Port Waratah Coal Services Limited

# ANNUAL REPORT 2015

PORT WARATAH
COAL SERVICES

*Pioneering Through Partnership*

# Port Waratah Coal Services Limited

A.C.N. 001 363 828

## FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

### Directors

P A Winn (Chair)
K R Moore
T Nomura
H Okamoto
A E Pitt
J E Richards
C Salisbury
Y Takasugi
S J Watson
P A Wilkes

### Chief Executive Officer

S H du Plooy

### Company Secretaries

D J Hogue
J A Oliver

### Contents



### Auditor

Deloitte Touche Tohmatsu
Chartered Accountants

This financial report covers the consolidated entity consisting of Port Waratah Coal Services Limited and the entity it controlled during 2015. Port Waratah Coal Services Limited ('Port Waratah') is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

Port Waratah Coal Services Limited
Curlew Street
Kooragang Island, Newcastle
New South Wales, Australia
Telephone (02) 4907 2000

A description of the nature of the company's operations and its principal activities is included in the review of operations and activities in the Directors' Report commencing on page 3. Port Waratah's annual report is available on the company's website www.pwcs.com.au.

# Chair's Report

Port Waratah loaded 108.9 million tonnes of coal in 2015, a 2.7% decrease on 2014. This throughput was loaded onto 1,193 vessels. The slight decline in 2015 throughput was influenced by the loss of production through a severe weather event in April and the difficult market conditions continuing to be faced by our Customers.

Safety is of paramount importance at Port Waratah's operations. During the year, three of our team were injured (compared with three injuries in 2014 and four injuries in 2013). Notwithstanding the static number of injuries occurring, our lost time injury frequency rate reduced for 2015. All Directors and our Management team are committed to continually improving our safety performance and ensuring our leadership systems and processes support our goal of zero harm to all employees and contractors.

The significant challenges facing both the New South Wales and global coal industries continued during 2015. Port Waratah is acutely aware of these challenges and we have continued our focus on operational and commercial improvement during 2015. As a consequence, on 1 June 2015, our coal handling charge was reduced to $2.30 per tonne – the lowest coal handling charge in our organisation's history.

Notwithstanding the current challenging conditions facing the coal industry, Port Waratah continued approval process work during 2015 for the proposed Terminal 4 facility. I am pleased to report that, on 23 December 2015, Port Waratah was notified that the Commonwealth Government had completed its assessment of the Terminal 4 project's impact on the Environment Protection and Biodiversity Conservation Act and announced its approval of the project. The Commonwealth Government approval follows the earlier approval of the Terminal 4 facility, in October 2015, by the New South Wales Planning Assessment Commission.

Whilst the current environment is significantly different from that in which our original application for Terminal 4 was lodged in 2010 and the need for extra coal export capacity is currently not immediate, the planning certainty afforded by this year's approval of Terminal 4 will allow Port Waratah and the Hunter Valley export coal industry to deliver further capacity when required.

The significant project of delivering two new shiploaders at the Carrington Terminal remains on schedule and within budget. The new shiploaders are scheduled to be delivered in mid 2016, with the project due for completion by the end of 2016.

It gives me great pleasure to report that, in August 2015, Port Waratah was awarded the 2015 Hunter Business Chamber award for 'Contribution to the Region'. This award recognises the positive impact made by Port Waratah in our region through the wide range of activities we undertake.

I commenced my role as Port Waratah's Chair on 1 June 2015. I am looking forward to the challenges of the role and partnering with the Board and Management as Port Waratah continues to adjust to the difficult market environment being experienced by our Customers and contributing to developing this key business so that it can achieve its best in all market conditions.

During 2015, my predecessor, Mr Michael Harvey announced his departure as Chairman. I would like to thank Michael for his leadership and contribution to Port Waratah over the past six years and to wish him well in the future.

On behalf of the Board I would like to thank our Management, employees and contractors for their efforts during the past year.

PENNY WINN
CHAIR

# Directors' Report

In respect of the financial year the Directors of Port Waratah Coal Services Limited (the company) submit the following report:

## Directors' Details

The Directors of the company in office at the date of this report are detailed below. Directors holding office for part of the financial year are detailed in Note 21.

P A Winn (Chair)
**Bachelor of Commerce**
**Master of Business Administration**
**Member, UTS Business School Advisory Board**
**Member, Australian Institute of Company Directors**
Director, Caltex Australia Limited
Director, CSR Limited
Director, PWCS since June 2015

K R Moore
**Bachelor of Business**
**Bachelor of Laws (Hons.)**
**Masters of Laws**
Manager Infrastructure Strategy Anglo American Coal
Director, Hunter Valley Coal Chain Coordinator Limited
Director, PWCS since February 2016

T Nomura
**Bachelor of Law**
Managing Director, Nippon Steel & Sumitomo Metal Australia Pty Ltd
Director, PWCS Since June 2014

H Okamoto
**Bachelor of Chemical Engineering**
Group Leader, Coal Group, Toyota Tsusho Corporation
Managing Director, Toyota Tsusho Group and its related Companies
Managing Director, Navidale Pty. Limited
Director, RHA Pastoral Company Pty. Limited
Director, Tomen Panama Asset Management S.A.
Director, PWCS since March 2013

A E Pitt
**Bachelor of Commerce, Honours**
**Graduate, Australian Institute of Company Directors**
Director, Logistics and Procurement, Glencore Coal Assets Australia Pty Limited
Chairman, Newcastle Coal Shippers Pty Limited
Director, Abbot Point Bulkcoal Pty. Ltd.
Director, Bowen Towage Service Pty. Limited
Director, Dalrymple Bay Coal Terminal Pty. Ltd.
Director, Glencore Rail (NSW) Pty Limited
Director, Half-Tide Marine Pty Ltd
Director, Integrated Logistics Company Pty Ltd
Director, Port Kembla Coal Terminal Limited
Director, Surat Basin Rail Pty Ltd
Director, Wiggins Island Coal Export Terminal Pty Limited
Alternate Director, Hunter Valley Coal Chain Coordinator Limited
Alternate Director, Queensland Resources Council
Director, PWCS since January 2010

J E Richards
**Bachelor of Rural Science, Honours I**
Managing Director and Chief Executive Officer, The Bloomfield Group and associated companies
Chair, Executive Oversight Committee, NSW Minerals Council Upper Hunter Mining Dialogue
Member, Australian Institute of Company Directors
Member, Coal Forum – Minerals Council of Australia
Member, Executive Committee New South Wales Minerals Council Ltd
Director, ACA Low Emissions Technologies Limited
Director, PWCS since September 2010

C Salisbury
**Bachelor of Metallurgical Engineering**
**Fellow, Australian Institute of Company Directors**
**Fellow, Vincent Fairfax**
Chief Executive Officer, Coal & Allied Industries Limited
Managing Director, Rio Tinto Coal Australia Pty Limited
Member, Blair Athol Joint Venture
Member, Hail Creek Joint Venture
Member, Warkworth Joint Venture
Director, Australian Coal Holdings Pty. Limited
Director, Blair Athol Coal Pty. Ltd
Director, Coal & Allied Industries Limited
Director, Coal & Allied Operations Pty Ltd
Director, Hail Creek Marketing Pty Ltd
Director, Newcastle Coal Shippers Pty Limited
Director, Queensland Coal Pty. Limited
Director, Rio Tinto Coal Australia Pty Limited
Director, Rio Tinto Coal NSW Holdings Limited
Director, Warkworth Coal Sales Ltd
Director, Warkworth Mining Limited
Director, Warkworth Pastoral Co. Pty Ltd
Director, Warkworth Tailings Treatment Pty Ltd
Director, PWCS since October 2013

Y Takasugi
**Bachelor of Law**
Director, Japan Coal Development Co., Ltd
Director, The Tomatoh Coal Center Co., Inc
Director, PWCS since July 2014

S J Watson
**Master of Chemical Engineering**
**Master of Business Administration**
**Chartered Chemical Engineer**
**Member, Institute of Chemical Engineers**
**Member, Australia Institute of Company Directors**
Director, Dalrymple Bay Coal Terminal Pty Ltd
Director, Half-Tide Marine Pty Ltd
Director, PWCS since February 2016

P A Wilkes
**Bachelor of Business (Accounting)**
Financial Controller, Glencore Coal (NSW) Pty Limited
Director, Cumnock Management Pty Limited
Director, Glencore Coal (NSW) Processing Pty Limited
Director, Mangoola Coal Operations Pty Limited
Director, Ravensworth Coal Terminal Pty Limited and its related companies
Director, Resource Pacific Holdings Pty Limited
Director, Resource Pacific Pty Limited
Director, Tahmoor Coal Pty Limited
Alternate Director, Port Kembla Coal Terminal Limited
Director, PWCS since July 2013

