine. Solid Energy has the capital and resources to further develop the Newvale mine. From a commercial perspective, Solid Energy is well placed to further develop the Newvale mine on an economic basis. Solid Energy intends to retain the current workforce of 30 people.

8.2 **[**

]

8.3 Solid Energy presently operates an opencast thermal coal mine at Ohai, Southland producing sub-bituminous coal. **[**

]

Solid Energy views the Newvale mine as the best option for remaining active in the Southland region albeit with a lower energy coal, but offset by being closer to existing major customers.. If a successful acquisition is concluded Solid Energy intends to bring the Newvale mine into its own operations. Solid Energy would assume responsibility under all of Newvale's existing coal supply contracts and accordingly would be required to provide the same supply and services under these contracts. Many of the supply contracts have prices fixed for various terms with price escalation

clauses referenced to external benchmarks. For example, **[ ]** The lignite is used as an energy source for Fonterra's boilers. **[ ]** The prices payable to Newvale are **[ ]**

8.4 In Solid Energy's experience supply contracts are generally for a term of between one and two years. However, there is some demand from larger customers for terms of up to five years. For example, **[ ]** Newvale's supply contract with **[ ]** Also of note is a developing trend of several customers to go out to tender. For example, Fonterra's Clandeboye Plant **[ ]** has called for tenders for supply at this plant from 2008. **[ ]** (see paragraph 13.10 below). Additionally hospitals are also commencing to tender their supply contracts. The move by larger users to tendering would substantiate the view by some coal purchasers that competition in the market is real and robust.

Overall, supply contracts and their negotiation are varied and are often driven by the particular needs of customers. Common to all supply contracts at the time of negotiation however is the price of coal and the quantities that are able to be supplied.

8.5 It is not the intention of Solid Energy to lessen, hinder or reduce competition in the relevant market. To the contrary, Solid Energy intends for there to be a continuity of supply services for purchasers of Newvale lignite.

8.6 From a competition point of view, the acquisition does not involve a reduction in competitive supply, nor does it result in any party taking advantage of market power in any relevant market, given that the supply from the Newvale mine is largely to existing contracted customers or will be to supplement or **[ ]** Solid Energy's **[ ]** output from the Ohai mine to ensure continuity of supply for existing customers where they are able to use lignite.

8.7 The precise details on the proposed acquisition have been settled and subject to ordinary contract provisions for a transaction of this type. The structure of the acquisition is the sale of all of the shares in Newvale to Solid Energy. As provided in the Agreement there are a number of conditions requiring fulfillment. At the date of this application the parties do not foresee any impediments to fulfilling the conditions.

9. The New Zealand Coal Mining Industry

9.1 **Background:**

9.1.1 General characteristics of coal:

(a) Coal is a combustible, sedimentary, organic rock that is composed primarily of carbon, hydrogen and oxygen. Coal is formed from vegetation that has been consolidated between rock strata. It is altered by the combined effects of microbial action, pressure and heat over a considerable time period.

The physical and chemical properties of coal are determined by a number of factors including: the original vegetable matter, the degree of chemical alteration of the vegetable matter, and the length of time

of geochemical alteration (coalification) of coal during burial. The influence of these factors determines the rank of the coal.

Peat is typically the first coal type that organic matter is transformed into during coalification. Peat is very high in moisture and low in carbon content. It is also the lowest quality of coal. Over time peat is transformed into lignite, which through continued coalification will become a sub-bituminous coal. As the process continues, the coal is transformed until it becomes more mature and reaches the classification of a bituminous coal. If conditions are right bituminous coal may mature into anthracite.

The degree of coalification (called "rank") as it matures from peat to anthracite determines the coal's physical and chemical properties. Lower rank coals like lignite and sub-bituminous are characterized by high moisture content and low carbon content. These coals are relatively low in energy. The higher rank coals like bituminous coals are generally harder, have greater carbon content, less moisture, and as a consequence are higher in energy.

As well as the process discussed above, which determines coal rank, the overall quality of coal is summarised by several general characteristics, including:

(i) Moisture content. Lower quality coals are usually characterized by high moisture content.

(ii) Ash content, which measures the remaining material after the coal is completely incinerated. Low ash coals are preferable to minimise ash disposal costs.

(iii) Fixed carbon percentage; an indication of coal rank which influences combustion characteristics.

(iv) Volatile matter percentage; another measure of rank which also influences combustion characteristics.

(v) Gross calorific value which is a measure of the energy content of the coal. Generally, lignite ranks less than 20 Gigajoules/Tonne (GJ/T), sub-bituminous coals between 20-26 GJ/T and bituminous coals rank above 26 GJ/T.

(vi) Sulphur content, which indicates the amount of this undesirable contaminant.

(vii) Crucible swelling, which represents whether the coal has coking properties making it suitable for high value metallurgical markets. Only bituminous coals have this property.

The following table summarises coal quality from mines in various locations throughout New Zealand:

Figure 1 - Analysis of NZ Industrial Coal 2004

Name of Mine	Mine Ownership	Moisture	Ash	Volatile Matter	Fixed Carbon	Gross Calorific Value	Gross Calorific Value	Net Calorific Value	Sulphur	Crucible Swelling	Ash Fusion Temp Henri	Volatile Matter	Gross Calorific Value
AS RECEIVED BASIS		%	%	%	%	MJ/kg	Btu/lb	MJ/kg	%	No.	°C	**DRY ASH FREE** %	**DRY ASH FREE** MJ/kg
Waikato													
Huntly East No. 1	Solid Energy	20.6	3.8	34.7	41.1	22.93	9860	21.55	0.21	0	1280	45.8	30.29
Kopako	Solid Energy	26.7	3.9	33.4	36.0	20.17	8680	18.75	0.15	0	1220	48.1	29.06
O'Reilly's	O'Reilly's Opencast Ltd	19.8	5.8	34.6	39.8	22.13	9520	20.80	0.23	0	1260	46.5	29.74
Rotowaro	Solid Energy	21.0	4.6	34.4	40.1	22.24	9570	20.88	0.23	0	1210	46.1	29.87
Buller													
Cascade	Cascade Mining Ltd	9.7	1.6	36.1	52.7	29.96	12890	28.65	0.60	3 1/2	1290	40.6	33.76
Heaphy	Heaphy Mining Ltd	18.1	3.8	36.8	41.3	24.20	10410	22.85	2.25	0	1140	47.1	30.99
New Creek	New Creek Mining	18.9	1.6	36.4	43.2	23.93	10290	22.57	4.2	1/2	1120	45.7	30.08
Stockton	Solid Energy	8.1	2.9	31.0	58.0	31.65	13620	30.40	1.9	9	1550	34.8	35.56
Reefton													
Echo	Francis Mining Co Ltd	5.9	2.1	38.7	53.2	30.87	13280	29.61	0.46	3 1/2	1500	42.1	33.57
Giles Creek	Birchfield Coal Mines Ltd	29.4	2.8	32.1	35.7	19.04	8190	17.60	0.42	0	1260	47.4	28.09
Island Block	Solid Energy	6.6	2.1	39.3	51.9	30.46	13100	29.19	1.51	4	1220	43.1	33.39
Terrace	Solid Energy	15.1	5.1	36.6	43.2	24.98	10750	23.71	1.11	1	1180	45.9	31.28
Greymouth													
Roa	Francis Mining Co Ltd	6.7	6.5	18.5	68.3	31.95	13750	30.77	0.27	9+	1360	21.3	36.82
Spring Creek	Solid Energy	10.2	2.5	37.6	49.7	29.83	12840	28.53	0.35	2 1/2	1230	43.1	34.19
Canterbury													
Mt Somers	Mt Somers Mines Ltd	28.1	11.6	29.3	31.1	17.71	7620	16.35	2.50	0	1300	48.6	29.32
Canterbury Coal	Canterbury Coal Ltd	27.5	3.0	32.4	37.1	20.84	8970	19.40	0.38	0	1300	46.6	29.99
Otago													
Harliwich	Harliwich Carrying Co	28.8	6.3	38.2	26.6	18.52	7970	17.11	0.43	0	1290	58.9	28.54
Kai Point	Kai Point Coal Co Ltd	30.4	4.7	30.8	34.1	19.67	8460	18.19	1.52	0	1340	47.5	30.31
Southland													
Goodwin	New Vale Coal Co	42.2	3.1	29.8	24.9	14.98	6440	13.36	0.47	0	1360	54.5	27.36
New Vale	New Vale Coal Co	40.5	3.1	29.9	26.4	15.25	6560	13.66	0.34	0	1310	53.2	27.08
Ohai	Solid Energy	18.3	4.3	34.4	43.0	24.11	10370	22.77	0.28	0	1190	44.4	31.12
Waituna	Southern Pastoral	39.6	5.5	31.0	23.9	14.53	6250	12.96	0.58	0	1200	56.5	26.47

Source: CRL Energy Limited – Analysis Update 2004

9.1.2 Location of coal in New Zealand:

New Zealand has known coal reserves in excess of 15 billion tonnes, over half of which is considered recoverable. Most of New Zealand's recoverable coal resource in located in the South Island (93.5%). By far the largest proportion of the South Island's coal resource is concentrated in Southland, which accounts for around 80% of New Zealand's total recoverable coal resource. The Otago region holds 10.6% of recoverable coal reserves and 3.1% of New Zealand's reserves are located in the West Coast region.

Coal reserves in the North Island account for 6.5% of New Zealand's recoverable reserves. Almost all of this is located in Waikato (4.5%) while the remainder is found in the Taranaki. The following table summarises the location of New Zealand's coal reserves by region.

Figure 2: Coal Reserves by Region

North Island

Regions and coalfields	Coal-in-ground resource (Mt)	Recoverable resource (Mt)
Northland Region	**2.5**	**-**
Waikato Region	**2078.7**	**714.1**
Pukekawa	40.7	12.2
Whangamarino	28.9	8.7
Maramarua	233.2	101.9
Waikare	219.8	96.8
Huntly	1048.2	313.6
Rotowaro	70.9	48.7
Glen Massey	2.1	1.1
Whatawhata	3.7	2.9
Kawhia	181.9	59.2
Tihiroa	181.1	49.2
Te Kuiti	38.4	11.6
Mangapehi	29.8	8.2
Taranaki Region	**379.9**	**173.5**
Mokau	164.9	108.1
Aria	1.9	-
Waitewhena	89.8	32.1
Ohura-Tangarakau	110.9	33.3
Retaruke	12.4	-
North Island total	**2461.1**	**887.6**

South Island

South Island regions and coalfields	Coal-in-ground resource (Mt)	Recoverable resource (Mt)
Nelson Region	**1.5**	**-**
West Coast Region	**983.5**	**343.3**
Buller	193.4	118.4
Inangahua	11.5	5.9
Reefton-Garvey Creek	25.2	11.6
Charleston	16.5	12.9
Pike River	94.3	28.3
Greymouth	543.9	163.5
Aratika	90.1	-
Minor coalfields	8.6	2.7
Canterbury Region	**3.6**	**2.2**
Otago Region	**2721.8**	**1154.2**
St Bathans	1027.1	569.1
Roxburgh	248.3	156.1
Minor Central Otago coalfields	123.6	6.2
Ngapara-Herbert	4.5	3.6
Waihao	14.8	11.9
Shag Point	1.1	-
Green Island	18.1	4.3
Kaitangata	1249.2	386.2
Pomahaka	35.1	16.8
Southland Region	**9392.2**	**6256.4**
Gore	304.4	244.1
Croydon	483.5	333.1
Waimumu	285.5	233.1
Mataura	2940.1	1944.9
Edendale	618.7	494.9
Morton Mains	1225.7	547.1
Waimatua	961.9	833.9
Ashers-Waituna	1356.6	746.1

Makarewa	1026.8	820.9
Ohai	179.1	50.4
Orepuki	9.9	7.9
South Island total	**13 102.6**	**7756.1**
New Zealand total	**15 563.7**	**8643.7**

Notes:
(1) In-ground coal is all coal that is contained in the seams within specified limits; normally thickness, quality and depth from surface.

(2) Recoverable coal, that part of the resource that can be recovered by mining.

(3) Measured coal refers to coal for which collected data allows reliable estimates of coal reserves.

(4) Indicated coal, for which data collected only allows a realistic estimate coal reserve to be measured.

Source: Ministry of Economic Development Report, 1994

As discussed above, by far the largest recoverable coal reserves are concentrated in Southland and Central Otago. Much of the coal in these areas are lignite reserves which have a lower energy content. The Ministry of Economic Development estimate that 83% of New Zealand's recoverable coal reserves are lignite. Sub-bituminous coal reserves make up 13% of total coal reserves and are found in sites throughout the North and South Islands. Bituminous coal reserves, which are confined to areas along the West Coast of the South Island, make up the remaining 4% of New Zealand's coal reserves.