## Alternate Directors

**K Ito (for Y Takasugi)**
**Bachelor of Economics**
Managing Director, J.C.D. Australia Pty Limited
Director, Blair Athol Coal Pty. Ltd.
Director, Clermont Coal Mines Limited

**S Keenan (for C Salisbury)**
**Diploma of Investor Relations**
Manager, Government Relations (NSW)
Executive Committee Member, NSW Minerals Council
Alternate Director, Newcastle Coal Shippers Pty Ltd

**M Klasen (for A E Pitt)**
**Bachelor of Commerce**
**Graduate Diploma Computing**
**Graduate, Australian Institute of Company Directors**
Financial Controller, Glencore Coal Assets Australia Pty Limited
Director, Ulan Coal Mines Limited and its related companies
Director, Liddell Coal Operations Pty. Limited and its related companies
Director, Mt Owen Pty Limited
Director, Glendell Mining Pty Limited
Director, HV Coking Coal Pty Limited
Alternate Director, Port Kembla Coal Terminal Limited

**T Kuga (for Y Takasugi)**
**Bachelor of Economics**
Director, J.C.D. Australia Pty Limited
Alternate Director, Blair Athol Coal Pty. Ltd.
Alternate Director, Clermont Coal Mines Limited

**B F Lewis (for J E Richards)**
**Bachelor of Engineering (Electrical), Honours**
**Master of Business Administration**
General Manager (Marketing), Bloomfield Collieries Pty Ltd
Director, Bloomfield Collieries Pty Ltd and its related companies
Director, Corky's Carbon and Combustion Pty Ltd
Director, Hunter Valley Coal Chain Coordinator Limited

**R H McCullough (for H Okamoto)**
**Bachelor of Engineering (Civil), Honours**
**Master of Business Administration**
Director, Greenpower Energy Limited
Director, Oakbridge Pty Limited

**A W Mason (for P A Wilkes)**
**Bachelor of Arts**
**Diploma in Financial Management**
**Diploma in Applied Finance and Investment**
Director of Finance, Glencore Coal Assets Australia Pty Ltd
Director, Austral Coal Limited and its related companies
Director, Bargo Collieries Pty Limited
Director, Cumnock Coal Pty Limited and its related companies
Director, Liddell Collieries Pty Limited and its related companies
Director, Narama Investments Pty Limited
Director, Oakbridge Pty Limited and its related companies
Director, OCAL Macquarie Pty Limited
Director, Resource Pacific Holdings Pty Limited and its related companies
Director, Glencore Coal Assets Australia Pty Ltd
Alternate Director, Newcastle Coal Shippers Pty Limited

**J Miyamoto (for H Okamoto)**
**Bachelor of Economics**
General Manager – Mitsui & Co. (Australia) Ltd, Brisbane
Director, Mitsui Coal Holding Pty. Ltd.

**L W Muir (for H Okamoto)**
**Certificate in Industrial Law**
Consulting Advisor, Toyota Tsusho Group and its related companies

**M Okano (for H Okamoto)**
**Bachelor of Economics**
Project General Manager, Toyota Tsusho Corporation
Director, Toyota Tsusho Group and its related companies
Director, Navidale Pty. Limited
Director, RHA Pastoral Company Pty. Limited

**T Sano (for T Nomura)**
**Bachelor of Foreign Studies**
Director, Nippon Steel & Sumitomo Metal Australia Pty Ltd
Director, Nippon Steel & Sumikin Resources Australia Pty Ltd
Director, Nippon Steel & Sumikin Newcastle Pty Ltd

**A Viertel (for S Watson)**
**Bachelor of Mechanical Engineering**
**Master of Business Administration**
Manager Infrastructure, Rio Tinto Coal Australia
Director, Integrated Logistics Company Pty Ltd
Director, Hunter Valley Coal Chain Coordinator Limited

**N Yamauchi (for T Nomura)**
**Bachelor of Economics**
**Master of Business Administration**
Managing Director, JFE Steel Australia Resources Pty Ltd and its related Companies
Director, Byerwen coal Pty Ltd
Director, Leichhardt Pastoral Pty Ltd

## Directors' Meetings

The number of meetings of the company's Board of Directors and Sub-Committees of the Board of Directors held during the financial year were:

| | |
|---|---|
| Board of Directors | 7 |
| HSE Committee | 4 |
| Audit & Risk Committee | 4 |

The attendance details of Directors at Board meetings and Sub-Committees of the Board of Directors held throughout the financial year are as follows:

| | Meetings held whilst in office | Meetings attended |
|---|---|---|
| **Board of Directors** | | |
| Directors | | |
| P A Winn | 4 | 4 |
| M Harvey | 3 | 3 |
| J M Cleland | 7 | 7 |
| M R Eaglesham | 7 | 3 |
| K R Moore | - | - |
| T Nomura | 7 | 4 |
| H Okamoto | 7 | 4 |
| A E Pitt | 7 | 7 |
| J E Richards | 7 | 5 |
| C Salisbury | 7 | 4 |
| Y Takasugi | 7 | - |
| S J Watson | - | - |
| P A Wilkes | 7 | 6 |
| Alternate Directors | | |
| K Ito | 7 | 6 |
| S Keenan | 1 | 1 |
| M Klasen | 7 | - |
| T Kuga | 4 | 1 |
| N Kushibuchi | 2 | - |
| B F Lewis | 7 | 1 |
| S P Maresh | 6 | 2 |
| A W Mason | 7 | - |
| R H McCullough | 7 | - |
| K R Moore | 7 | - |
| L W Muir | 7 | 6 |
| T Okada | 2 | 2 |
| M Okano | 7 | - |
| R Samukawa | 3 | 1 |
| T Sano | 7 | 2 |
| M Shiraishi | 7 | - |
| A W Viertel | 7 | 3 |
| N Yamauchi | 5 | - |
| **Health, Safety and Environment Committee** | | |
| P A Winn | 2 | 2 |
| M Harvey | 2 | 2 |
| S Coleman | 4 | 2 |
| J E Richards | 4 | 3 |

| | Meetings held Whilst in office | Meetings attended |
|---|---|---|
| **Audit & Risk Committee** | | |
| J M Cleland | 4 | 4 |
| M Harvey | 2 | 2 |
| N St George | - | - |
| P C Taylor | 3 | 2 |
| P A Wilkes | 4 | 4 |
| P A Winn | 2 | 2 |

## Company Secretaries

The company secretaries are:

**Mr D J Hogue.** Mr Hogue was appointed to the position of Company Secretary in September 2015. Mr Hogue is a member of Chartered Accountants Australia and New Zealand.

**Mr J A Oliver.** Mr Oliver was appointed to the position of Company Secretary in February 2008. Mr Oliver is a member of Chartered Accountants Australia and New Zealand and a fellow of CPA Australia.

## Principal Activities

The principal activities of the company were the provision of coal receival, blending, stockpiling and shiploading services in the Port of Newcastle.

## Trading Results

The net profit of the consolidated entity for the financial year was $14.6 million after an income tax expense of $5.6 million.

## Dividends

Total dividends paid during the financial year were as follows:

| | |
|---|---|
| Importer & Exporter Class Shares<br>Final 2014 dividend and First Interim 2015 dividend paid 25 March 2015.<br>Fully Franked | $16,400,000 |
| Importer & Exporter Class Shares<br>Second Interim 2015 dividend paid 16 September 2015.<br>Fully Franked | $16,400,000 |
| | **$32,800,000** |

## Review of Operations

During the financial year the company handled 108.9 million tonnes of coal through its Carrington and Kooragang Terminals (2014, 111.9 million tonnes), representing decreased tonnage of 2.7% on the previous year. The above mentioned tonnage was loaded aboard 1,193 vessels (2014, 1,228 vessels).

Steaming coal exports decreased by 2.1% with shipments for the year totalling 96.7 million tonnes (2014, 98.8 million tonnes). Coking coal exports decreased by 6.1% with shipments for the year totalling 12.2 million tonnes (2014, 13.1 million tonnes).

The charge for coal handling services was $2.50 per tonne from 1 January to 31 May 2015 and was reduced to $2.30 per tonne from 1 June 2015.

At the end of the financial year there were 346 people (31 December 2014, 356 people) employed by the company.

## Subsequent Events

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity in future financial years.