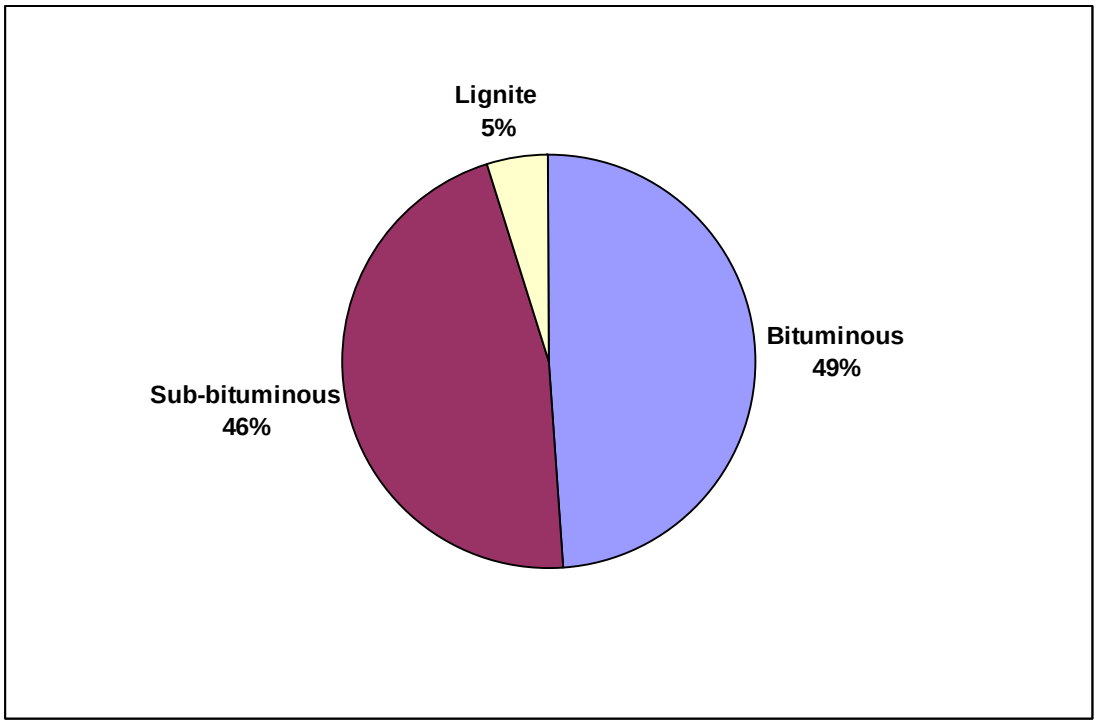
Note: Our research indicated that 1994 is the most recent report outlining reserves and resources in NZ. The Ministry of Economic Development continue to use and rely on this data as indicated in its current Energy Data File (January 2006).

9.1.3 Coal Production in New Zealand:

New Zealand's total coal production in the calendar year to 2004 was around 5.155 million tonnes, which was about 28% higher than in 2000. Solid Energy produced around four fifths of New Zealand's coal production from 12 mines. A significant proportion of Solid Energy's production is destined for export markets.

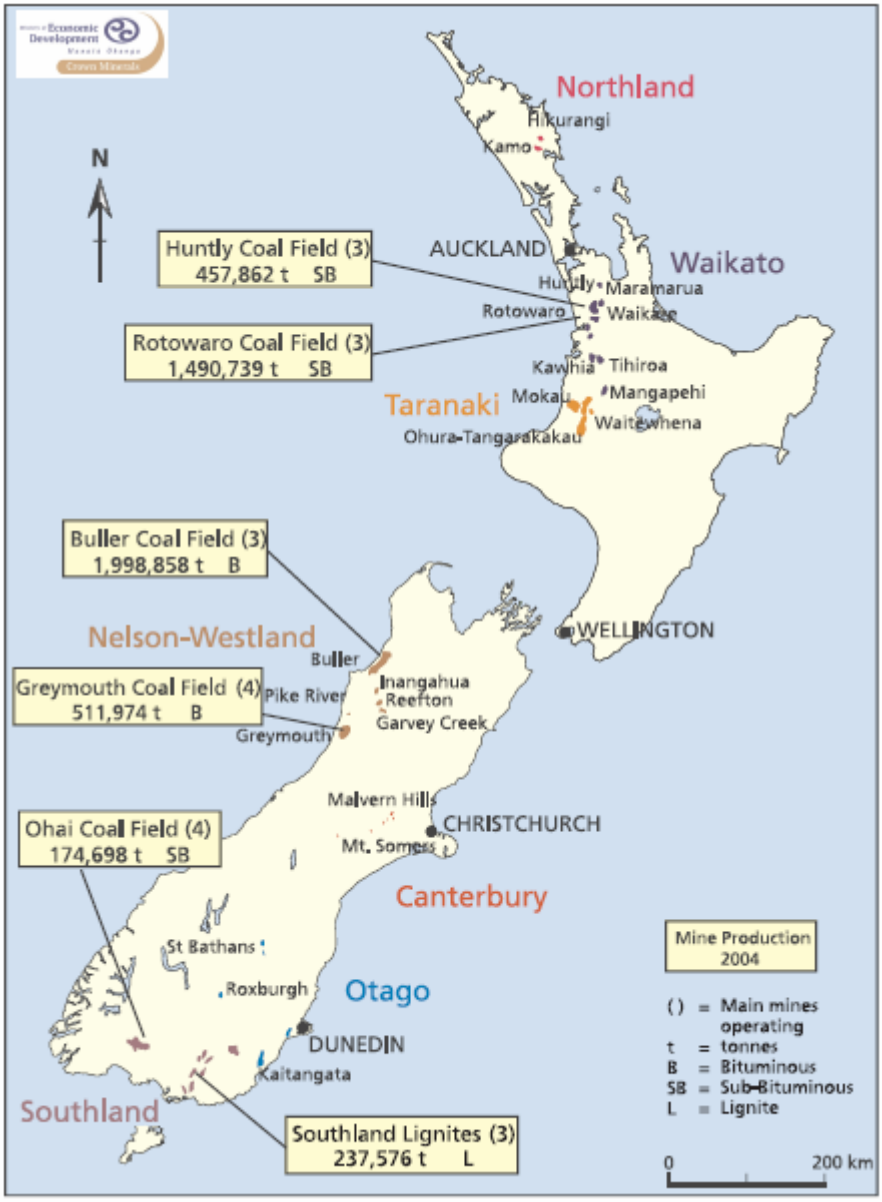
According to the Ministry of Economic Development, most of New Zealand's coal production (as compared to reserves) is high quality bituminous and sub-bituminous coals. Of the 5.155 million tonnes produced in 2004, 49% was bituminous coal, 46% was sub-bituminous coal and the remaining 5% was lignite.

Figure 3: NZ Coal Production by Rank 2004 Calendar Year



Source: MED Energy Data File (January 2006)

Figure 4: % coal production by rank and mining method.



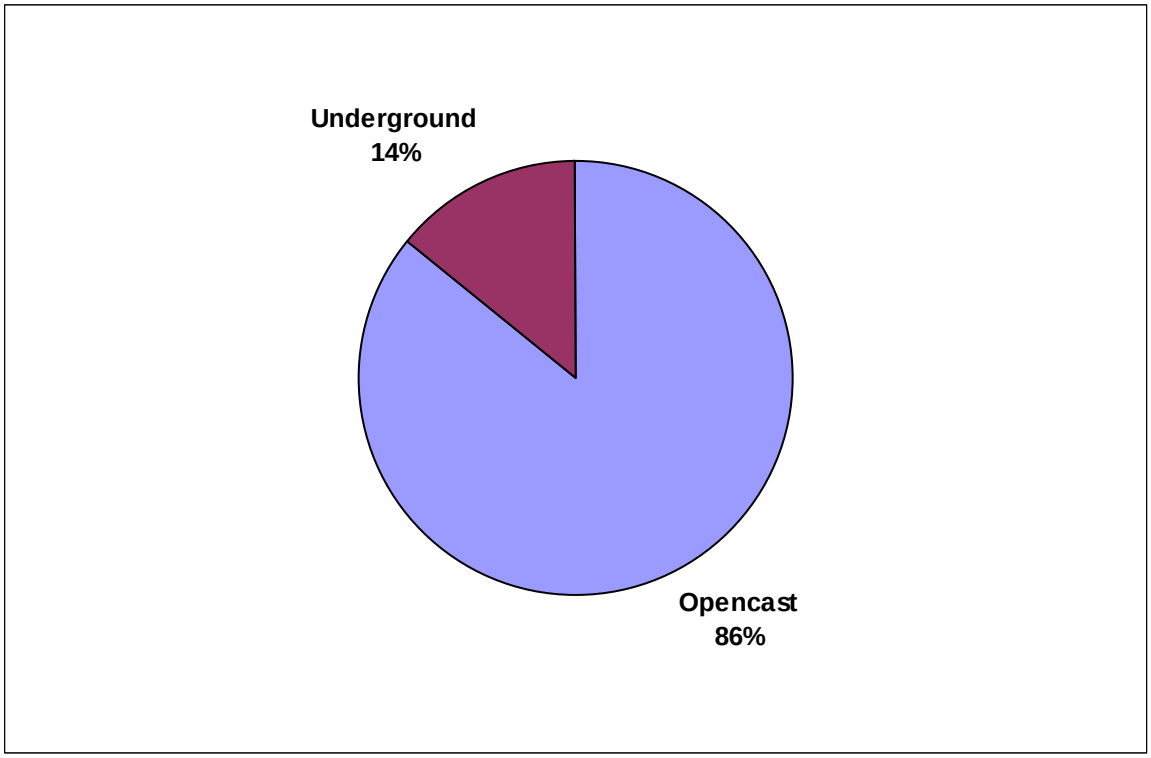
Source: MED Energy Data File – (January 2006) (mines larger than 100,000 tonnes per annum)

Figure 5: Coal production by rank and tonnes

	Calendar Year 2004					
	Bituminous	Sub-bituminous	Lignite	Opencast	Underground	Total (tonnes)
Waikato	0	2,053,707	0	1,611,739	441,968	2,053,707
NORTH ISLAND	0	2,053,707	0	1,611,739	441,968	2,053,707
West Coast	2,526,613	100,175	0	2,359,212	267,576	2,626,788
Canterbury	0	3,722	0	3,722	0	3,722
Otago	0	57,051	1,853	58,904	0	58,904
Southland	0	174,698	237,576	394,968	17,286	412,274
SOUTH ISLAND	2,526,613	335,646	239,429	2,816,826	284,862	3,101,688
NEW ZEALAND	2,526,613	2,389,353	239,429	4,428,565	726,830	5,155,395

Source: MED Energy Data File – (January 2006)

Figure 6: NZ Coal Production by Mining Method 2004 Calendar Year



Source: MED Energy Data File – (January 2006)

All bituminous coals are extracted from West Coast mines, the most productive being the Stockton mine, which produced 2.03 million tonnes of coal in the year ending 31 March 2006. The Waikato region produces the largest amount of sub-bituminous coals. In 2004 this region produced 2.05 million tonnes of coal. Smaller amounts of sub-bituminous coals were extracted from Southland and Otago. The predominant sources of lignite are

in Southland and Otago, with smaller amounts extracted from Canterbury. The Southland and Otago regions produced 239,429 tonnes of lignite and 231,749 tonnes of sub-bituminous coal.

(a) **Production method:** Broadly, there are two alternative methods for extracting coal: opencast mining or underground mining. Opencast mining is usually employed when the coal is near the ground level and it can be easily extracted by removing the covering layer(s) of rock. Underground mining is employed to extract coal that is too deep for opencast mining to be economic. Typically, although not exclusively, older coal types including bituminous and sub-bituminous coals are found at greater depths than lignite and are more commonly extracted using underground mining methods.

Opencast mining methods tend to have more certain costs because with the coal close to the surface, more accurate mine plans can be produced. Production can be more variable with mining contracts priced on overburden moved or coal produced to meet market demand. Up-front mine development costs are usually lower with simpler processing facilities and a shorter lead time from mine development to coal production. Opencast mining is typically contracted to experienced earthwork contractors within the industry who match their equipment to the specific mine requirements at any given time.

Underground mining which accounts for 14% of coal production is typically more risky because unexpected geological conditions have an impact on costs. If coal seams are not located according to the mine plan (developed from the interpretation of the geological drilling work) more time and cost is incurred in removing rock to access the coal seam (capital costs when developing the mine) or to reconnect to the coal seam (expenses when operating the mine).

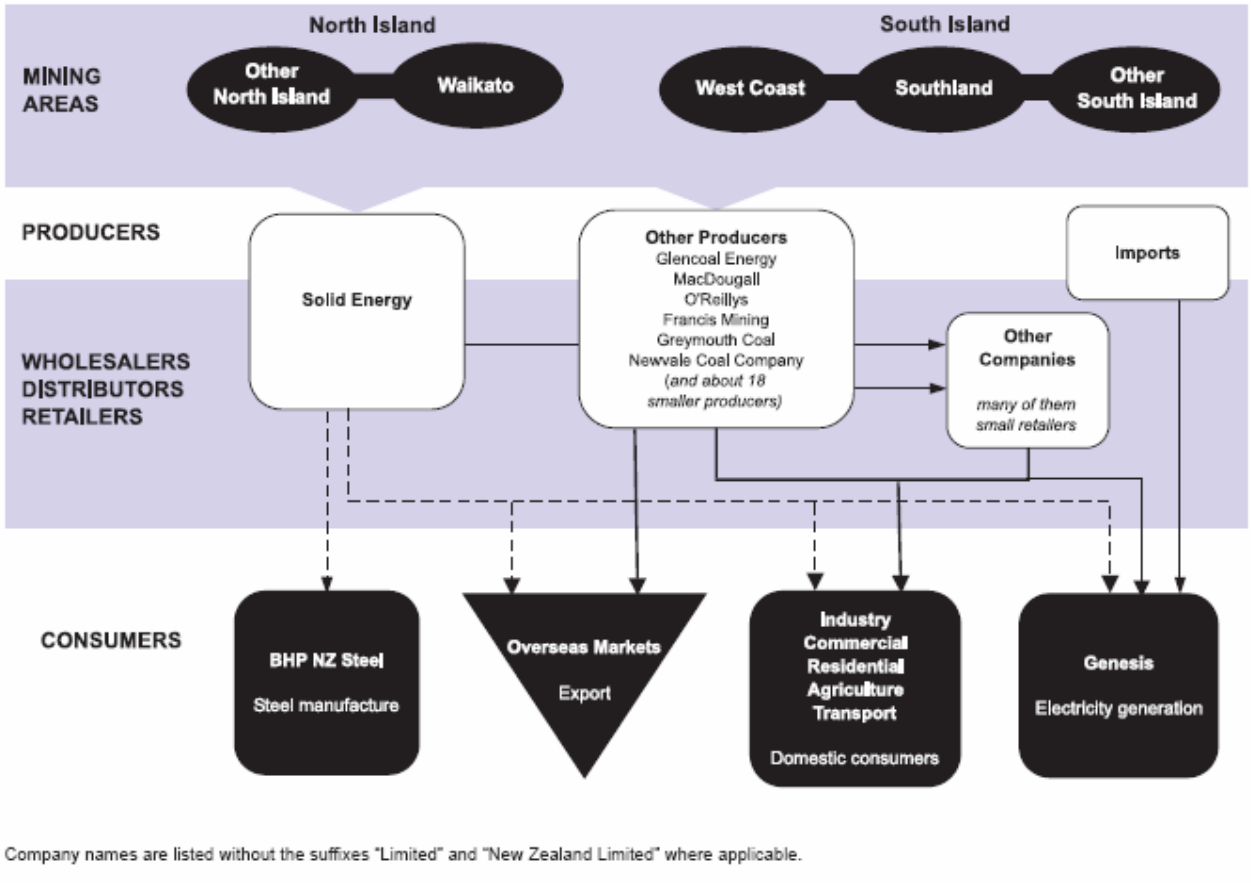
The mine development costs tend to be higher for underground mining than opencast methods because of the time and cost involved in driving access drives through rock to connect to the deep coal seams. Contracting out development and mining is less prevalent in New Zealand because of the geologically complex nature of the New Zealand coalfields and the consequential uncertainty and risks. Solid Energy does not contract out development and mining of any of its underground mines at the present time but contracts out development and mining of the majority of its opencast mines.