## Changes in State of Affairs

There have been no significant changes in the state of affairs of the company during the financial year.

## Future Developments and Results

In December 2015 the proposed Terminal 4 facility was approved by the Commonwealth Government. The approval of Terminal 4 provides certainty for the Hunter Valley export coal industry in terms of future port capacity. The Terminal 4 facility will be constructed when customer contracted demand dictates.

In the opinion of Directors, there are no other developments likely to significantly affect the future results of the company.

## Directors' Interests

Each of the Directors has given a standing notice under sub-section 192(1) of the Corporations Act 2001 stating that he or she is a Director or member of certain specified corporations and as such is to be regarded as having an interest in any contract which may be made between the company and those corporations. Other than contracts of a routine nature between the company and associated corporations no Director has an interest in any contract or proposed contract made with the company since 24 March 2015 (being the date of the previous year's Directors' Report) and the date of this report.

No Director holds shares in the company or related bodies corporate as at the date of this report.

## Environmental Regulation

The NSW State legislation, relevant to the company's operations, is principally covered by the requirements of the following Government Acts and Regulations:

- Environmental Planning and Assessment Act (1979) and Regulations; and
- Protection of the Environment Operations Act (1997) and Regulations.

The NSW Department of Planning and Environment, the NSW Office of Environment and Heritage, and NSW Environment Protection Authority are the primary Government authorities responsible for the issuing and administration of relevant approvals, licences and permits, in accordance with the requirements of the above Acts and Regulations.

The company complied with all environmental legislative requirements and operations were conducted in accordance with licence and consent conditions. All external reporting requirements associated with the National Greenhouse and Energy Reporting Act (2007) and other relevant legislation was completed.

## Directors' Benefits

No Director of the company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by Directors shown in the financial report) by reason of a contract made by the company or a related body corporate with a Director or with a firm of which he or she is a member, or with an entity in which he or she has a substantial financial interest.

## Indemnities and Insurance

During the financial year, the company paid a premium for an insurance policy insuring any past or present Director, Secretary, Executive Officer or employee of the company against certain liabilities. The insurance policy prohibits disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premium.

In accordance with the Constitution of the company, the company must indemnify on a full indemnity basis, and to the full extent permitted by law, the following persons:

(a) Each person who is or has been a Director, Alternate Director, Chief Executive Officer, General Manager or Secretary of the company; and

(b) Other officers or former officers of the company or of its related bodies corporate as the Directors in each case determine.

The indemnities so provided apply for all losses or liabilities incurred by the person as an officer of the company or of a related body corporate including, but not limited to, a liability for negligence or for reasonable costs and expenses incurred:

(a) In defending proceedings in which judgement is given in favour of the person or in which the person is acquitted; or

(b) In connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Act 2001.

The indemnities so provided operate only to the extent that the loss or liability is not covered by insurance.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibilities on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 9 of the annual report.

## Rounding of Amounts

The company is a company of the kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise stated.

Dated at Newcastle this 21st day of March 2016.

Signed in accordance with a resolution of the Directors.

PENNY WINN
DIRECTOR

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1219 Australia

DX: 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +64 (0)2 9322 7001
www.deloitte.com.au

The Directors
Port Waratah Coal Services Limited
Curlew Street
Kooragang Island
Newcastle NSW 2294

21 March 2016

Dear Sirs

**Auditor's Independence Declaration to Port Waratah Coal Services Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Port Waratah Coal Services Limited.

As lead audit partner for the audit of the financial statements of Port Waratah Coal Services Limited for the financial year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

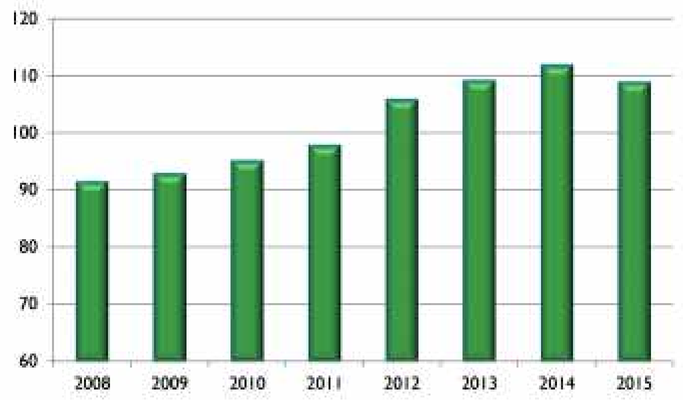
Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Partner
Chartered Accountants

# Performance Overview

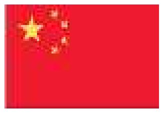
## Throughput (Mtpa)



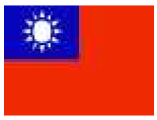

## Export Destinations

Japan – 50%

South Korea – 16%



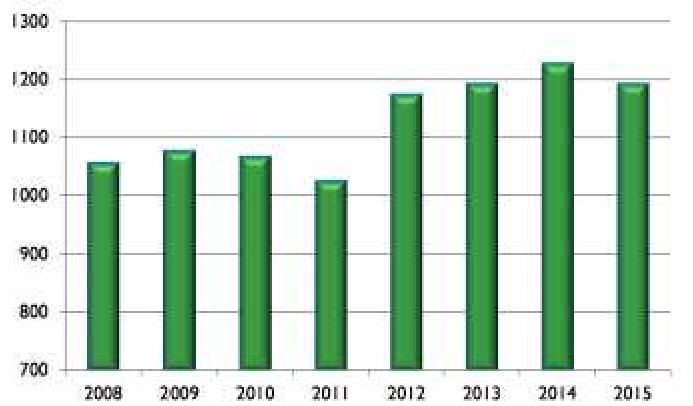
China – 12%



Taiwan – 11%

Other – 11%

## Vessels Loaded

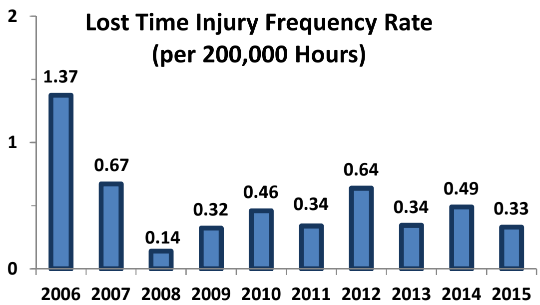


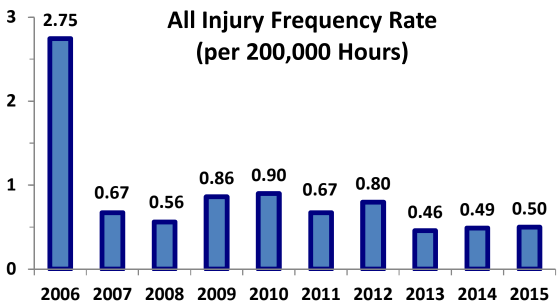
# Year in Review

## Safety and health

During 2015, three reportable injuries were recorded in Port Waratah's operations. Two employees recorded injuries which resulted in them being restricted from performing their full duties, and one contractor employee recorded an injury that required medical treatment. The nature of the injuries recorded suggests that the challenge to manage exposure to soft-tissue injuries continues to increase.

The number of reportable injuries in 2015 was the same as in the prior year, although of lower severity. The all-injury frequency rate was similar to 2014, but the lost-time injury frequency rate declined.




The core objective of Management's health and safety approach remains to develop a zero-harm culture by actively engaging employees in safety improvement. Improvement initiatives addressed both behavioural and systematic aspects of the safety effort:

1. Employee engagement was critical to the success of a number of initiatives:
   - Implementation of the redesigned safety interaction process was completed successfully and continues to get a positive response from both employees and contractors;
   - Employees successfully redesigned and implemented changes to their shift-start process to make a better safety discussion the focus of this event;
   - A process to improve the rigour of verifying Port Waratah's fatality risk controls was designed with employee input. The design of these Critical Control Monitoring Plans was completed and implementation is scheduled for 2016; and
   - Members of the OHS Consultation Committee initiated a review of the Take 5 pre-task risk assessment.
2. Terminal leadership developed Injury Body Maps highlighting type and location of injuries recorded historically as a way of identifying areas of higher risk. Targeted themes aligned with these clusters were then delivered to teams on aspects such as hand, eye and back injuries.
3. The employee health programme was developed further with efforts aimed at increasing the utilisation of health and fitness advisers, supported by updating gymnasium equipment to ensure that this remained fit for purpose. Employees were also given access to voluntary annual health assessments, skin cancer checks and flu vaccinations.
4. As both an employee and community initiative, and in a joint endeavour with Newcastle Coal Infrastructure Group, Port Waratah participated as naming rights partner in the RUN Newcastle event.
5. Business Resilience and Emergency Response exercises were conducted in accordance with the annual schedules and included the participation of external emergency services as required.