[ ]

(b) **Ownership of New Zealand coal mines:** According to the Coal Research Association of New Zealand's 1999 report on industrial coals, there were 23 registered mining companies with licences to operate 46 mining sites throughout New Zealand. Only 26 of these sites produced quantities of coal in excess of 10 thousand tonnes, and six sites were responsible for 77% of New Zealand's 1998 coal production. Based on 1998 production data, Solid Energy produced 77% of New Zealand's coal from ten sites. Coal production from smaller mines can vary significantly from year to year. Over the period 1998-2000 other major producers of coal included: Newvale Coal Co Ltd (5.7%), Glencoal Energy Ltd (7.4%), McDougall Mining Ltd (7.3%), Francis Mining Co Ltd (2.9%), Kai Point (2.1%) and Cascade (1.2%). In addition, there are several wholesalers of coal which sell a combination of coals into the South Island market.

The following figure traces through the ownership of coal produced in New Zealand.

Figure 8: Coal Flows for Year Ended Sept 2005



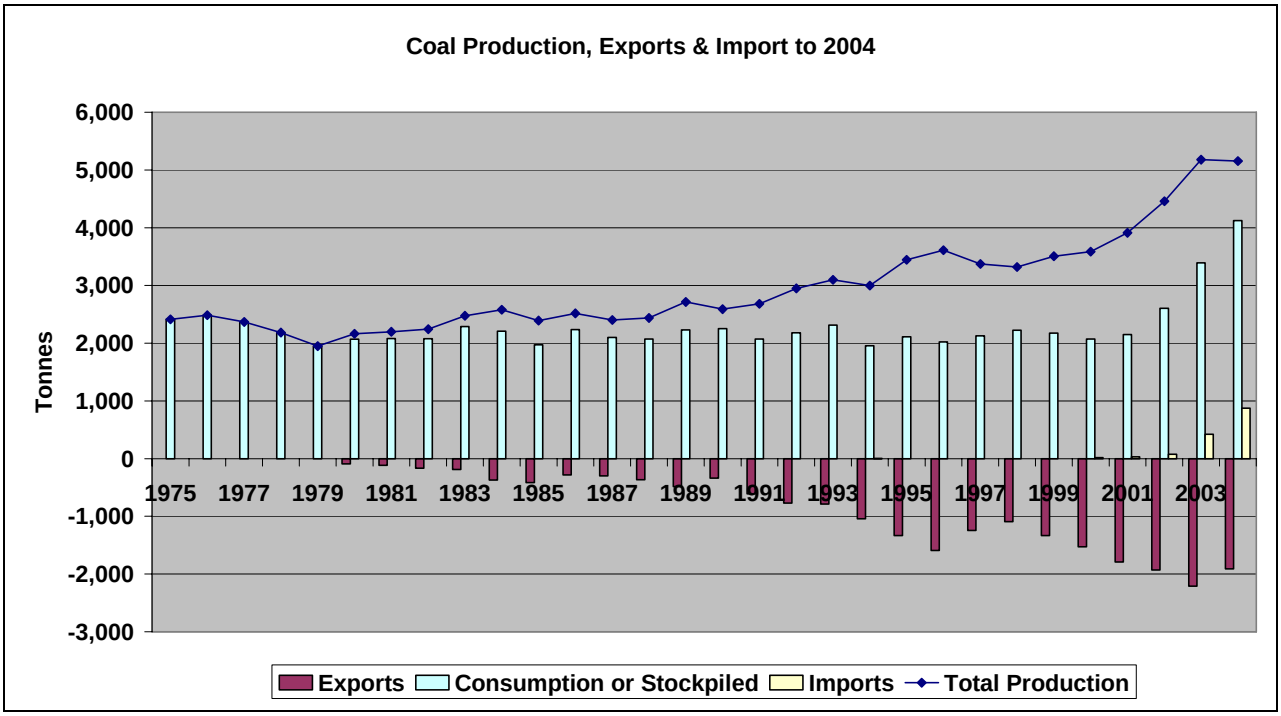
Source: MED Energy Data File - January 2006

9.1.4 Coal consumption

According to the Ministry of Economic Development coal supplies approximately 8% of New Zealand's consumer energy supply, the biggest domestic users being the Huntly power station (approx 2.5mtpa) and Glenbrook Steel Mill (approx 0.8mtpa). Coal is also used extensively in the dairy, cement, meat, timber and health industries and accounts for approximately 18% of domestic consumption of thermal coal. During the year 2005 coal provided approximately 12% of the total electricity generation mix by fuel type. By comparison, 3.8% was the total electricity generation mix by fuel type in the year ending March 2002. The change from gas to coal at Huntly power station has been the major contributor to this increase.

The commercial heating sector accounted for 4.1% of coal consumption, while horticulture, transport and residential sectors accounted for 1.9% (Source: NZ Coal Association Annual Review 2005/06).

Figure 9: Coal Production Export Import & Consumption/Stockpiling to 2004



Source: MED Energy Data File - January 2006

Note: In 2005 imports increased to 1.1mt

(a) **Coal exports:**

According to the World Coal Institute (www.worldcoal.org) the total world hard coal production in 2004 was 4,629 million tonnes.

The international market for coal is divided into two main parts:

(i) the market for thermal coal, which uses coal in electricity generation and general industry; and

(ii) the coking coal market, which demands metallurgical grade bituminous coals to use in chemical, steel and iron manufacturing processes.

New Zealand is a small player in the international coking coal market. New Zealand exported around 2.1 million tonnes of coal in the 2005 year, which represents 1.2% of the international 2004 coking coal market. New Zealand exports of coal are predominantly high quality bituminous coal or coking coal.

All of New Zealand exports are produced from mines in the South Island's West Coast region. Coals from this region exhibit special qualities, including low ash and low phosphorus content and high fixed carbon content and good coking properties, that make them internationally sought after for chemical and steel making processes. These properties make New Zealand coals highly attractive for blending with lower quality bituminous coals from all major coal

producing countries and attract a premium price on international coal markets.

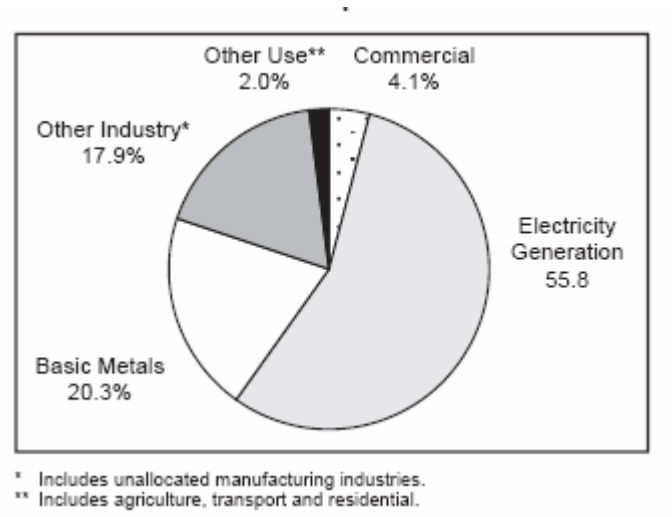
Most of New Zealand's export coal has historically come from Solid Energy's Stockton opencast mines in the Buller coalfield. Coal from Solid Energy's Greymouth and Reefton mines has been exported in recent years, albeit in smaller volumes. Francis Mining Co Ltd also export small quantities of coal from its Greymouth mines. Approximately 60% of New Zealand's coal exports go to Japan, with other major destinations including: China, India, Chile, Australia, South Africa and South America.

(b) **Domestic coal consumption:**

Around 4.1 million tonnes of coal was consumed domestically in the year ended September 2005. According to the Ministry of Economic Development, the North Island consumes approximately 83% of domestically available coal.

The most significant domestic consumers of coal are New Zealand Steel Ltd, which purchase around 20% of New Zealand's domestic coal sales and Genesis Energy, which purchase 30% of all domestic coal. Other large domestic coal users include Golden Bay Cement (who import their coal from Australia) and Holcim. The dairy industry is also a significant consumer of coal in both the North and South Islands.

Figure 10: Domestic Coal Sales



Source: MED Energy Data File - January 2006

(i) Industrial coal users:

The steel, dairy and cement industries are the largest coal users outside of the electricity generation industry. Industrial (non-electricity) use in New Zealand is dominated by one user –New Zealand Steel Ltd at its Glenbrook Steel Plant.

New Zealand Steel Ltd uses sub-bituminous coal, all of which is obtained from Solid Energy's Waikato coal mines. Internationally, New Zealand Steel Ltd is unique because

they have developed special production methods specifically tailored to utilise the locally available coal and ironsand.

(ii) Blending:

Sub-bituminous or thermal coals are typically used industrially for heating and electricity generation because they are lower cost compared to higher quality bituminous coals. In addition, bituminous coals may not be generally suitable for furnace burning due to the high energy of these coals. In particular, there are two properties that make bituminous coals unsuitable for industrial process heating:

(A) Bituminous coals burn extremely hot and can melt furnace grates unless specifically designed for bituminous coals.

(B) Bituminous coals also emit greater amounts of pollutants compared to other coal types when burnt in industrial heating furnaces.

Despite these properties, the fact that they are hot burning can sometimes make them suitable to blend with lower quality sub-bituminous or lignite coals to improve the overall suitability of the coal. Some bituminous coal is sought domestically for blending.

(iii) Other industrial process, heating and retail coal consumption:

Around 18% of total domestic coal is used in industry, excluding electricity generation, steel and cement manufacturing. A further 3.6% is sold through retail outlets. The largest users of coal outside the electricity generation, steel and cement industries are the dairy, food manufacturing and timber industries. Additionally, coal is used for heating in many hospitals and industrial sites throughout New Zealand. (see paragraph 9.2 for further discussion)

9.1.5 Domestic coal price

Apart from a few large industrial coal users, who require specific coal qualities for their individual industrial processes, most coal users require coal for an energy source or simply for heating. In practice, large industrial users negotiate a contract price for a specific quality and quantity of coal. Industrial users of coking coal typically negotiate a price based on a similar energy content for specific bituminous coal. Domestically supplied bituminous coals are priced lower than international prices because they are generally non-coking bituminous coals and therefore unsuitable for metallurgical use.

The thermal coal market generally views coal as a homogenous product and consequently prices in energy units rather than tonnes. The standard energy measure is Gigajoules (GJ). Coals typically contain 15-30 GJ per tonne. Pricing in Gigajoules enables direct comparisons between different coal types.

There are three factors that set the price per gigajoule of different coal types apart:

(a) the calorific value of the coal;

(b) any special handling and storage costs at the site; and

(c) transport costs.

According to Solid Energy, the domestic price for thermal coal varies between $**[ ]** per tonne excluding freight for lignite, and up to $**[ ]** per tonne excluding freight for sub-bituminous coal. As noted, thermal coals are usually priced on an equivalent energy basis, allowing ready price comparisons across a wide range of coal qualities. While prices on a per tonne basis may differ significantly for different quality coals, prices on a per gigajoule basis are more closely aligned. When costs of storing and handling (including the costs of any specific boiler requirements) the different volumes of coal which may be required to deliver a particular level of energy are taken into account, thermal coals, across the broad range of quality levels, are competitive with one another.

Currently, the international price received at a New Zealand port for thermal coal (bituminous) averages slightly around NZ$**[ ]** per tonne.

The domestic price for bituminous coal ranges between $**[ ]** per tonne before freight. In comparison, the internationally equivalent bituminous coking coal price averages around $**[ ]** per tonne (at a New Zealand port).

Thermal coal is usually priced in terms of its total energy output. The higher the calorific value of the coal, the lower the quantity of coal that will be required to produce a given level of energy. This has important implications for transport costs, as transport costs are calculated in terms of distance travelled, irrespective of the energy content of the coal.

An additional dimension that impacts on the domestic coal price is the degree of competition for the supply of coal. There are currently around 12 coal producers and wholesalers which sell to a variety of customers including both large and small industrial coal users. Solid Energy is the only coal supplier with the production capacity and the coal quality to continuously supply coal of consistent type and specifications and high tonnage to the major coal users like New Zealand Steel Ltd and Genesis.

Several other coal suppliers do have sufficient production capacity to supply large quantities of coal to other users. These suppliers include Cascade Mining Ltd, which supply **[ ]** of Holcim's bituminous coal and Glencoal Mining Co Ltd, which along with Solid Energy, supply Genesis's Huntly power station. McDougall Coal also supply coal to Genesis's Huntly power station.

Most coal producers are small scale, supplying smaller quantities of coal to the thermal coal market. This competition ensures that prices remain competitive. In addition, all coal suppliers and wholesalers have the productive capacity to increase coal production in response to higher prices or meet additional demand within the thermal coal market.

The following table provides three different transportation scenarios for three different coals located in different parts of the South Island. It is based on a premium sized product namely "pea" grade suitable for small industrial and commercial users.

[ ]

The table above highlights that the breakeven location for transporting coal within the South Island from West Coast or Southland sources at present price levels based on average transport costs is around Timaru. However, companies which are prepared to adjust prices to overcome additional transport costs can profitably supply throughout the South Island at prices that are above their marginal costs.

[ ], for example, is able to optimise transport costs through efficient use of its own trucking fleets to further reduce transport costs.

9.2 **Supply of Coal to South Island Domestic Markets – Further Analysis:**

9.2.1 Figures 11 above and 12 below chart the geographic range of competitiveness amongst thermal coal suppliers in the South Island. The figures test the sensitivity when adjustments to the $ value per Gigajoule is varied.

The exercise was undertaken by assigning the most significant thermal coal producers an "ex-mine" expected selling price for this coal.

[ ]

The coal price has been assessed (necessarily with an element of subjective judgment) on the following factors:

(a) Nature of mine e.g. Opencast, stripping ratio etc;

(b) Known "ex-mine" price where available;

(c) Range of products;

(d) Varying customer sizes;

(e) A transport cost of $0.14 per tonne per kilometre (this is a fully costed trucking rate which does not assume any backload benefit);

(f) Trucking has been selected as the transportation mode although in some cases rail transport is possible at a lower cost. However, all mines can access road transport at competitive rates and all do so;

(i) The calculated distances for competitive ranges have been reduced by 20% to approximate for the difference between road distances, and "as the crow flies" distances; and

(ii) The competitive geographic range of coal is sensitive to its energy content. Energy content is based on published data by CRL Energy Limited.

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The combined effect of "ex-mine" value, energy content and cost per tonne per kilometre allow for the calculation of delivered energy costs.

The above maps show the relative competitiveness of the assessed coals at $3, $4 and $5 per gigajoule (GJ).

At $3 per GJ only three coals have an ex-mine value lower than $3 per GJ. No coals are able to be supplied into Canterbury at that price.

At $4 per GJ, all coal sources are able to enter the market and there is significant scope for competition across Southland, Otago and parts of Canterbury.

At $5 per GJ, there is ample scope for competition in all areas of the geographic market from multiple suppliers.

Prevailing prices of between **[ ]** per GJ in Canterbury make strong competition from competing suppliers a reality.

Code to interpreting Figures 12a, b and c

Region	**Supplier**	**Colour**
Buller	Eastern - Cascade	Yellow
Reefton	Giles Creek	Green
Imports Ex-Timaru	Unspecified	Red
Otago	Kai Point Coal	Mauve
Eastern Southland	New Vale	Yellow
Western Southland	Eastern – Straith	Blue

Greymouth suppliers have not been included due to current production interruptions and uncertainty as to whether those suppliers will re-enter the market. If they were to re-enter they are competitively well placed with regard to supply into Canterbury.

IDENTIFICATION OF MARKETS AFFECTED

Horizontal Aggregation

10. Are there any markets in which there would be an aggregation of business activities as a result of the proposed acquisition?

10.1 In the event of the proposed acquisition we have concluded that there is only one relevant market which has the following dimensions:

10.1.1 **product dimensions:** lignite and sub bituminous thermal coal market, including bituminous coal for blending with thermal coal;

10.1.2 **geographic dimension:** the southern half of the South Island (including South Canterbury); and

10.1.3 **functional dimension:** mining and distribution of lignite and sub bituminous coal and bituminous coal for blending.

10.2 The Newvale mine is operated predominantly **[ ]** Newvale produces approximately **[ ]** tonnes of lignite per annum of which approximately **[ ]** tonnes is supplied to **[ ]**. The balance of production is supplied amongst a variety of industrial and domestic users throughout the lower half of the South Island.

The approximate regional spread of sales for Newvale are:

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Of the sales in Southland, **[ ]** accounts for **[ ]** tonnes. Additionally, we understand **[**

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10.3 The proposed acquisition will result in horizontal aggregation in the mining and distribution of thermal coal in New Zealand on the basis that coal from the Newvale mine is sold into the domestic market. Although Newvale does not supply coal into the South Canterbury region (its northern bound coal largely going to Christchurch) we consider South Canterbury to be included in the geographic market because **[**

] This demonstrates along with Newvale supplying into Christchurch that the geographic market should encompass South Canterbury. The presence of Kai Point, Giles Creek, Kenroll and possible Strait mine (in the future) in South Canterbury are sources of supply which could supply should the merged entity raise prices. We also refer to the pricing analysis undertaken at paragraph 9.2 above. **[**

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10.4 At paragraphs 17 and 19 we advance the view that other forms of energy although not supplied in the same market do compete with thermal coal to some extent and should be regarded as potential substitutes. This competition in our view is growing. The evidence of customers moving to alternative energy sources and outlined in paragraph 13.29 support the contention that other forms of energy are close substitutes to thermal coal in the eyes of coal purchasers, particularly for purchasers who have boiler plants set up to burn lignite.

10.5 We note that the Commission did not conclusively determine this point in its Decision 397, preferring to take a conservative view in the absence of compelling evidence. We consider that market conditions have changed since Decision 397. We believe that NZ is moving toward a single thermal energy market with costs of different modes moving into alignment when fully costed (ie including total cost of equipment, operational and R & M costs and fuel costs are taken into account).

A smaller user requiring hot water for process use or heating could have:

10.5.1 High capex, very efficient, heatpump based system using relatively expensive electricity efficiently;

10.5.2 Low capex, high fuel cost LPG based system;

10.5.3 Mid capex, mid fuel cost diesel fired system;

10.5.4 High capex, low fuel cost coal based system with high maintenance, ash disposal costs etc;

10.5.5 High capex, low fuel cost woodwaste based system with high maintenance, ash disposal costs etc.

For smaller users these are all competing viable options.

At present for larger users the low fuel cost for coal tends to prove the lowest overall cost option although the examples of customers lost by Solid Energy in Canterbury to electricity and LPG as quoted in clause 13.29 show that real competition exists. In the North Island reticulated natural gas has taken a substantial share of the industrial thermal energy market from coal over the last 25 years and a single thermal energy market is almost certainly a reality there.

While it may be premature to conclude there is a single thermal energy market in the South Island, we believe the Commission should place some weight on this to the extent it does exist already and the trend towards it.

VERTICAL INTEGRATION

11. Will the proposal result in vertical integration between firms involved at different functional levels?

11.1 The proposed acquisition will not result in any vertical integration occurring between functional levels.

12. In respect of each market identified in questions 10 and/or 11 identify briefly details of proposed acquisitions notified to the Commission, the outcome of the notification, whether the acquisition occurred and any other acquisitions undertaken in the last three years.

SOLID ENERGY

12.1 Neither Solid Energy nor the vendors of Newvale have notified any proposed acquisitions to the Commission in the past three years. The last acquisition notified to the Commission by Solid Energy was that of the shares of Todd Coal Limited (**Todd Coal**) in various mining interests related to the Spring Creek Mine which was given clearance on 28 June 2001 (Decision 432).

12.2 Specifically the Commission gave clearance for the acquisition by Solid Energy of:

12.2.1 Todd Coal's interest in the Greymouth Coal unincorporated joint venture (including the issued share capital in cash of Greymouth Coal Limited and Greymouth Coal Operating Limited held by Todd Coal);

12.2.2 Todd Coal's interest in the Upper Waimangaroa unincorporated joint venture;

12.2.3 The assignment of Todd Coal's interest in the coal supply agreement with Golden Bay Cement; and

12.2.4 Todd Coal's interest in the Moody Creek Mine.

12.3 On 4 August 2000 the Commission also gave Solid Energy clearance to acquire the domestic retail customer base of Francis Mining Limited (Decision 397).

12.4 Solid Energy has not been involved in any acquisition in the last three years which has Commerce Act significance.

VENDORS

12.5 None.

CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION

13. Who are the suppliers of competitive goods or services – including imports and what are their estimated shares of productive capacity and of the market?

13.1 It is acknowledged that for the purpose of considering the application the Commission will take the view that a "lessening of competition" and "strengthening of market power" are equivalent and the terms are used by the Commission interchangeably. This information on existing competition in the market and market shares held by those competitors is relevant and is provided below and earlier in this application.

13.2 According to the Ministry of Economic Development, coal produced in New Zealand comprises 49% high quality bituminous coal, 46% sub-bituminous coal and the remaining 5% lignite.

13.3 The Newvale mine produces lignite.

13.4 According to the Coal Association of New Zealand's 1999 report on industrial coals, there were 23 registered mining companies with licences to operate 46 mining sites throughout New Zealand. Twenty six of these sites produced quantities of coal in excess of 10,000 tonnes. Six sites were responsible for 77% of New Zealand's 1998 coal production.

13.5 Newvale produces approximately 5.7% of coal supplied to the domestic market.

13.6 Most coal suppliers have sufficient production capacity to supply larger quantities of coal. At present many coal producers are small scale operations supplying smaller quantities of lignite and sub-bituminous coal. The market for lignite and sub-bituminous coal is the most competitive of all of the markets for grades of coal in New Zealand.

13.7 All of the suppliers of lignite and sub-bituminous coal in the market have the potential to increase production in response to any attempt by Solid Energy to restrict supply and increase the domestic price of thermal coal. Accordingly there is no significant barrier to increasing production nor does there appear to be significant barriers to entry given the low costs of establishing an opencast mine (see Fig 7). Additionally, given that approximately 83% of coal reserves in New Zealand are lignite which are concentrated in Southland and Central Otago, access to reserves would be relatively easy (see further discussions on L & M Mining at paragraph 13.17 et seq). This point was acknowledged by the Commission in Decision No. 397.

13.8 An important factor in the ability of coal producers to increase production is the type of mine that is in operation. It is relatively inexpensive to expand production with an opencast mine due to low capital costs and most costs are variable with production, providing good flexibility. Most lignite and sub-bituminous coal is mined in open cast mines. Lignite, such as Newvale's coal, is typically a "shallow" coal with little soil cover therefore both the production costs and initial investment to extract lignite are low. Also, the shallow nature means mines are relatively small, easy to rehabilitate and therefore the easiest of mines to obtain RMA consents for.

13.9 Cascade mine (now owned by Eastern) has traditionally produced around 40,000 tonnes of sub-bituminous coal per annum. We understand that, under the new ownership of Eastern, production has ramped up to 100,000 tonnes per annum. Similarly, Straith mine, acquired by Eastern in September 2006, has historically produced around 20,000 tonnes per annum (with less production in the last two years) but is set to gear up to produce approximately 100,000 tonnes per annum (source: ASX announcement by Eastern Corporation, September 2006). As these examples show, ramping up production is readily obtainable over a short time frame provided the owner has sufficient financial resources to meet the cost of doing so. Arguably the capital costs are largely dictated by the existing plant on site. This in part explains why many of the smaller mine operations are relatively low producers. It is Solid Energy's experience and view that little capital investment is occurring with these smaller mines and many are using old and outdated plant. An injection of capital would be all that is required for production to increase given that most thermal coal lies reasonably close to the surface of the ground and most opencast mines have significant in ground reserves. Giles Creek is an example of a smaller mine that has ramped up production as a consequence of capital being contributed. Historically Giles Creek has produced annual volumes of between 20-30,000 tonnes of thermal coal. In 2005 it acquired a wash plant from Australia and as consequence Giles Creek has the capacity to produce 200,000 tonnes of coal annually.

IMPORTED COAL

13.10 The importation of coal also exists to maintain competition. The importation of sub-bituminous coal from Australia and Indonesia provides an effective constraint on pricing by New Zealand coal producers. Coal is presently being imported into New Zealand via three North Island ports by Genesis and New Zealand Steel Ltd (on a trial basis with coal imported by Genesis), McDonalds Lime and Golden Bay Cement. For the period June 2003 to July 2006 approximately 2.827 million tonnes of thermal coal was imported into the North Island. **[ ]** The importation of coal into the South Island through the major ports is technically and economically feasible. Solid Energy and at least two other major coal consumers have considered this option. Importing into the South Island has not yet occurred because Solid Energy believes that customers prefer the simplicity and security of supply from local sources to be preferable unless there is a clear price advantage from imports.

Coal imports by Genesis have a landed cost (FOB price plus ocean freight) of an average of **[ ]** per GJ (2006 ytd) allowing for port charges and storage and handling, imports are competitive at **[ ]** per GJ in the vicinity of the major South Island ports.

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(Source: Customs Statistics)

SUPPLIER OF COMPETITIVE GOODS

EASTERN CORPORATION LIMITED

13.11 The recent arrival of Australian listed company Eastern in the South Island coal market is a further credible competitor to Solid Energy. In 2005 Eastern acquired the assets and business of Cascade mine. Cascade mine is located in the Buller district and is operated as an opencast mine producing high energy bituminous coal. Cascade coal is presently sold domestically. Cascade produced 49,193 tonnes for the year ended 31 March 2006 and have announced plans to increase output to 100,000 tonnes.

13.12 On 5 September 2006 Eastern announced, via the Australian Stock Exchange, that it had acquired the coal mining operations of Straith Industries at Ohai. Eastern also acquired the Timaru Fuel Centre which will be used as a coal stockpile and blending distribution facility centrally located between the Straith and Cascade mines.

13.13 The ASX announcement clearly indicates Eastern's intention to expand into the South Island thermal coal market. Discussing the Straith acquisition, Eastern's CEO said,

"The acquisition is an important step in Eastern's strategy of expansion in New Zealand. It is Eastern's intention to build a robust, self-sufficient mining operation which will generate cashflow to fund the company in the development of its current projects and pursuit of new opportunities."

The full text of the ASX announcement is attached at Appendix E.

Eastern advises that it is planning to have the Straith mines produce 100,000 tonnes of coal annually (from a total in-ground resource of 2.85 million tonnes). Further, Eastern has also applied for prospecting permits over adjacent land leading to a potential to increase tonnages through further exploration.

13.14 Clearly, the intention and plans of Eastern are to gear up to be a significant competitor to Solid Energy in the Otago/Southland, South Canterbury and West Coast regions. We understand from the ASX announcement that Eastern has the capital resources to implement its intentions, has ordered plant from suppliers and will start operations in October 2006. **[ ]**

13.15 Further details in the ASX announcement note that their Ohai resources have attractive geological and mining characteristics. The quoted downhole ratio of less than 5:1 is more favourable than Solid Energy's existing Ohai mine. This strongly implies their operation will be more competitive against Solid Energy owned Newvale than Solid Energy Ohai is against Newvale at present.