6. Activities to ensure the ongoing robustness of Port Waratah Health and Safety Management Systems included:
   - Two external surveillance audits of the certification to OHSAS 18001;
   - An internal audit of the Maritime Security Plan for compliance with the Maritime Security Act; and
   - More than 200 internal and contractor audits assessing implementation of and compliance with Port Waratah safety systems.

### Licence to operate

In 2015, Port Waratah embarked on a project to embed activities that relate to obtaining and securing our licences to operate into all roles in the business. The workforce responded very positively and a large number of employees were involved in identifying activities and projects that can be delivered to achieve this objective. These have been included in future business plans. For 2015, the traditional focus areas of environmental management and strong community relationships remained the building blocks of Port Waratah's licence to operate activities.

The focus of Port Waratah's environmental management programmes were directed to the main areas of operational risk, with these being dust emissions, noise impact on community receptors and the risk of pollution of environmental waters as a result of inadequate site water management.

Significant progress was made with the substantial ongoing investment in improving the water management systems at both the Kooragang and Carrington terminals. The overarching aim of this investment programme is to reduce the risk of water pollution incidents by improving the capability of site water management systems to contain storm water. Implementation of this work is ongoing and will continue into 2016.

The key water management projects completed during 2015 included:

- Upgrading wharf drainage, gate drainage and wheel wash facilities at Kooragang Terminal;
- Maintenance and upgrades of a settling lagoon at Kooragang Terminal;
- Installation of a new sewage treatment plant at Carrington Terminal; and
- Upgrades to water management infrastructure such as piping and launders at Carrington Terminal.

Improvements in the area of dust management included enhancements to Port Waratah's 'Intelligent Dust Management System' and the application of dust suppressant to open areas at the Kooragang Terminal. Port Waratah also played a pro-active role in industry responses to pressure from the community and regulator on the potential for particulate pollution from the ARTC rail track system. Activities in this area included joint engagement with the environmental regulator with other NSW coal terminals and hosting the Office of NSW Chief Scientist.

As part of the ongoing effort to reduce the noise footprint of operations, Carrington Terminal conducted a comprehensive review of alarms on all the yard equipment. Where appropriate, alarms were updated to adjustable modern alarms, orientated to minimise potential off-site impacts. Carrington Terminal also committed to align its conveyor roller replacement programme with that in place at Kooragang, which has a focus on utilising low-noise rollers.

During 2015, Port Waratah reported three incidents that had the potential to result in pollution of waters to regulators. Port Waratah maintained ISO14001:2004 certification of the Environmental Management System. A comprehensive four day recertification audit did not report any non-conformances. Improved waste reporting and the implementation of new recycling initiatives saw Port Waratah divert 81.2% of waste generated from landfill disposal.

Port Waratah's 2015 National Greenhouse and Energy Report identified that the company's total greenhouse gas emissions reduced 1.3% from the previous reporting period. Additionally, vehicle and wastewater emissions reduced 6.5% during the previous year, or 26.6% in the past two years.

Community engagement activities in 2015 continued to expand and develop in accordance with our Stakeholder Engagement Strategy. Traditional engagement channels such as the quarterly Community Newsletter and Community Terminal Meetings were maintained, while additional channels such as a stall at the Carrington Markets and a social media presence were developed. In other new developments, Port Waratah embarked on joint community activities with Newcastle Coal Infrastructure Group. Joint sponsorship of the RUN Newcastle event was considered a great success.

2015 also marked the three year anniversary of the Community Investment and Partnership Programme. A celebration event was held in November with a large number of community partners and stakeholders attending. A commemorative book 'Storylines' was launched at the event which includes the stories of a variety of our partners and the groups, people or causes they support and are passionate about. In total, $681,000 was invested in community partnerships.

The Kooragang and Carrington Terminal Sponsorship & Donations Committees held regular meetings, committing $66,000 in and around their local areas, including school presentations and educational initiatives, community festivals and fetes, sponsoring employees in fundraising activities and donations to various support groups.

A significant step forward was made in laying foundations for the future, when agreement on the key terms of a Voluntary Planning Agreement in relation to the T4 project was reached with Newcastle City Council.

### Effective organisation

In pursuit of efficiency improvements, further organisation changes during the year resulted in the total number of employees declining from 356 at 1 January 2015 to 346 at 31 December 2015. In addition to taking advantage of natural attrition, redundant roles also resulted from the consolidation of the Logistics and Customer Contracts teams into Service Assurance.

Employee turnover rate for 2015 was 4.32% (15 employees). This turnover rate includes employees leaving Port Waratah as a result of resignation, ill health, completion of fixed term engagements and organisation changes.

Port Waratah's Enterprise Agreement 2015 was approved by the Fair Work Commission on 12 March 2015. The agreed changes were embedded as part of the implementation plan, which included the introduction of a new electronic timesheets system. There were no instances of protected industrial action during 2015.

In meeting its obligations under the Workplace Gender Equality Act 2012, Port Waratah lodged its Workplace Profile with the Workplace Gender Equality Agency (WGEA) on 22 May 2015. The Workplace Profile includes information on employee numbers by category, gender and the percentage of females in each category and a Workplace Questionnaire which covers six topics called "Gender Equality Indicators". The WGEA Report for the 2014-2015 reporting period is available on the Port Waratah website with information on how employees and shareholders can provide comment.

A number of employee effectiveness and cultural initiatives were introduced and/or continued at Port Waratah during 2015, which included:

- The introduction of Port Waratah Core Values;
- The introduction and roll out of the "It's Who We Are" team programme, aimed at introducing the Business Strategy to teams and enhancing team building skills;
- The continuation of the "What's Next?" employee engagement programme resulting in a number of improvement projects being undertaken across the business;

- The commencement of the development of a Port Waratah Diversity Strategy; and
- The introduction of a Port Waratah internal training assessor team.

Port Waratah was the host employer of 15 apprentices at the end of 2015.

## Operational delivery

The Hunter Valley coal industry continued to face a challenging market environment during 2015. In recognition of the challenges faced by its customers, Port Waratah endeavoured to improve its operational and cost performance to make a contribution to reducing the overall costs incurred in the logistics chain. As a result of direct cost reductions achieved, Port Waratah reduced the coal handling charge applicable to its services to $2.30 per tonne from June 2015.

In addition, a focus on outbound planning and improvements in collaboration with the Hunter Valley Coal Chain Coordinator, enabled a reduction in the vessel turnaround time from 5.1 days in 2014 to 4.8 days in 2015 – achieved despite a spike in vessel queues and turnaround times recorded as a result of the significant weather event in April 2015. Operations also achieved a favourable result in train cancellations, with the actual cancellations attributable to the Terminals being 0.2%, an improvement on the prior year and well below the target of 1.2%.

Actual throughput fell short of budgeted volumes as a result of customer demand but the flexibility available from having the full terminals' capacity available was applied to the benefit of customers by accelerating operations in response to demand when required. As a result, favourable operational performance measures for the Kooragang Terminal were achieved throughout 2015, with terminal records achieved for daily and weekly rail receival and shiploading. Other performance achievements included a reduction in hatch change times and a 9.3% improvement on the best performance for the mean time to repair (MTTR). Favourable operational performance measures for the Carrington Terminal were also achieved, notably an improvement in MTTR of 47% compared to 2014.

Service Assurance delivered a significant customer interface improvement with the implementation of the Services Portal. This change, coupled with the redesign of several key roles, has brought about an improved level of service to Port Waratah Customers.

## Development

Work associated with obtaining the environmental approval for the proposed T4 Terminal continued in 2015. During the year the project was subject to a second round of review by the Planning Assessment Commission (PAC). This included further opportunity for public submissions as well as public hearings. NSW State development approval was received on 30 September 2015.

Assessment under the Environment Protection and Biodiversity Conservation Act was completed by the Commonwealth Department of Environment, with approval received on 23 December 2015.

The project to replace the Carrington Terminal Shiploaders continued in 2015. The shiploader design was completed during the year. At the end of 2015 the fabrication of the two shiploaders was over 90% complete and machine erection in China had commenced. Shiploader delivery to site is due in July 2016.

## Conclusion

Safety performance in 2015 highlighted to leaders throughout Port Waratah the significant challenge that remains on the way to our ambition of being a zero-injury business, but the leadership remains committed to this objective.