13.16 Further information on eastern can be found at www.easterncorp.com.au.

L & M MINING LIMITED

13.17 Although not yet a miner or distributor of thermal coal L & M Mining Limited (L & M) has publicly discussed its plans to enter the business of coalbed methane production and the mining and distribution of thermal coal including large scale development of lignite resources in Otago and Southland. [Source: Paper to Australasian Institute of Mining and Metallurgy, 2002]

13.18 Evidencing these intentions L & M, through itself and associated companies, has acquired a number of parcels of land in the Southland and Otago regions. A search of the relevant land registries reveals that L & M and associated companies own 12,073 hectares of land in the Otago and Southland regions.

13.19 L & M Coal Limited has five exploration permits and applications covering 272 square kilometres in Buller, Kaitangata and Ohai in the South Island and Maramarua and

Whangamarino in the North island. L & M Southland Lignite Limited also has four exploration permits over significant land areas in Southland (approximately 9,578 hectares). The same company also holds an exploration permit over 8,690 hectares in Central Otago. As discussed at paragraph 13.29 it is not possible to identify what if any, private coal rights the L & M group of companies hold. L & M on its website (www.lmgroup.net.nz] comments that it has identified resources of 125 million tonnes of coal. Recent events, such as the run off of gas production has reopened opportunities for commercial development of coal in New Zealand and L & M indicated that it wishes to pursue these opportunities.

13.20 At Kaitangata, L & M is well advanced in its evaluation in establishing an opencast mine accessing 10 million tonnes of lignite to sub-bituminous coal. A similar evaluation is being undertaken at Ohai (source: www.lmgroup.net.nz).

KAI POINT COAL LIMITED

13.21 The Kai Point opencast mine has been operating since 1958 and produces approximately 55,000 tonnes of lignite/sub-bituminous coal (typically with a gross calorific value of 19.67 Mj/kg) of which 80% is supplied to industrial consumers and the balance to the domestic household.

13.22 Coal from Kai Point is sold in the Balclutha-Dunedin area but some sales occur in Invercargill and Christchurch. Coal is also blended in Kai Point's subsidiary's premises in Dunedin.

13.23 Further information on Kai Point is available at www.kaipointcoal.co.nz.

GILES CREEK

13.24 Birchfield Coal Mines Limited is the owner of the Giles Creek mine located in Reefton, West Coast. The coal is sub-bituminous (with a typical calorific value of 19.50 Mj/kg) and is supplied to meat and wool processing, rubber and service industries throughout Canterbury (and South), the West Coast, Nelson and smaller amounts to Otago/Southland.

HEAPHY MINE

13.25 The principal market for Heaphy is the supply of sub-bituminous coal into the Nelson region. Current production is understood to be approximately 20,000 tonnes per annum.

KENROLL (CANTERBURY COAL LIMITED)

13.26 The main customer for Kenroll is the Christchurch hospital which takes around 70% of Kenroll's 20,000 tonne annual production. The coal produced is sub-bituminous.

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These numbers are taken from Solid Energy's market database. It fully states Solid Energy's sales but underestimates competition sales as not all are known.

13.27 As discussed above horizontal aggregation will only occur in Otago, Southland and South Canterbury. However, if one were to acknowledge the acquisition of Straith mine and Cascade by Eastern and **[ ]** the acquisition of Newvale mine by Solid Energy will act to constrain Eastern in the relevant market. We say this because if Solid Energy's acquisition of Newvale does not proceed and Eastern is the ultimate acquirer of Newvale there is likely to be no real substantial competitor to Eastern unless parties such as L & M enter the market or **[ ]** opens a new mine.

13.28 Competition in the market is active. In the last 18-24 months Newvale was outbid by Harliwich Roxborough Coal for the coal supply of **[ ]** tonnes per annum to the Central Otago District Council (Cromwell Swim centre). Kai Point has captured increased market share into the bagged and general household market in Gore and Invercargill. This has eroded both Solid Energy's and Newvale's share of this market. Kai Point also outbid Newvale for the coal supply contract with City Forests, Milburn. The supply is for **[ ]** tonnes of lignite. **[ ]** Additionally both Fonterra's Clandeboye Plant and Dunedin hospital have recently successfully trialled Newvale lignite. Both Clandeboye and Dunedin hospital presently use Ohai coal.

Other examples of movement in the market (from higher to lower energy coal) are:

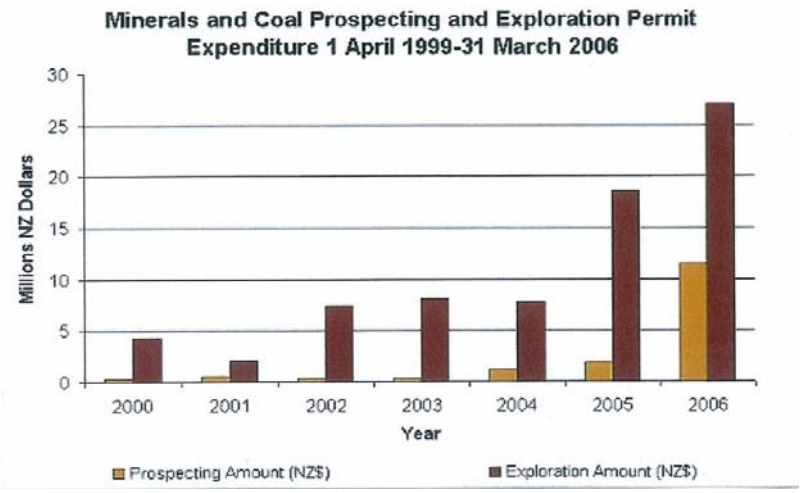
13.28.1 PPCS Waitane have moved from a 24GJ coal to a 19GJ coal (approximately a 1500 tonne annual supply);

13.28.2 Southtile Limited have moved from 100% supply of Ohai coal to 50% Ohai and 50% Newvale coal (approximately 3000 tonne annual supply); and

13.28.3 Kew hospital (Invercargill) sourced Ohai coal up to last winter but this year have exclusively used Newvale coal (approximately 1000 tonne annual supply).

13.29 Permit applications in New Zealand are increasing as indicated in the below table. Arguably the increase in applications demonstrates the increased focus on coal mining as a profitable economic activity attracting renewed interest.

Figure 14: Permit Applications



It must be noted that a review of permits/licences granted by the Crown only reveals part of the exploration and mining activity in New Zealand in relation to lignite coal. Unlike other minerals, such as gold, coal can be owned by the Crown or privately in New Zealand. The vast majority of lignites are privately owned and therefore outside of the permit regime of the Crown Minerals Act – which relates only to minerals owned by the Crown. Accordingly, the permits/licences granted can provide no guide as to whether or not privately owned lignites are being or likely to be accessed.

13.30 In addition to competition from coal producers, Solid Energy also faces constraints from other energy sources. Whilst the degree of constraint from other energy sources varies by location and application, for many heating applications gas, oil or electricity represent a realistic alternative to coal. In regard to electricity generation for example, gas and coal are rival fuel uses at the Huntly power station, and electricity generated by other means (e.g. hydroelectric) is a low cost competitor to both.

13.31 See also paragraphs 16 and 17 below.

14. Identify any links, formal or informal, between any participant/s including interconnected bodies corporate and other persons identified at paragraph 5 and its/their existing competitors in each market

14.1 Other than the proposed acquisition there are no links between Solid Energy and Newvale and/or its shareholders.

14.2 Solid Energy has links with Francis Mining by virtue of the sale and purchase of coal agreements which was given clearance by the Commission on 4 August 2002 in Decision 397.

15. Do any directors of the "acquirer" also hold directorships in any other companies which are involved in the markets in which the "target company/business" operates?

15.1 No.

16. To what extent do you consider that the merged entity would be constrained in its actions by the conduct of existing competitors in the markets affected?

16.1 The primary constraints in respect of coal produced from the Newvale mine are the **[ ]** the acquired entity would be highly constrained in its actions and the acquisition will give it no greater market power.

16.2 Following implementation of the proposed acquisition, Solid Energy will also continue to have considerable constraints on any attempted exercise of market power in the markets affected from those competitors discussed at paragraph 13 above.

16.3 Alternative suppliers in the domestic market and the potential viability of importing coal would preclude Solid Energy's acquisition of Newvale resulting in a substantial lessening of competition. There are a number of producers of lignite and sub-bituminous coal who could increase production with little difficulty in the event that Solid Energy attempted to impose a small yet significant and non-transitory increase in price.

PART II: CONSTRAINTS ON MARKET POWER BY POTENTIAL COMPETITION

POTENTIAL SUBSTITUTES

17. Please list goods/services, if any, the purchaser could buy as potential substitutes and set out who supplies the potential substitutes and who owns the suppliers

17.1 LPG gas, fuel, oil and diesel, waste oil, wood (being wood, wood waste or wood pellets) and electricity are potential substitutes for coal as an energy source. For many heating applications, electricity and gas represent alternative energy sources to coal. Oil, waste oil and wood are also seen as alternative energy sources. Electricity suppliers are significant suppliers to the industrial processing, dairy, meat, health, timber processing, paper and horticultural industries. Electricity suppliers already market actively to industrial coal users and if the price for coal increased significantly coal customers could rapidly substitute their energy supply with electricity.

17.2 **[ ]**

17.2.1 **[ ]**

17.2.2 **[ ]**

17.2.3 **[ ]**

17.2.4 **[ ]**

In respect of Solid Energy:

17.2.5 Chargeurs Wool – conversion to diesel;

17.2.6 Waikari Hospital – conversion to LPG;

17.2.7 Christchurch City Council – conversion to LPG;

17.2.8 Several schools and businesses requiring commercial heating – conversion to electricity;

17.2.9 Solid Energy's wholly owned subsidiary, Natures Flame Limited is shortly to install a woodwaste fired boiler for Radford Yarn Technologies, Christchurch which is to replace an existing electric boiler.

Woodpellet burners are also becoming popular as a form of domestic heating.

17.3 The substitutability of electricity for coal-based energy is affirmed by announcements by other electricity generators/suppliers, including Meridian, Genesis, Contact, Trustpower and others. All these generators propose to increase generation capacity, even though New Zealand's electricity supply and demand is approximately in balance, since they perceive that if they are able to increase generation with a broader and lower cost base they will be able to increase market share in supply. Solid Energy considers supply of low cost electricity from Meridian to be a direct competitor to supply of coal to the industrial market in Southland, Otago and Canterbury.

18. Identify any links, formal or informal, between the participants in this proposal and suppliers of potential substitute in each market

18.1 None.

19. To what extent do you consider that the merged entity would be constrained in its actions by the presence of suppliers of potential substitutes in the markets affected?

19.1 Whilst it has previously been considered to be open to argument whether substitutability across products and relevant chains of supply exist in respect of coal, Solid Energy's experience is that alternative energy forms are already direct competitors. It is clear New Zealand's energy supply and demand will alter even more towards ready substitutability in the future. In "Energy Outlook to 2020" published by the Ministry of Commerce in February 2001 it is stated:

19.1.1 "The composition of New Zealand's energy supply and demand balance is projected to alter significantly over the next 20 years, as demand growth is met, and as:

(a) The relative rates for fuels change;

(b) The Maui gas field depletes;

(c) The diversity of new electricity generation projects increases; and

(d) Climate change issues impact on energy use."

19.2 It is submitted that competition amongst different energy providers is strong already, and becoming even more significant in future.

CONDITIONS OF EXPANSION/ENTRY

20. The following categories cover different types of entry conditions:

20.1 Frontier entry conditions: In this regard, we refer the Commission to the material that can be accessed at www.med.govt.nz/crown-minerals/minerals/html. The "Legislation and Application forms" section describes the regime for regulating prospecting and exploration for and production of coal in New Zealand in accordance with the Crown Minerals Act 1991 and the Crown Minerals (Minerals and Coal) Regulations 1999, including:

20.1.1 setting out the types of permits available and the process for applying for such permits;

20.1.2 specifying permit holders rights and obligations; and

20.1.3 identifying other relevant legislation such as Health and Safety in Employment Act and Resource Management Act requirements.

In addition to the regulatory regime relating to Crown owned minerals, the barriers to accessing privately owned coal are considerably lower. All that is necessary is for a prospective miner to "do a deal" with the owner of the land and minerals. No permits or access arrangements are required. RMA and other relevant legislation will apply.

20.2 Legislative/regulatory conditions: See paragraph 20.1 above.

20.3 Industrial/business: The skills and technology to mine, market and distribute coal are readily available. Coal is not a scarce resource (there being an estimated 9 billion tonnes of available coal reserves) and in Southland, in particular, there are a number of sites that would be available to a new entrant into the market place.

The costs of purchasing the relevant sites and obtaining the relevant resource consents and mining permits would not provide a significant barrier to a party wishing to enter the market place or expand. Examples of new entrants include:

20.3.1 the recent establishment of the Pike River mine by New Zealand Oil and Gas;

20.3.2 the recent opening of a new mine at Malvern by Canterbury Coal Limited;

20.3.3 Rangatira Developments' proposal to establish an opencast mine in the Mount William range near Westport;

20.3.4 Francis Mining's recently re-opened Roa mine and its extensions;

20.3.5 L & M's land acquisition in Southland/Otago, its applications for exploration permits and its stated intention to enter the lignite/sub-bituminous coal market;

20.3.6 Eastern's acquisition of the Cascade and Straith mines along with the Timaru depot for stockpiling and blending; and

20.3.7 the acquisition of the Tiller mine near Greymouth by private interests who plan to significantly increase production.

20.4 Other:

Which, if any, of the entry conditions identified above do you consider could be likely to act as a "barrier" to expansion by existing competitors or entry of new competitors in response to a specific non-trivial and sustained action by the merger firm relating to price, service or product quality?

20.4.1 The ability to increase supplies of domestic lignite is constrained by several factors including:

(a) No constraints have been identified other than the aspirations of smaller family owned businesses.

(b) Consolidation is occurring e.g. Eastern (Straith, Cascade and we understand Heaphy all being purchased). The greater scale and access to capital is likely to increase the competitive power of these operations.

Would any of the entry conditions (identified above) affect potential competitors trying to enter the market differently from the way they affected existing competitors when they entered the market?

20.4.2 No.

21. Please name any businesses which already supply the market – including overseas firms – which you consider could increase supply of the products/services concerned in the geographic market identified by:

21.1 Diverting production: See paragraphs 13.10 to 13.26 above. Australian and Indonesian supplies strip several hundred million tonnes per annum of thermal coal to export customers which could be purchased by NZ users.

21.2 Increasing utilisation of existing capacity: See paragraphs 13.6 to 13.26 above. Any of the current coal producers could increase utilisation of existing capacity.

21.3 Expansion of existing capacity: It is feasible that any of the coal producers in the relevant market would increase domestic supplies in response to greater demand or an increase in domestic thermal coal prices. The Commission's Decision No. 397 recognises this fact. Additionally, should domestic thermal coal price increase, the possibility of imported thermal coal entering the domestic market becomes more likely, noting that thermal coal is sold on an energy basis and therefore higher calorific value coal could be blended with lower value coal to meet the energy requirements of industrial users.

22. What conditions of entry do you consider would influence the business decision to increase supply in each case?

22.1 Additional production and/or new entry would be triggered by any attempts by Solid Energy to restrict supply and/or increase prices.

23. How long would you expect it to take to increase in each case?

23.1 Additional production from open cast mines could occur swiftly through the introduction of additional plant or multishifting existing plant. In fact, at similar or lower marginal cost (see 13.7 above) additional supply could occur within a few months which is quicker than the duration of typical supply contracts.

24. In your opinion, to what extent would the possible competitive response of existing suppliers constrain the merged entity?

24.1 Most coal producers and suppliers have sufficient production capacity to supply larger quantities of coal and to "ramp up" production should demand require and particularly if Solid Energy sought to restrict supply and increase the domestic coal price.

CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF SUPPLIERS

25. Who would be the supplier of goods or services to the merged entity in each market identified in questions 10 and/or 11?

25.1 The relevance of suppliers is not considered significant to the analysis in this application.

CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF ACQUIRERS

26. Who would be the acquirers of goods or services by the merged entity?

26.1 The volume of coal required by large customers provide them with a strong bargaining position given Solid Energy would be unable to maintain production levels were these customers to cease purchasing coal from Solid Energy.

26.2 This would not be changed by the acquisition of Newvale. In particular, **[**

]

26.3 Fonterra operates coal activities in the North Island through its subsidiary company Glencoal Energy Limited. It is feasible for Fonterra to bring its mining expertise into the South Island and commence mining operations. Glencoal Energy Ltd holds a coal prospecting permit (39-299) for coal near Ranfurly in the South Island.

26.4 **[**

]

This application is made on behalf of Solid Energy New Zealand Limited. I, Warren John Maslin, Chief Financial Officer, am authorised to make this application on behalf of Solid Energy New Zealand Limited and I hereby confirm to the best of my belief:

- all information specified by the Commission has been supplied;
- all information known to the applicant which is relevant to the consideration and determination of this application has been supplied; and
- all information supplied is correct as at the date of this application.

I undertake to immediately advise the Commission of any material change in circumstances to the application.

DATED this day of 2006

_____

Warren Maslin

Chief Financial Officer

Solid Energy New Zealand Limited

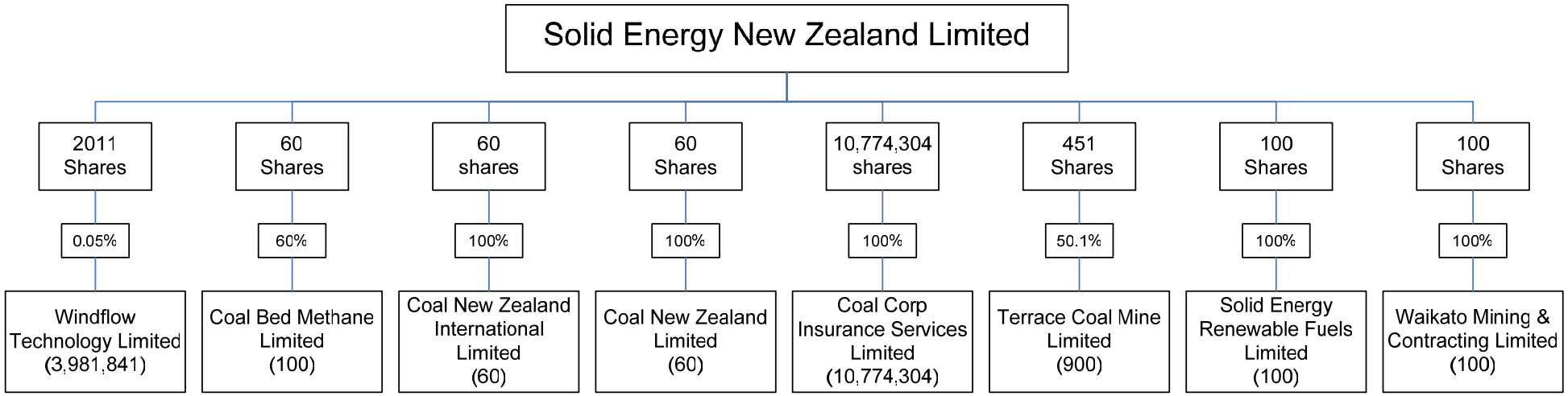
Appendix A

Sale and Purchase Agreement

Appendix B

Solid Energy – Interconnected/Associated Companies

Group Structure
June 2005



Appendix C

Solid Energy's Interim Report for the six months ending 31 December 2005

Appendix D

Solid Energy's Statement of Corporate Intent

Appendix E

ASX Announcement – Eastern Corporation

2005|2006

INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

SOLID ENERGY
Coals of New Zealand

Solid Energy produced a net surplus after tax of $38 million for the six months ended 31 December 2005, more than double the surplus for the same period last year (2004: $17.5 million). The record half-year result was due primarily to exceptional export prices which offset the continuing high New Zealand dollar in the period.

While overall production volumes were down, due to 17 days of industrial action at the beginning of July, revenue for the period was a record $257.1 million, 41% up on last year (2004: $182.6 million). Total sales volumes reached 2.18 million tonnes (mt) (2004: 2.24 mt) in the six months.

Exports increased to 1.15 mt, fractionally above last year (2004: 1.06 mt), but down against forecast by 40,000 tonnes due to the July industrial action. The production shutdown due to industrial action meant that Solid Energy was not able to take full advantage of the exceptional export prices that were more than 150% up on the previous year in the same period.

New Zealand sales were down 13% to 1.03 mt (2004: 1.18 mt) as our industrial customers had to source coal supply from alternative suppliers during the July industrial action.

Sales to New Zealand Steel and Genesis Energy continue to dominate New Zealand sales, but demand remained strong across all industrial sectors. A warmer winter, coupled with our announcement that the company will progressively withdraw from the household coal market over the next few years, resulted, as expected, in reduced bagged coal sales during the period.

The company's financial position that had been weakened by the large asset write-downs in June 2005 has been significantly improved by the strong half-year result.

Operations

Coal production at our main export mine, **Stockton Opencast** in the Buller, again exceeded 1 mt in the six months, due to the upgrade in the annual carrying capacity of the aerial ropeway, from 2.0 to 2.3 mt, completed in mid 2005. We started preparatory work for mining high value coking coal on the Stockton ridgeline in October following extensive consultation and confirmation of the technical solutions for mining the area safely, while minimising any impact outside the mining licence. We have applied for a wildlife permit to relocate by hand and direct transfer, before mining commences, snails found on the Mt Augustus area of the ridgeline.

Resource consents for the planned **Cypress Opencast Mine** in the Buller were upheld by the Environment Court in June 2005. The High Court rejected an appeal by Forest and Bird and Buller Conservation Group in December 2005. Development of the mine is expected to start later in 2006.

Development of the new Awaroa 4 pit at **Rotowaro Opencast Mine**, Waikato, is now largely complete with the first coal in production. We recently agreed to transfer the contract for overburden stripping and coal extraction at Rotowaro to a subsidiary of Leighton Contractors Pty Limited which has bought the Australian and New Zealand mining business of Henry Walker Eltin Pty Ltd. HWE had been placed in voluntary administration in January 2005.

Coal extraction at **Spring Creek Underground Mine**, near Greymouth, recommenced in August with 0.215 mt produced for the half year. A 12-month mine plan for development and extraction through to February 2007 is currently being implemented; we are assessing the long-term viability of extending the mine to the west and expect to make a decision in April 2006 on whether to proceed with a further five-year plan from the beginning of 2007.

Production at **Huntly East** (Waikato) and **Terrace Underground** (Reefton) **Mines**, along with **Ohai Opencast Mine**, (Southland) fell short of forecast.

Our pellet fuel business, Solid Energy Renewable Fuels, trading as **Nature's Flame**, continues to experience strong growth in both appliance and fuel sales. A new pellet production mill was opened in Rotorua at the end of 2005 to supply both residential and industrial markets in the North Island.

Rail network owners, On Track, are making good progress in upgrading the Midland Line, the company's export rail link between the West Coast and Lyttelton. Rail operators, Toll Rail, are progressively delivering new wagons, increasing capacity on the line. Up to seven 24 and 30-wagon trains a day are now running on the line. We still need to truck coal from Stockton to Reefton to deliver increased capacity to meet demand from international customers. The new Solid Energy financed Cobden Rail Bridge across the Grey River is on schedule for completion mid 2006.

Future Outlook

Demand for Solid Energy coal within New Zealand and internationally remains strong. The short term outlook for the company is positive on the back of good international coal prices for hard coking coal. International prices will weaken in the coming year, with falls of up to 30% for thermal coal already signalled in current negotiations between Australian producers and Asian steelmakers.

Longer term, proving resources and developing new mines to meet customer demand remains our major challenge, together with the rising cost of mining in New Zealand relative to large international competitors.

Performance Highlights – unaudited

	6 Months to 31 December 2005	6 Months to 31 December 2004	12 Months to 30 June 2005
Tonnes of Coal sold – total	2.18 M	2.24 M	4.46 M
■ Exports	1.15 M	1.06 M	2.18 M
■ New Zealand	1.03 M	1.18 M	2.28 M
Sales Turnover	$257.1 M	$182.6M	$400.8 M
Operating Surplus before Impairment Write-downs, Onerous Contract Provisions and Taxation	$56.5 M	$26.1 M	$54.9 M
Earnings before Interest and Taxation	$57.4 M	$26.3 M	$9.6 M
Surplus after Taxation	$38.0 M	$17.5 M	$6.3 M
Dividend Paid	-	-	-
Return on Shareholders Funds (annualised)	40.71%	20.5%	3.87%
Return on Average Assets (annualised)	23.05%	12.9%	2.2%

Consolidated Statement of Financial Performance

For the six months ended 31 December 2005 – unaudited

	Notes	6 Months to 31 December 2005 $'000	6 Months to 31 December 2004 $'000	12 Months to 30 June 2005 $'000
Total operating revenue		257,077	182,647	400,871
Operating surplus before taxation	3	56,495	26,114	8,901
Income tax	4	(18,487)	(8,637)	(2,537)
Operating surplus		38,008	17,477	6,364
Minority interests		-	-	-
NET SURPLUS		38,008	17,477	6,364

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

Consolidated Statement of Movements in Equity

For the six months ended 31 December 2005 – unaudited

	6 months to 31 December 2005 $'000	6 Months to 31 December 2004 $'000	12 Months to 30 June 2005 $'000
Equity at the beginning of the period	167,705	161,341	161,341
Total recognised revenues and expenses			
Net surplus for the year	38,008	17,477	6,364
EQUITY AT THE END OF THE PERIOD	205,713	178,818	167,705

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

Consolidated Statement of Financial Position

As at 31 December 2005 – unaudited

	As at 31 December 2005 $'000	As at 31 December 2004 $'000	As at 30 June 2005 $'000
EQUITY			
Share capital	60,900	60,900	60,900
Reserves	144,808	117,914	106,800
Shareholders' interest	205,708	178,814	167,700
Minority shareholders' interest	5	4	5
TOTAL EQUITY	**205,713**	**178,818**	**167,705**
NON-CURRENT LIABILITIES			
Term Provisions	58,251	42,005	55,575
TOTAL NON-CURRENT LIABILITIES	**58,251**	**42,005**	**55,575**
CURRENT LIABILITIES			
Accounts payable & accruals	36,889	35,569	34,196
Provisions	9,218	4,828	9,218
Loans	31,000	25,000	43,000
Company tax payable	2,327	1,181	6,391
	79,434	**66,578**	**92,805**
TOTAL EQUITY AND LIABILITIES	**343,398**	**287,401**	**316,085**
NON-CURRENT ASSETS			
Property, plant and equipment	103,904	75,506	94,612
Mining properties	51,682	74,109	49,199
Crown receivable	18,530	16,723	16,478
Investments	6,474	4,010	4,017
Goodwill	300	430	360
Term portion of prepayments	11,409	8,667	12,125
Deferred taxation	18,376	3,160	18,610
TOTAL NON-CURRENT ASSETS	**210,675**	**182,605**	**195,401**
CURRENT ASSETS			
Cash at bank	1,981	436	1,599
Short-term deposits	15,070	12,844	11,788
Short-term Crown Receivable	1,128	1,250	1,128
Accounts receivable	49,715	44,659	53,806
Inventories	24,974	21,801	17,381
Stripping in advance	39,855	23,806	34,982
TOTAL CURRENT ASSETS	**132,723**	**104,796**	**120,684**
TOTAL ASSETS	**343,398**	**287,401**	**316,085**