The Licence to Operate framework that was developed during the year laid the foundation for much work to be done in this area in future years. The wide employee support for this activity demonstrated that the workforce is well placed to respond to the growing challenges in this sphere.

Port Waratah Management recognises the business' close relationship with and dependence on the Hunter Valley Coal chain and continue to strive to build a flexible and responsive business that can meet its customers' expectations under all industry conditions.

**HENNIE DU PLOOY**
**CHIEF EXECUTIVE OFFICER**

# Statement of Profit or Loss and other Comprehensive Income

## for the financial year ended 31 December 2015

| | Note | Consolidated | |
|---|---|---|---|
| | | 31-Dec-15 | 31-Dec-14 |
| | | $'000 | $'000 |
| **Continuing operations** | | | |
| Revenue | 2 | 342,949 | 397,424 |
| Other income | 2 | 3,163 | 2,605 |
| Employee benefit expenses | | (61,377) | (71,516) |
| Depreciation and amortisation expenses | 2 | (108,304) | (109,209) |
| Finance costs | 2 | (44,192) | (48,145) |
| Materials and services | | (84,652) | (76,576) |
| Other expenses | | (27,402) | (27,228) |
| **Profit before income tax expense** | | 20,185 | 67,355 |
| Income tax expense | 3 | (5,617) | (19,585) |
| **Profit for the year** | 18 | 14,568 | 47,770 |
| **Other comprehensive income, net of income tax** | | | |
| *Items that will not be reclassified subsequently to profit or loss:* | | | |
| Net fair value gain/(loss) on fair value equity instruments | 17 | (280) | 923 |
| **Total comprehensive income for the year** | | 14,288 | 48,693 |

Notes to the financial statements are included on pages 21 to 45.

# Statement of Financial Position

## for the financial year ended 31 December 2015

| | Note | Consolidated | |
|---|---|---|---|
| | | 31-Dec-15 | 31-Dec-14 |
| | | $'000 | $'000 |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | 48,679 | 37,611 |
| Trade and other receivables | 5 | 14,890 | 17,322 |
| Inventories | 6 | 7,959 | 7,774 |
| Other | 7 | 1,613 | 2,112 |
| **TOTAL CURRENT ASSETS** | | 73,141 | 64,819 |
| **NON-CURRENT ASSETS** | | | |
| Other financial assets | 8 | 16,946 | 17,226 |
| Property, plant and equipment | 9 | 1,666,809 | 1,745,348 |
| Other | 10 | 8,082 | 8,628 |
| **TOTAL NON-CURRENT ASSETS** | | 1,691,837 | 1,771,202 |
| **TOTAL ASSETS** | | 1,764,978 | 1,836,021 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 11 | 16,997 | 19,165 |
| Borrowings | 12 | 244,648 | 292,048 |
| Current tax payables | 3 | 1,864 | 6,699 |
| Provisions | 13 | 33,580 | 23,202 |
| **TOTAL CURRENT LIABILITIES** | | 297,089 | 341,114 |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | 14 | 710,779 | 711,668 |
| Deferred tax liabilities | 3 | 101,391 | 103,630 |
| Provisions | 15 | 52,638 | 58,016 |
| **TOTAL NON-CURRENT LIABILITIES** | | 864,808 | 873,314 |
| **TOTAL LIABILITIES** | | 1,161,897 | 1,214,428 |
| **NET ASSETS** | | 603,081 | 621,593 |
| **EQUITY** | | | |
| Issued capital | 16 | 139,868 | 139,868 |
| Reserves | 17 | 1,520 | 1,800 |
| Retained earnings | 18 | 461,693 | 479,925 |
| **TOTAL EQUITY** | | 603,081 | 621,593 |

Notes to the financial statements are included on pages 21 to 45.

# Statement of Changes in Equity

## for the financial year ended 31 December 2015

| | Note | Consolidated<br>Share Capital<br>$'000 | Reserves<br>$'000 | Retained Earnings<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|
| Balance at 31 December 2014 | 16, 17, 18 | 139,868 | 1,800 | 479,925 | 621,593 |
| Profit for the period | | - | - | 14,568 | 14,568 |
| Fair value of equity instruments movement for the year | 17 | - | (280) | - | (280) |
| Dividends paid | 19 | - | - | (32,800) | (32,800) |
| Balance at 31 December 2015 | 16, 17, 18 | 139,868 | 1,520 | 461,693 | 603,081 |

| | Note | Consolidated<br>Share Capital<br>$'000 | Reserves<br>$'000 | Retained Earnings<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|---|
| Balance at 31 December 2013 | 16, 17, 18 | 139,868 | 877 | 464,155 | 604,900 |
| Profit for the period | | - | - | 47,770 | 47,770 |
| Fair value of equity instruments movement for the year | 17 | - | 923 | - | 923 |
| Dividends paid | 19 | - | - | (32,000) | (32,000) |
| Balance at 31 December 2014 | 16, 17, 18 | 139,868 | 1,800 | 479,925 | 621,593 |

Notes to the financial statements are included on pages 21 to 45.

# Statement of Cash Flows

## for the financial year ended 31 December 2015

| | | Consolidated | |
|---|---|---|---|
| | Note | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers | | 379,930 | 437,111 |
| Payments to suppliers and employees | | (206,868) | (217,810) |
| Dividends received | | 1,086 | 1,060 |
| Interest received | | 1,623 | 1,080 |
| Interest and other costs of finance paid | | (39,592) | (39,738) |
| Net Income tax paid | | (12,691) | (27,600) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | (iii) | 123,488 | 154,103 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment | | (30,905) | (27,363) |
| Proceeds from sale of property, plant and equipment | | 309 | 175 |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | (30,596) | (27,188) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | (49,024) | (63,787) |
| Dividends paid | 19 | (32,800) | (32,000) |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | (81,824) | (95,787) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 11,068 | 31,128 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR** | | 37,611 | 6,483 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | (i) | 48,679 | 37,611 |

Notes to the statement of cashflows are included on page 20.
Notes to the financial statements are included on pages 21 to 45.

# Notes to the Statement of Cash Flows

## for the financial year ended 31 December 2015

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 | 31-Dec-14 |
| | $'000 | $'000 |

### (i) CASH AT THE END OF THE FINANCIAL YEAR

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments for the parent entity only, net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the financial year as shown in the cashflow statement is reconciled to the related items in the Statement of Financial Position as follows:

| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|
| Cash and cash equivalents | 48,679 | 37,611 |

### (ii) FINANCING FACILITIES

The parent entity has access to:

| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|
| Secured bank loan facilities with various maturity dates | | |
| Amount used | 958,874 | 1,007,898 |
| Amount unused | - | - |
| | 958,874 | 1,007,898 |

### (iii) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|
| Profit for the period | 14,568 | 47,770 |
| Depreciation expense | 108,304 | 109,209 |
| Amortisation of deferred borrowing costs | 296 | (61) |
| (Gain)/Loss on sale of plant & equipment | (159) | (101) |
| Interest unwinding on rehabilitation provision | 4,408 | 4,081 |
| Changes in assets & liabilities: | | |
| (Decrease)/increase in income tax payable | (4,835) | (9,467) |
| Decrease/(increase) in trade debtors | 2,432 | (406) |
| Decrease/(increase) in deferred borrowing costs | 439 | 1,601 |
| Decrease/(increase) in other assets and prepayments | 1,045 | 916 |
| (Increase)/decrease in inventory | (185) | (966) |
| (Decrease)/increase in deferred taxes | (2,239) | 1,451 |
| Increase/(decrease) in employee entitlement provisions | 1,582 | (1,484) |
| (Decrease)/increase in trade creditors | (2,168) | 1,560 |
| Net cash flows from operating activities | 123,488 | 154,103 |

# Notes to the Financial Statements

for the financial year ended 31 December 2015

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS

### Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being Port Waratah Coal Services Limited (the parent entity) and its subsidiary as defined in Accounting Standard AASB 127 'Separate Financial Statements'. Details of Port Waratah's subsidiary appears in Note 26 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the parent entity obtains control and until such time as the parent entity ceases to control such entity. Control is achieved where the parent entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

### Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial statements comprise the consolidated financial statements of the parent entity and the entity it controls. For the purposes of preparing the consolidated financial statements, the consolidated entity is a for-profit entity.

In the current year, the consolidated entity has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the consolidated entity's annual reporting period.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Directors on 21 March 2016.

### Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

# Notes to the Financial Statements

for the financial year ended 31 December 2015

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Basis of Preparation (continued)

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. There were no material accounting estimates and judgements applied in preparing the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The principal accounting policies adopted in preparing the financial report of the consolidated entity comprising the parent entity, and the entity it controls, are stated to assist in a general understanding of these financial reports. These policies have been consistently applied by entities in the consolidated entity except as otherwise noted.

### Application of New and Revised Accounting Standards

| Standard/Interpretation | Application |
|---|---|
| AASB 2014-1 'Part A – Annual Improvements 2010-2012 and 2011-2013 Cycles' | Part A of this standard makes various amendments to Australian Accounting Standards arising from the issuance of Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle. It also makes various editorial corrections to Australian Accounting Standards (including an Interpretation). The adoption of the amending standard does not have any material impact on the amounts recognised in the Company's financial statements. |

### Early adoption of Standards and Interpretations

In the reporting period beginning 1 January 2011, Directors elected under s.334(5) of the Corporations Act 2001 to apply AASB 9 'Financial Instruments', and the relevant amending standards in advance of its effective date. The effective date has been revised to be effective for annual reporting periods beginning on or after 1 January 2018.

# Notes to the Financial Statements
for the financial year ended 31 December 2015

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Standards and Interpretations in issue not yet adopted

| Standard/Interpretation | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|---|---|---|
| AASB 2015-1 'Annual Improvements 2012-2014' | 1 January 2016 | 31 December 2016 |
| AASB 2015-2 'Disclosure Initiative: Amendments to AASB 101' | 1 January 2016 | 31 December 2016 |
| AASB 15 'Revenue from contracts with customers' | 1 January 2017 | 31 December 2017 |
| AASB 16 'Leases' | 1 January 2019 | 31 December 2019 |

AASB 16 'Leases' has made significant changes to lease accounting that will result in all leases being included in the Statement of Financial Position except for short term and low value leases. The consolidated entity has a number of long term leases which are contained in Note 23. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 16 as it is expected to have a material impact on presentation and disclosure of leases.

The Directors anticipate that the adoption of all other Standards and Interpretations in future periods will have no material financial impact on the financial statements of the consolidated entity, as the issue of the above noted Interpretations do not affect the consolidated entity's present policies and operations.

The Standards and Interpretations will be first applied in the consolidated financial statements that relate to the annual reporting period beginning after the effective date of the pronouncement, which will be the consolidated entity's annual reporting period beginning on 1 January 2016 or later.

### Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at fair value. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the parent entity.

Other financial assets are classified into the following specified categories:
- trade and other receivables; and
- shares at fair value.

# Notes to the Financial Statements

for the financial year ended 31 December 2015

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Financial Assets (continued)

Trade and other receivables

Trade receivables and other receivables are recorded at amortised cost less provision for impairment.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments.

Shares at fair value

The parent entity has an investment in an unlisted entity whose shares are not traded in an active market. This investment has been classified as 'shares at fair value - other corporations' (because the Directors consider that the fair value can be reliably measured). Fair value has been determined in accordance with generally accepted pricing models based on discounted cashflows. In determining the fair value, an earnings growth factor of 3% (2014: 3%) and a discount factor of 8% (2014: 8%) are used.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value of equity instruments reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value of equity instruments reserve is not reclassified to profit or loss.

Dividends on shares held at fair value are recognised in profit or loss when the parent entity's right to receive dividends is established.

### Income Tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the Statement of Financial Position liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Financial Position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Income Tax (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Statement of Profit or Loss and other Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The parent entity and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Port Waratah Coal Services Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the parent entity (as head entity in the tax-consolidated group).

### Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

### Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

# Notes to the Financial Statements

for the financial year ended 31 December 2015

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the profit and loss in the period in which they are incurred.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, cash in banks (including short term deposits) and investments in money market instruments, net of outstanding bank overdrafts.

### Property, Plant and Equipment

Land is recognised at cost.

Buildings, plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

| | |
|---|---|
| Buildings | 10 – 25 years |
| Plant and equipment | 3 – 25 years |

Property, plant and equipment consolidated lives are limited to 25 years reflecting commercial obsolescence.

### Inventories

Maintenance stores are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Inventory consists of maintenance stores and supplies to be consumed in the rendering of coal handling services.

Major spares purchased specifically for particular items of plant and equipment are included in the cost of plant and equipment.

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, short term incentive payments, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Defined contributions plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

### Revenue Recognition

Revenue from operating activities represents revenue from coal handling and related activities and includes accrued income in relation to coal remaining on stockpiles at the end of the financial year. Revenue from outside the operating activities includes dividends received from other corporations, interest income, and proceeds from the disposal of property, plant and equipment.

Revenue from operating activities is recognised when the services are provided and includes accrued income in relation to coal remaining on stockpiles and partly loaded coal at the end of the financial year.

Revenue from Ship or Pay charges received is recognised when the Long Term Ship or Pay Agreement conditions for qualification are met.

Prepaid revenue is not recognised as revenue until the coal handling services have been performed.

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

# Notes to the Financial Statements

for the financial year ended 31 December 2015

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Goods and Services Tax (continued)

Cash flows are included in the Statement of Cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value (in which case the impairment loss is treated as a revaluation decrease).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### Leased Assets

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS (continued)

### Provision for Restoration and Rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of port operations undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities and restoring the affected areas at the expiry of the relevant land operating leases. The provision for the future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on independent cost estimates.

The present value calculations utilise a growth forecast of 3% (2014: 3%) and a discount rate of 8% (2014: 8%). Future restoration estimates are reviewed periodically and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to removing facilities and restoring the affected areas is capitalised into the related asset and amortised over the expected life of plant. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

### Reserves

The parent entity has an investment in an unlisted entity whose shares are not traded in an active market. This investment has been classified as 'shares at fair value - other corporations' (because the directors consider that the fair value can be reliably measured). Fair value has been determined in accordance with generally accepted pricing models based on discounted cashflows. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value of equity instruments reserve, with the exception of impairment losses which are recognised in the profit or loss.

Dividends on shares held at fair value are recognised in profit or loss when the parent entity's right to receive dividends is established.

### Foreign Currency

The financial statements are presented in the entity's functional currency, being Australian dollars. Transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each Statement of Financial Position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the Statement of Financial Position date.

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| **NOTE 2 PROFIT FROM OPERATIONS** | | |
| **(a) Revenue** | | |
| Revenue from continuing operations consisted of the following items: | | |
| Revenue from the rendering of Coal Handling Services | 342,949 | 397,424 |
| **(b) Other Income** | | |
| Dividends from other corporations | 1,086 | 1,060 |
| Interest received | 1,687 | 1,125 |
| Other | 231 | 319 |
| Gain/(Loss) on disposal of property, plant and equipment | 159 | 101 |
| | 3,163 | 2,605 |
| **Total Revenue and Other Income** | 346,112 | 400,029 |
| **(c) Profit before income tax** | | |
| Profit before income tax has been arrived at after charging the following expenses. The line items below combine amounts attributable to continuing operations: | | |
| Depreciation of property, plant and equipment | 108,304 | 109,209 |
| Borrowing costs: | | |
| Interest and finance charges paid/payable | 37,424 | 41,104 |
| Amortisation of capitalised borrowing costs | 2,360 | 2,960 |
| Interest unwinding on rehabilitation provision | 4,408 | 4,081 |
| | 44,192 | 48,145 |
| Defined contribution superannuation expense | 5,669 | 6,584 |
| Rental expense relating to operating leases and access agreements | 8,407 | 6,567 |

## NOTE 3 INCOME TAX

| | Consolidated 31-Dec-15 $'000 | Consolidated 31-Dec-14 $'000 |
|---|---|---|
| **(a) Income tax recognised in profit or loss** | | |
| Tax expense comprises: | | |
| Current tax expense | 7,856 | 18,134 |
| Deferred tax expense relating to the origination and reversal of temporary differences | (2,239) | 1,451 |
| Total tax expense | 5,617 | 19,585 |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| Profit from continuing operations | 20,185 | 67,355 |
| Income tax expense calculated at 30% | 6,056 | 20,207 |
| Add/(Less): Non-deductible expenses | 172 | 175 |
| Research and development tax rebate | (45) | (213) |
| Franking credits | (466) | (454) |
| Adjustments recognised in the current year in relation to current tax of prior years | (100) | (130) |
| | 5,617 | 19,585 |
| **(b) Current tax payable** | | |
| Income tax payable attributable to: | | |
| Parent entity and entities in the tax consolidated group | 1,864 | 6,699 |
| **(c) Deferred tax balances** | | |
| Deferred tax assets comprise: | | |
| Temporary differences | 26,934 | 25,541 |
| Setoff to deferred tax liabilities | (26,934) | (25,541) |
| | - | - |
| Deferred tax liabilities comprise: | | |
| Temporary differences | (128,325) | (129,171) |
| Setoff from deferred tax assets | 26,934 | 25,541 |
| | (101,391) | (103,630) |