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

Consolidated Statement of Cash Flows

For the six months ended 31 December 2005 – unaudited

	Notes	6 Months to 31 December 2005 $'000	6 Months to 31 December 2004 $'000	12 Months to 30 June 2005 $'000
Cash flows from operating activities				
Cash was provided from:				
Customers		250,241	169,162	365,567
GST received		11,935	6,602	15,076
Interest on short-term deposits		690	543	970
		262,866	176,307	381,613
Cash was applied to:				
Payments to suppliers, employees		(195,175)	(159,093)	(334,968)
Tax paid		(22,317)	(5,440)	(9,581)
Interest on short-term borrowings		(1,585)	(698)	(1,670)
Interest on long-term borrowings		-	(48)	-
		(219,077)	(165,279)	(346,219)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**12**	**43,789**	**11,028**	**35,394**
Cash flows from investing activities				
Cash was provided from :				
Proceeds from sale of property, plant & equipment		150	58	1,576
		150	58	1,576
Cash was applied to :				
Purchase of property, plant and equipment		(20,032)	(9,933)	(55,360)
Investment in mining properties		(5,786)	(17,738)	(13,303)
Investment in other non-current assets		(2,457)	(703)	(3,488)
		(28,275)	(28,374)	(72,151)
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(28,125)**	**(28,316)**	**(70,575)**

Consolidated Statement of Cash Flows

For the six months ended 31 December 2005 – unaudited

	Notes	6 Months to 31 Dec 2005 $'000	6 Months to 31 Dec 2004 $'000	12 Months to 30 June 2005 $'000
Cash flows from financing activities				
Cash was provided from :				
Long-term loans		-	-	-
		-	-	-
Cash was applied to :				
Long-term loans		-	-	-
Dividends Paid to shareholders of the company				
Dividend payment to minority interests		-	-	-
Long-term loans		-	-	-
		-	-	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		-	-	-
Net increase/(decrease) in cash held		15,664	(17,288)	(35,181)
Add opening cash brought forward		(29,613)	5,568	5,568
Ending cash carried forward		**(13,949)**	**(11,720)**	**(29,613)**
Cash balances in statement of financial position				
Cash at bank		1,981	436	1,599
Liquid portion of short-term deposits		15,070	12,844	11,788
Short-term loans		(31,000)	(25,000)	(43,000)
Ending cash carried forward		**(13,949)**	**(11,720)**	**(29,613)**

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

1. Accounting Entity

These financial statements are for Solid Energy New Zealand Limited, its subsidiaries Solid Energy Renewable Fuels Limited, Terrace Coal Mine Limited, CoalCorp Insurance Services Limited, Coal New Zealand Limited, Coal New Zealand International Limited, Coal Bed Methane Limited and Waikato Mining and Contracting Limited.

These financial statements have been prepared in accordance with Financial Reporting Standard No.24 and should be read in conjunction with the 2005 Annual Report.

2. Accounting Policies

There have been no changes in accounting policies during the six months ended 31 December 2005. The accounting policies stated in the 2005 Annual Report have been consistently applied.

3. Operating Surplus Before Taxation

	6 months to 31 December 2005 $'000	6 Months to 31 December 2004 $'000	12 Months to 30 June 2005 $'000
Has been determined after charging			
Interest expense & similar charges	1,585	746	1,670
After crediting			
Interest revenue	690	543	969

4. Income Tax

The income tax expense charged to the statement of financial performance includes both the current year liability and the income tax effects of timing differences after allowing for non-assessable income and non-deductible expenses.

Deferred taxation is calculated using the liability method on a comprehensive basis. Debit balances in the deferred tax account arising from net accumulated timing differences and future income tax benefits arising from income tax losses carried forward are only recognised if there is virtual certainty of realisation.

As at 31 December 2005 there are no accumulated tax losses.

5. Valuation of Property, Plant & Equipment and Mine Properties

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

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

6. Contingencies

The Company is required, by various legislation controlling its mining activities, to rehabilitate to an agreed condition, the land on which its mining activities occur. The final cost of rehabilitation cannot be established with certainty. The provision for rehabilitation costs at 31 December 2005 was $50.80 million (31 December 2004: $44.42 million, 30 June 2005: $47.75 million).

7. Capital Commitments

Capital commitments as at 31 December 2005 are estimated at $1.0 million (31 December 2004: $7.0 million, 30 June 2005: $3.1 million).

8. Operating Leases and Contractual Commitments

Commitments to non-cancellable operating leases existing at balances date are as follows:

	As at 31 December 2005 $'000	As at 31 December 2004 $'000	As at 30 June 2005 $'000
Up to 1 year	2,739	2,162	2,513
1 year to 2 years	1,129	1,300	1,571
2 years to 5 years	1,944	1,647	1,833
Over 5 years	1,229	1,154	1,052
Contractual commitments existing at balance date are as follows:			
Up to 1 year	126,460	71,180	52,580
1 year to 2 years	75,922	43,406	46,389
2 years to 5 years	49,387	81,942	51,258
Over 5 years	40,241	44,698	40,892

9. Performance Bonds and Guarantees

It is not practical to estimate the fair value of performance bonds and guarantees with an acceptable level of reliability. The group has performance bonds and guarantees outstanding at 31 December 2005 totalling $10.8 million (December 2004: $12.6 million, June 2005: $11.9 million) which may be drawn down in the event the Group fails to perform under various contracts and licenses. No loss is expected in respect of these bonds.

10. Off-balance sheet risk – foreign exchange contracts

Foreign currency forward exchange contracts and option agreements are used to manage foreign currency exposure. It is Solid Energy's policy to cover forward export receipts and major import payments. Fluctuations in foreign currency exchange rates gives rise to market risk. Contracts have been entered into with various counterparties having such credit ratings and in accordance with such dollar limits as set forth by the Board of Directors. The notional principal or contract amounts outstanding as at 31 December 2005 are as follows:

	As at 31 December 2005 $'000	As at 31 December 2004 $'000	As at 30 June 2005 $'000
Foreign currency forward exchange contracts	62,851	38,718	65,227
Foreign currency options	105,406	53,269	77,799
Average exchange rate	0.6722	0.6180	0.6913

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

	31 December 2005		31 December 2004		30 June 2005	
	Book Value $'000	Fair Value $'000	Book Value $'000	Fair Value $'000	Book Value $'000	Fair Value $'000
Foreign currency forward exchange contract gain/(loss)	-	(674)	-	5,632	-	546
Foreign currency options gain	-	2,269	-	5,028	-	929
Total gain/(loss)	-	1,595	-	10,660	-	1,475
Exchange rate at balance date (USD)	-	0.6814	-	0.7184	-	0.6944

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

11. Impact of Adopting New Zealand Equivalents to International Financial Reporting Standards

Solid Energy is in the process of transitioning its accounting policies and financial reporting from current New Zealand Accounting Standards (NZ GAAP) to New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) which will be applicable for the financial year ended 30 June 2007. During the 2005 year, the company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to NZ IFRS. As a result, the company established project teams to address each of the areas in order of priority. All recommendations will be approved prior to implementation by the Audit and Risk committee. Priority has been given to the preparation of an opening balance sheet in accordance with NZ IFRS as at 1 July 2006, the company's date of transition to NZ IFRS. This will form the basis of accounting under NZ IFRS in the future, and is required when the Company prepares its first complete set of NZ IFRS compliant financial statements for the year ended 30 June 2007.

Solid Energy has yet to quantify the effects of the future impact of transition to NZ IFRS, this will depend upon (a) ongoing work being undertaken by the NZ IFRS project teams; (b) potential amendments to NZ IFRSs and Interpretations thereof being issued by the standard-setters and International Financial Report Interpretations Committee; and (c) emerging accepted practice in the interpretation and application of NZ IFRSs.

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

	6 months ended 31 December 2005 $'000	6 months ended 31 December 2004 $'000	12 months ended 30 June 2005 $'000
NET SURPLUS AFTER TAXATION	38,008	17,477	6,364
NON CASH ITEMS:			
Depreciation	8,831	5,488	17,410
Increase in deferred taxation asset	234	1,148	(14,302)
Amortisation	6,318	3,275	10,522
Amortisation of goodwill	60	50	120
Amortisation of government bond premium	3	3	6
Reversal of provisions	-	-	(170)
Impairment of fixed assets and mining properties	-	-	30,611
Expense of Cobden Bridge DFA	-	-	14,770
Amortisation of term portion of prepayments	716	650	-
Discount unwind on term provision	1,264	1,055	2,121
	17,426	11,669	61,088
MOVEMENTS IN WORKING CAPITAL:			
Accounting payables and accruals	2,693	970	2,373
Accounts receivable	4,091	(8,010)	(19,967)
Inventories	(7,593)	(7,867)	(3,448)
Stripping in advance	(4,873)	(4,776)	(15,952)
Company tax	(4,064)	2,049	7,257
	(9,746)	(17,634)	(29,737)
OTHER BALANCE SHEET MOVEMENTS:			
Term provisions	1,412	(1,083)	(3,178)
Current Provisions	-	-	4,390
Crown receivable	(2,052)	865	1,233
Rehabilitation provision asset	(1,168)	(268)	(4,616)
	(1,808)	(486)	(2,171)
ITEMS CLASSIFIED AS INVESTING/ FINANCING ACTIVITIES			
Surplus on sale of property, plant & equipment	(91)	2	(150)
	(91)	2	(150)
NET CASHFLOWS FROM OPERATING ACTIVITIES	43,789	11,028	35,394

Solid Energy New Zealand Ltd

DIRECTORS

Timothy E C Saunders	Chairman – MBA, BCom (Economics) – *Auckland*
Helen Cull QC	BA, LLB (Hons) – *Wellington*
Michael W Hawarden	BSc (Mining Engineering), MA (Economics), PMD – *Christchurch*
John Spencer	BCom, FCA – *Wellington*
Adrienne F Young Cooper	BA, MSc (Resource Management) – *Auckland*
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CHIEF EXECUTIVE OFFICER

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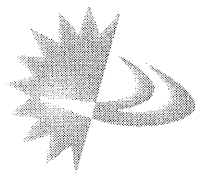

SOLID ENERGY
Coals of New Zealand

Statement of Corporate Intent
(For Three Years Ending 30 June 2008)

August 2005

31 August 2005

CONTENTS

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). The SCI sets out Solid Energy's objectives and performance targets for the three years to 30 June 2008, and describes the nature and scope of the activities to be undertaken to achieve these objectives.

1. CORE BUSINESS

Solid Energy's core business is energy production; this includes coal resource identification, acquisition, development, mining, transportation, marketing and sales of New Zealand coals. In support of this objective Solid Energy will pursue the development of related business activities, which add value to and become core business, and are consistent with the long-term business plan.

2. KEY OBJECTIVES OF SOLID ENERGY

Solid Energy's principal objective is to maximise shareholder value by generating a sustained long-term return greater than the market cost of capital for businesses with a similar risk profile. This is supported by the following key objectives:

(a) Enhance our reputation as a good employer, retaining skilled, motivated and committed staff and providing:

- Safe working conditions based on best practice health and safety systems and processes.
- Training and development programmes to enhance individual abilities of employees.
- Equal employment opportunities.

(b) Environmental sustainability of operations through an overall environmental objective of ensuring the cumulative result of all the activities we undertake has a positive net effect on the New Zealand environment.

(c) Exhibit social responsibility having regard to the interests of all relevant stakeholders.

3. NATURE AND SCOPE OF ACTIVITIES

In order to meet the Company's objectives Solid Energy will undertake a range of activities including the following:

(a) Identify, prove and access coal resources in New Zealand.

(b) Participate in overseas coal activities, that add to the value of New Zealand coal exports, or which through Solid Energy coal imports to New Zealand, increase coal supply security for New Zealand coal users.

(c) Continuously pursue new market opportunities to ensure the best possible optimisation of price and maximisation of revenue;

(d) Grow exports by identifying further opportunities to enhance the marketability of, and the value generated from, NZ export coals; including participation, if appropriate, through subsidiary companies or otherwise in overseas mining, blending, distribution and sales activities.

(e) Continuously pursue lower production costs in order to maintain competitiveness domestically and internationally, recognising that the company is a commodity price taker with little pricing power;

(f) Seek to reduce transportation costs, including direct participation or ownership in rail, port or shipping assets;

(g) Promote and participate in coal as a long-term energy source in New Zealand and overseas;

(h) Investigate, develop and operate electricity generation up to 20 MW at mine sites to meet the company's own demand and to contribute to security of national supply.

(i) Promote and investigate opportunities for standalone electricity generation and cogeneration above 20 MW and participate as a minority equity partner of these projects at equity levels up to $50m per project.

(j) Participate in relevant technology research, development and implementation, including clean coal technology, coal bed methane extraction, coal conversion, coal gasification and coal demethanisation;

(k) Diversify into other forms of energy production complementary to the core business, including biomass, coal seam gas and coal gasification including hydrogen.

(l) Participate in environmental enhancement projects including carbon sinks, biodiversity and other environmental projects consistent with Solid Energy's objective of a positive net effect on the New Zealand environment;

(m) Market, supply and sell mining capabilities and other intellectual property in New Zealand and overseas.

In carrying out these activities Solid Energy will manage financial assets and liabilities prudently, including interest rate, currency and credit risk, and will ensure compliance with all legislative requirements relating to resource management, crown minerals utilisation, occupational health and safety, and business practice.

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.

Solid Energy may also investigate investment in other areas that are natural extensions or diversifications of its core business.

4. FINANCIAL AND COMMERCIAL PERFORMANCE TARGETS

Solid Energy's performance targets for the three years ending 30 June 2008 are:

(a) Financial:

	2005/06	2006/07	2007/08
Return on Shareholders Funds (Surplus After Tax/Av SHF)	46%	46%	15%
Return on Assets (EBIT/Av Total Assets)	45%	41%	15%
Equity Ratio (Total SHF to Total Assets)	56%	57%	56%
Dividend ($M)	$20M	$100M	$40M

(b) Non Financial:

Coal Volume			
• Total Tonnes Sold (M)	4.9M	5.1M	4.9M
Safety			
• Severity rate [1]	<25	<25	<25
• ACC audit status (or equivalent) [2]	Tertiary	Tertiary	Tertiary
Environmental Performance			
• Compliance with resource consents, other relevant statutes and regulatory conditions	100%	100%	100%

Notes:
[1] Lost shifts per 100,000 hours worked (Our stated goal is to achieve zero injuries)
[2] Work Safety Management Practices audit

5. ACCOUNTING POLICIES

Solid Energy will maintain accounting policies in accordance with the Financial Reporting Act 1993 and Generally Accepted Accounting Practice promulgated by the Institute of Chartered Accountants of New Zealand. Solid Energy's current accounting policies are attached as Appendix 1.