## NOTE 3 INCOME TAX (continued)

Taxable and deductible temporary differences arise from the following:

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Balance at 31-Dec-13 $'000 | Charged to income $'000 | Balance at 31-Dec-14 $'000 | Charged to income $'000 | Balance at 31-Dec-15 $'000 |
| **Gross deferred tax liabilities:** | | | | | |
| Inventories | (2,042) | (290) | (2,332) | (56) | (2,388) |
| Work in progress | (689) | 44 | (645) | 13 | (632) |
| Other receivables | (18) | 12 | (6) | (3) | (9) |
| Property, plant and equipment | (109,455) | (7,564) | (117,019) | 199 | (116,820) |
| Other assets | (2,655) | 23 | (2,632) | 151 | (2,481) |
| Research and development tax incentive | (6,184) | (353) | (6,537) | 542 | (5,995) |
| | (121,043) | (8,128) | (129,171) | 846 | (128,325) |
| **Gross deferred tax assets:** | | | | | |
| Provisions | 9,503 | (1,470) | 8,033 | 475 | 8,508 |
| Other accruals | 43 | 935 | 978 | (107) | 871 |
| Rehabilitation depreciation and interest unwinding | 9,318 | 7,212 | 16,530 | 1,025 | 17,555 |
| | 18,864 | 6,677 | 25,541 | 1,393 | 26,934 |
| | (102,179) | (1,451) | (103,630) | 2,239 | (101,391) |

### Relevance of tax consolidation to the consolidated entity

The parent entity and its wholly-owned Australian resident entity have formed a tax-consolidated group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Port Waratah Coal Services Limited. The members of the tax-consolidated group are identified at Note 26 and Note 27.

As a consequence, Port Waratah Coal Services Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances.

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 | 31-Dec-14 |
| | $'000 | $'000 |

## NOTE 4 CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash on hand and short term deposits | 48,679 | 37,611 |

## NOTE 5 TRADE AND OTHER RECEIVABLES

| | | |
|---|---|---|
| Trade debtors and accrued income | 13,750 | 17,147 |
| Other debtors | 1,140 | 175 |
| | 14,890 | 17,322 |

The average credit period for customers is 14 days. No interest is charged on trade debtors for the first 14 days from the date of invoice. Thereafter, interest is charged at an appropriate overdraft indicator rate on the outstanding balance. In determining the recoverability of trade debtors the company considers any change in the credit quality of the trade debtor from the date credit was initially granted up to the reporting date. The Directors believe that there is no doubtful debt provision required for trade debtors.

## NOTE 6 INVENTORIES

| | | |
|---|---|---|
| Maintenance stores and supplies | 7,959 | 7,774 |

## NOTE 7 OTHER CURRENT ASSETS

| | | |
|---|---|---|
| Prepayments | 1,613 | 2,112 |

## NOTE 8 NON-CURRENT FINANCIAL ASSETS

| | | |
|---|---|---|
| Shares at fair value - other corporations | 16,946 | 17,226 |

Shares at fair value represent investment in:

Newcastle Coal Shippers Pty Limited (NCS), a company which is not quoted on a stock exchange. The principal activity of NCS during the year was investment in Port Waratah Coal Services Limited.

At 31 December 2015 the parent entity held 2,835,000 (31 December 2014: 2,835,000) ordinary shares in NCS which represented 8.964% of the issued capital of NCS.

For the year ended 31 December 2015 NCS contributed an amount of $1.1 million in dividends (31 December 2014: $1.1 million) to the pre tax profit of the parent entity and the consolidated entity.

# Notes to the Financial Statements

## for the financial year ended 31 December 2015

### NOTE 9 PROPERTY, PLANT AND EQUIPMENT

| Consolidated | Land $'000 | Buildings $'000 | Plant and Equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **Gross carrying amount** | | | | |
| Balance at 1 January 2014 | 30,859 | 20,170 | 2,866,465 | 2,917,494 |
| Additions | - | - | 13,841 | 13,841 |
| Under construction at cost | - | - | 13,522 | 13,522 |
| Disposals | - | - | (1,330) | (1,330) |
| **Balance at 1 January 2015** | 30,859 | 20,170 | 2,892,498 | 2,943,527 |
| Additions | - | - | 12,595 | 12,595 |
| Under construction at cost | - | - | 18,309 | 18,309 |
| Disposals | - | - | (2,343) | (2,343) |
| **Balance at 31 December 2015** | 30,859 | 20,170 | 2,921,059 | 2,972,088 |
| **Accumulated depreciation** | | | | |
| Balance at 1 January 2014 | - | 12,949 | 1,077,277 | 1,090,226 |
| Disposals | - | - | (1,256) | (1,256) |
| Depreciation expense | - | 678 | 108,531 | 109,209 |
| **Balance at 1 January 2015** | - | 13,627 | 1,184,552 | 1,198,179 |
| Disposals | - | (1) | (1,203) | (1,204) |
| Depreciation expense | - | 665 | 107,639 | 108,304 |
| **Balance at 31 December 2015** | - | 14,291 | 1,290,988 | 1,305,279 |
| **Net book value** | | | | |
| As at 31 December 2014 | 30,859 | 6,543 | 1,707,946 | 1,745,348 |
| **As at 31 December 2015** | 30,859 | 5,879 | 1,630,071 | 1,666,809 |

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year: | | |
| Buildings | 665 | 678 |
| Plant and Equipment | 107,639 | 108,531 |
| | 108,304 | 109,209 |

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 | 31-Dec-14 |
| | $'000 | $'000 |

## NOTE 10 NON-CURRENT ASSETS - OTHER

| | | |
|---|---|---|
| Capitalised borrowing costs | 10,084 | 10,084 |
| Less: Accumulated amortisation | (2,002) | (1,456) |
| | 8,082 | 8,628 |

## NOTE 11 CURRENT TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables | 6,829 | 7,654 |
| Accruals | 10,168 | 11,511 |
| | 16,997 | 19,165 |

The average credit period on purchases of goods and services is 45 days.

## NOTE 12 CURRENT BORROWINGS

| | | |
|---|---|---|
| Bank loans - secured (i) | 244,648 | 292,048 |

(i) Bank loans are fully secured by a first ranking fixed and floating charge over all the assets and undertakings of the parent entity.

## NOTE 13 CURRENT PROVISIONS

| | | |
|---|---|---|
| Employee benefits | 25,186 | 23,202 |
| Provision for restoration and rehabilitation | 8,394 | - |
| | 33,580 | 23,202 |

## NOTE 14 NON-CURRENT BORROWINGS

| | | |
|---|---|---|
| Bank loans - secured (i) | 714,226 | 715,850 |
| Deferred borrowing costs | (8,068) | (8,507) |
| Accumulated amortisation | 4,621 | 4,325 |
| | (3,447) | (4,182) |
| | 710,779 | 711,668 |

(i) Bank loans are fully secured by a first ranking fixed and floating charge over all the assets and undertakings of the parent entity.

The loans mature in September 2016, December 2016, September 2017, August 2018, September 2018, December 2019 and December 2020 and bear a weighted average floating rate of interest as set out in Note 28.

All loans are denominated in Australian dollars.

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| **NOTE 15 NON-CURRENT PROVISIONS** | | |
| Provision for restoration and rehabilitation | 50,123 | 55,099 |
| Employee benefits | 2,515 | 2,917 |
| | 52,638 | 58,016 |
| *Employee benefits* | | |
| Balance at beginning of the year | 26,119 | 27,603 |
| Additional employee provisions recognised | 7,871 | 7,842 |
| Reductions arising from payments of employee provisions | (6,289) | (9,326) |
| Balance at 31 December 2015 | 27,701 | 26,119 |
| Current (Note 13) | 25,186 | 23,202 |
| Non-current (Note 15) | 2,515 | 2,917 |
| | 27,701 | 26,119 |
| *Provision for restoration and rehabilitation* | | |
| Balance at beginning of the year | 55,099 | 51,018 |
| Unwinding of discount | 4,408 | 4,081 |
| Provision movement for the year | (990) | - |
| Balance at 31 December 2015 | 58,517 | 55,099 |
| Current (Note 13) | 8,394 | - |
| Non-current (Note 15) | 50,123 | 55,099 |
| | 58,517 | 55,099 |

## NOTE 16 ISSUED CAPITAL

| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|
| 93,376,250 Coal Exporter class shares | 98,663 | 98,663 |
| 39,241,250 Coal Importer class shares | 41,205 | 41,205 |
| | 139,868 | 139,868 |

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

Each class of share has equal voting and dividend rights.