6. CAPITAL STRUCTURE

Solid Energy's long-term objective is to achieve and maintain a capital structure consistent with the nature of its business and its objective to maximise Shareholder Value, while maintaining a prudent level of financial risk.

Target maximum gearing, subject to specific requirements in any year:

	2005/06	2006/07	2007/08
Gearing % (Debt/Debt + Equity)	30%	30%	30%
(Debt includes interest bearing debt and net rehabilitation liability)			

7. PROFIT DISTRIBUTION POLICY

Solid Energy will distribute funds that are surplus to investment and operating requirements having regard to capital structure and risk management. The expected profit distribution profile recognises the need for substantial capital investment over the short to medium term, but also reflects abnormally high returns based on an expectation of short term record international coal prices. The expected shareholder returns are dependant on sustained record export price levels, unconstrained supply, and capital investment not exceeding current plans.

	2005/06	2006/07	2007/08
Dividend forecast	$20M	$100M	$40M
Dividend % of NSAT	20%	84%	96%

8. CAPITAL EXPENDITURE, ACQUISITION, DIVESTMENT AND SHAREHOLDER CONSULTATION

Solid Energy will consult with Shareholding Ministers if any capital expenditure item, share or asset acquisition, new participation in a joint venture, sale or disposal of the whole or a substantial part of its business or undertaking, exceeds 25% of shareholders funds, except in relation to stand alone electricity generation projects where the threshold for consultation will be $10 million.

9. INFORMATION TO BE PROVIDED TO SHAREHOLDERS

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

(a) The Annual Report and audited financial statements;

(b) The 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;

(c) 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; and

(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 Statement of Corporate Intent.

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.

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 its 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.

It is possible that during the 3-year SCI period climate change or related enactments or regulations may trigger this provision.

No requests for compensation are currently under consideration.

11. COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Book value of the shareholders interest at 30 June 2005 is expected to be $170 million.

The current value of the business is the value that can be achieved with a high level of probability (but is not risk free). This is best determined by considering the value that would be achieved if:

- Existing mines, only, are mined out to exhaustion;
- Only coal reserves consented and with approved feasibility studies are mined;
- Costs for mining and transportation remain comparable to current costs;
- Export and domestic prices remain within present ranges or consistent with present trends;
- Carbon tax and other "Kyoto" impacts remain consistent with current policy details and status;
- No other excessive or unexpected external costs are imposed on the business.

This core value is estimated at $350 - $450 million.

The value of the business would be substantially reduced if climate change (Kyoto) policies implemented include a carbon tax on fugitive methane emissions, or do not provide adequate relief from the carbon tax (eg through NGAs) for major domestic customers. The value could be substantially increased ($500 million - $1.0 billion) if external conditions support the continued use and growth of coal in New Zealand beyond 2008.

APPPENDIX 1 - STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The reporting entity is Solid Energy New Zealand Ltd ("Solid Energy"). These financial statements have been prepared under the requirements of the State Owned Enterprises Act 1986, Companies Act 1993 and the Financial Reporting Act 1993.

Measurement Base

The financial statements are prepared using historical cost, adjusted by the revaluation of certain assets, as the measurement base.

Accounting Policies

(A) Basis of Consolidation

The consolidated financial statements are those of Solid Energy New Zealand Ltd and all of its subsidiary companies, being companies which Solid Energy New Zealand Limited controls either directly, indirectly or beneficially. The purchase method of consolidation has been used. All material intercompany balances and surpluses resulting from transactions between Group companies have been eliminated on consolidation.

(B) Associate Companies and Joint Ventures

The financial statements of associated companies have been reflected in the consolidated financial statements on an equity accounting basis which includes the Group's share of surpluses less deficits and its share of post acquisition increases less decreases in net assets. These are companies in which the Group holds substantial shareholdings and in whose commercial and financial policy decisions it participates. Interests in joint ventures have been included, based on the Group's interest in the joint venture, in the statement of financial position within the respective classification categories. The Group's share of net expenses has been included in the statement of financial performance.

(C) Inventories

Inventories of saleable coal are valued at the lower of weighted average cost or net realisable value. 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.

(D) Property, Plant and Equipment

The Group has eight classes of property, plant and equipment:

- Freehold Land
- Freehold Buildings
- Leasehold Improvements
- Plant and Equipment
- Motor Vehicles and Trucks
- Office Equipment/Furniture and Fittings
- Work in Progress
- Forestry Assets (refer note 1(F))

All property, plant and equipment are recorded at cost, except for Forestry assets (refer note 1(F)). Provision is made for any permanent impairment in the value of property plant & equipment. Such assets are written down to a value, which will allow an adequate economic return to be earned by the asset during its remaining life.

(E) Depreciation of Property, Plant and Equipment

The cost of each item of plant, equipment, and buildings is written off over the shorter of its expected economic life, or 20 years on a straight-line basis.

Major depreciation periods are:

Buildings	20 years
Leasehold Improvements	Lease term
Plant and Equipment	4 to 15 years
Motor Vehicles and Trucks	5 years
Office Equipment/Furniture and Fittings	3 to 5 years

Property, plant and equipment under construction are recorded as work in progress and are not depreciated until they are ready for productive use.

(F) Forestry Assets

The forest is stated at valuation as determined every three years by an independent registered valuer. The basis of valuation is the net present value of cash flows expected to be generated by the forest, discounted at a current market-determined rate which reflects the risks associated with the forest and the net market value of the land on which the trees are growing.

Changes in the value of the forest crop are recognised in the statement of financial performance. All costs incurred in developing and managing the trees in the forest are recognised in the statement of financial performance when incurred.

(G) Mine Properties

Mine properties comprise capitalised development expenditure carried forward, long-term stripping in advance and costs attributed to obtaining mining rights.

The cost of mine properties, except for exploration, evaluation and development expenditure, is amortised using the unit of production method where the rate of amortisation is subject to a maximum production period of 20 years.

(H) Investments

Investments are valued at cost less provision for any permanent impairment.

(I) Exploration, Evaluation and Development Expenditure

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.

Once a decision is made to proceed with commercial production the expenditure incurred on successful areas of interest is reclassified as "Development".

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.

An annual review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(J) Revenue Derived from Coal Won During Development

The sale proceeds of coal obtained during mine development are treated in the same manner as sales of coal obtained during production. The estimated costs of producing development coal are charged to production costs and credited against development expenditure.

(K) Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash comprises cash balances (net of bank overdrafts) and demand deposits.

(L) Income Tax

The income tax expense charged to the statement of financial performance includes both the current year liability and the income tax effects of timing differences after allowing for non-assessable income and non-deductible expenses.

Deferred taxation is calculated using the liability method on a comprehensive basis. Debit balances in the deferred tax account arising from net accumulated timing differences and future income tax benefits arising from income tax losses carried forward are only recognised if there is virtual certainty of realisation.

(M) Foreign Exchange Translation

Transactions denominated in a foreign currency have been recorded using the exchange rate at the transaction date or a rate approximating this rate, except for transactions subject to forward cover contracts, where the forward rates specified in those contracts have been used.

At balance date foreign monetary assets and liabilities are translated at the closing exchange rate, except for transactions subject to forward contracts. Realised and unrealised gains or losses on foreign currency translations are recognised in the statement of financial performance. Derivative products used to manage currency risk are accounted for as hedging transactions, derivative products not qualifying as hedging transactions are valued at market price.

(N) Accounts Receivable

Accounts Receivable are valued at their expected net realisable value after appropriate allowances for bad and doubtful debts.

(O) Rehabilitation Costs

Solid Energy 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 company's environmental policies. The expected cost of any end of mine life (EOML) rehabilitation is provided and capitalised at the beginning of each project. Measurement of the rehabilitation provision is on the basis of expected future costs discounted using the company's pre-tax weighted average cost of capital (WACC). The capitalised cost is amortised over the productive life of the operation on a unit of production basis. Any change in the net present value (NPV) of EOML rehabilitation cost is reflected via an amendment to future rates. Changes in NPV relating purely to discounting future values are reflected in interest expense.

(P) Stripping in Advance

The cost of removing overburden in opencast pits is capitalised to stripping in advance as it is incurred. Stripping in advance is amortised by charging each tonne of coal removed from a pit its portion of the estimated total cost of overburden removal for that pit. Changes to the rate at which stripping in advance is amortised are charged to profit in the year they occur in respect of coal won during the year and charged to profit in future years in respect of all other coal remaining in the pit.

Stripping in advance is valued at cost or net realisable value where stripped coal cannot be sold for an adequate return.

(Q) Leases

The Group has no finance leases. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating surplus in equal instalments 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.

(R) Financial Instruments

Financial instruments recognised in the statement of financial position include cash balances, bank overdrafts, receivables, payables, investments and loans to others, and term borrowings. In addition, Solid Energy is party to financial instruments with off-balance sheet risk to meet financing needs and to reduce exposure to fluctuations in foreign currency exchange rates.

These financial instruments include swaps, options, forward rate agreements and foreign currency forward exchange contracts.

Solid Energy enters into foreign currency forward exchange contracts to hedge trading transactions, including anticipated transactions, denominated in foreign currencies. Gains and losses on contracts which hedge specific short-term foreign currency denominated transactions are recognised as a component of the related transaction in the period in which the transaction is completed. If the trading transaction is no longer expected to occur, the gain or loss on the terminated hedge is recognised in the statement of financial performance immediately.

The net differential paid or received on interest swaps is recognised as a component of interest expense or interest revenue over the period of the agreement.

Premiums paid on interest rate options, and net settlements on forward rate agreements are amortised to the statement of financial performance over the life of the hedged item or the period hedged.

Any financial instruments that do not qualify as hedges are stated at market value and any gain or loss is recognised in the statement of financial performance.

(S) Accounting Policies

In the current year the Group changed its policy of accounting for forestry assets in accordance with best accounting practice (refer accounting policy 1(F)). In previous accounting periods forestry assets were not accounted for.

EASTERN
CORPORATION LIMITED
ABN 11 064 957 419

The Eastern Corporation group of companies:
Cascade Coal Pty Ltd
Rochfort Coal Mining Pty Ltd
Broughton Coal Mining Pty Ltd
Galilee Energy Limited
Dorben Pty Ltd

September 5, 2006

ASX Announcement

EASTERN ACQUIRES SECOND COAL MINE IN NEW ZEALAND

- **Coal distribution centre for growing NZ business**

Eastern Corporation Limited (Eastern) has announced that it will complete the acquisition of the coal mining operations of Straith Industries (Straith) in the far south of New Zealand's South Island on Friday September 8.

The company also announced the purchase of a coal stockpile, blending and distribution facility centrally located between Eastern's Straith and Cascade mines at Timaru.

Last year Eastern acquired the Cascade mine in the north west of New Zealand's South Island, and is currently exploring 5 km north of Cascade at Whareatea West with the aim of proving up high quality coking coal for mine development.

With the Straith acquisition, Eastern will not only expand upon its already well-established presence via the Cascade mine, but, more importantly, will secure an operation in an area of New Zealand's South Island where considerable market opportunities exist.

This acquisition is an important step in Eastern's strategy of expansion in New Zealand. It is Eastern's intention to build a robust, self sufficient mining operation there which will generate cash flow to fund the company in the development of its current projects and pursuit of new opportunities.

The Straith coal is predominantly sub-bituminous thermal coal, with increasing application in the domestic industrial coal market. The operations are located in three separate areas within the Ohai / Nightcaps region (CML 37079), where open cut and underground coal mining operations have been conducted for over 50 years. The main focus however will be the Nightcaps deposit.

All necessary mining permits and consents are now transferred and infrastructure is in place for production exceeding 100,000 tonnes per annum. Operations, initially by mining contractor, are scheduled to commence early October.

Confirmatory resource drilling conducted during the course of due diligence has confirmed an initial resource at Straith of 2.85 million tonnes Measured Resource (under the JORC reporting standards for mineral resources and ore reserves) with an in-situ linear ratio of less than 5 to 1. Coal qualities are in the middle range for New Zealand sub-bituminous coals. The main seam has been identified as the Morley seam, which is split into Upper Morley 1, 2 and 3.

Seam Name	**Resource Estimate**
Upper Morley 1	1.30 mt
Upper Morley 2	0.41 mt
Upper Morley 3	1.14 mt
Total in-situ Measured	**2.85 mt**

Eastern has also applied for Prospecting Permits over the region immediately adjoining CML 37079 where there is potential to increase the estimated tonnage through further exploration.

The purchase price of NZ$2 million (less than 7c per tonne) will be paid by Eastern out of existing cash reserves. A deposit of NZ $100k will be followed by two separate payments. NZ$1.5 million will be paid on settlement and the balance of NZ$500,000 within 12 months.

Eastern has also purchased the Somervilles Fuel Centre in Timaru for NZ $2.4 million. The Fuel Centre, to be known as Eastern Coal Supplies Limited, will be used as a coal stockpiling, blending and distribution point and is an important addition to Eastern's New Zealand coal strategy. It is situated on the east coast of New Zealand's South Island, approximately mid way between the Cascade and Straith mines and offers immediate access to several large industrial customers. Settlement is due to take place on Friday September 15.

The former owner has been employed by Eastern as New Zealand Transport and Marketing Manager. The port of Timaru could be considered for export of Eastern's coal.

In Queensland's Bowen Basin, Eastern is in joint venture with Mitsui in stage two of a feasibility study into a coking coal development at Broughton adjoining Rio Tinto's Hail Creek mine.

MIKE O'BRIEN
Chief Executive Officer

The information in this report that relates to the estimated coal resource for Straith is based on information compiled by Mr Ian Poppitt of Rockmode Proprietry Limited, who is a Member of The Australasian Institute of Mining and Metallurgy.

Mr Poppitt has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Mr Poppitt consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

For further information please contact:

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