# Notes to the Financial Statements

## for the financial year ended 31 December 2015

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |

## NOTE 17 RESERVES

| | | |
|---|---|---|
| *Fair value of equity instruments reserve* | | |
| Opening balance | 1,800 | 877 |
| Fair value of equity instruments movement for the year | (280) | 923 |
| Reserves at the end of the financial year | 1,520 | 1,800 |

The fair value of equity instruments reserve represents the cumulative gains and losses arising on the revaluation of shares held at fair value that have been recognised in other comprehensive income, net of amounts reclassified to profit and loss when those assets have been disposed of or are determined to be impaired.

## NOTE 18 RETAINED EARNINGS

| | | |
|---|---|---|
| Retained earnings at the beginning of the financial year | 479,925 | 464,155 |
| Net profit attributable to members | 14,568 | 47,770 |
| Dividends provided for or paid (Note 19) | (32,800) | (32,000) |
| Retained earnings at the end of the financial year | 461,693 | 479,925 |

## NOTE 19 DIVIDENDS

| | 2015 | | 2014 | |
|---|---|---|---|---|
| <u>Recognised amounts</u> | Cents per share | 31-Dec-15 $'000 | Cents per share | 31-Dec-14 $'000 |
| **Fully paid ordinary shares** | | | | |
| Final 2014 dividend and first interim 2015 dividend: | | | | |
| Franked to 30% (Prior year: 30%) | 12.37 | 16,400 | 12.06 | 16,000 |
| Second interim 2015 dividend: | | | | |
| Franked to 30% (Prior year: 30%) | 12.37 | 16,400 | 12.06 | 16,000 |
| | 24.74 | 32,800 | 24.12 | 32,000 |

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| Franking account balance | 139,033 | 139,933 |

# Notes to the Financial Statements

for the financial year ended 31 December 2015

## NOTE 20 KEY MANAGEMENT PERSONNEL

### Remuneration of Key Management Personnel

The aggregate compensation made to key management personnel of the company and the consolidated entity is set out below:

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 | 31-Dec-14 |
| | $ | $ |
| Short-term employee benefits | 1,848,876 | 1,918,106 |
| Post-employment benefits | 147,942 | 198,500 |
| Termination benefits | 87,363 | - |
| | 2,084,181 | 2,116,606 |

## NOTE 21 RELATED PARTY DISCLOSURES

### (a) Other Directors Compensation Disclosures

There is no scheme for the payment of bonuses, options, additional retirement benefits, loans or any other form of incentive payment to Directors.

### (b) Other Transactions and Balances With Directors

There were no other transactions by the company with Directors during the period.

### (c) Transactions with other related parties

The parent entity received services from Coal & Allied Operations Pty Limited for which Coal & Allied Operations Pty Limited was paid a fee of $1.6 million pursuant to an agreement between the parent entity and Coal & Allied approved by the Board of Directors of the parent entity. In addition, the parent entity reimbursed Coal & Allied $1.1 million in respect of the secondment of employees to Port Waratah.

Included in the balance of Trade and Other Receivables (Note 5) is $2.2 million receivable from Coal & Allied Operations Pty Limited in respect of coal handling services provided by the parent entity.

Included in the balance of Trade and Other Payables (Note 11) is $0.1 million payable to Coal & Allied Operations Pty Limited in respect of services provided to the parent company.

The parent entity paid insurance premiums to Rio Tinto Services Limited during the year, to the value of $0.2 million.

## NOTE 21 RELATED PARTY DISCLOSURES (continued)

### (d) Ownership interests

Ownership interests are contained in Note 26.

### (e) Directors

The Directors named in the attached Directors' Report each hold office as a Director of the parent entity as at the date of this report. In addition, the following persons held office as a Director at various times during the year.

| Directors | Resigned |
|---|---|
| M Harvey | 31 May 2015 |
| J M Cleland | 17 December 2015 |
| M R Eaglesham | 10 February 2016 |

| Alternate Directors | |
|---|---|
| T Okada | 1 May 2015 |
| N Kushibuchi | 6 May 2015 |
| R Samukawa | 22 June 2015 |
| S P Maresh | 19 October 2015 |
| M Shiraishi | 8 February 2016 |

## NOTE 22 REMUNERATION OF AUDITORS

| | Consolidated | |
|---|---|---|
| | 31-Dec-15<br>$ | 31-Dec-14<br>$ |
| **Remuneration of Auditors** | | |
| Amounts received or due and receivable by the auditors for audit services: | | |
| Auditing the financial report | 81,800 | 80,200 |
| Amounts received or due and receivable by the auditors for other services: | | |
| Safety culture, business strategy and governance services | - | 99,290 |
| | 81,800 | 179,490 |

The auditors received no benefits other than amounts shown.

## NOTE 23 COMMITMENTS FOR EXPENDITURE

### Capital expenditure commitments

| | Consolidated 31-Dec-15 $'000 | Consolidated 31-Dec-14 $'000 |
|---|---|---|
| Various contracts in respect of plant and equipment for which no provision has been made in the financial statements at the end of the financial year. | | |
| Payable within one year | 23,779 | 25,837 |
| Payable later than one year but not later than five years | - | 12,567 |
| | 23,779 | 38,404 |

### Operating Lease Commitments

Minimum lease payments in relation to land lease rentals and office equipment are as follows:

| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|
| Due within 1 year | 5,039 | 5,682 |
| Due within 1-5 years | 19,409 | 19,834 |
| Due after 5 years | 23,024 | 28,176 |
| Total | 47,472 | 53,692 |

| Operating Leases | Completion Date | Renewal Option | Option Period |
|---|---|---|---|
| Land - Kooragang Conveyor Corridor and Berth Area | Dec 2032 | Yes | 10 Years |
| Land - Carrington Stockpile Area | Dec 2024 | No | - |
| Land - Carrington Berth Area | Dec 2024 | No | - |

### Other Commitments

Other commitments include access fees payable for land subject to an agreement for lease for the parent entity's Terminal 4 and electricity contracts.

| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
|---|---|---|
| Due within 1 year | 5,951 | 7,650 |
| Due within 1-5 years | 13,232 | 18,248 |
| Total | 19,183 | 25,898 |

### Foreign Currency Commitments

The parent entity has no foreign currency commitments at year end (2014: $Nil).

# Notes to the Financial Statements

## for the financial year ended 31 December 2015

### NOTE 24 SUPERANNUATION COMMITMENTS

The parent entity contributes to superannuation funds which provide accumulated benefits to employees who are members of the funds on their retirement, resignation, disability or death. The rights of members and/or their dependants are protected by the rules of the funds.

### NOTE 25 SEGMENT INFORMATION

The consolidated entity operates in the coal handling industry in New South Wales, Australia. The consolidated entity operates in one geographic and operating segment.

### NOTE 26 CONTROLLED ENTITY INFORMATION

The parent entity holds a 100% interest in PWCS Refinancing Pty Limited, a company incorporated in Australia. The book value of the parent entity's investment in the controlled entity is $2.

### NOTE 27 PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of significant accounting policies relating to the Group.

| | Consolidated | |
|---|---|---|
| | 31-Dec-15 $'000 | 31-Dec-14 $'000 |
| FINANCIAL POSITION | | |
| ASSETS | | |
| Current assets | 73,141 | 64,819 |
| Non-current assets | 1,691,837 | 1,771,202 |
| TOTAL ASSETS | 1,764,978 | 1,836,021 |
| LIABILITIES | | |
| Current liabilities | 297,089 | 341,114 |
| Non-current liabilities | 864,808 | 873,314 |
| TOTAL LIABILITIES | 1,161,897 | 1,214,428 |
| EQUITY | | |
| Issued capital | 139,868 | 139,868 |
| Retained earnings | 1,520 | 1,800 |
| Reserves | 461,693 | 479,925 |
| TOTAL EQUITY | 603,081 | 621,593 |
| FINANCIAL PERFORMANCE | | |
| Profit for the year | 14,568 | 47,770 |
| Other comprehensive income | (280) | 923 |
| TOTAL COMPREHENSIVE INCOME | 14,288 | 48,693 |
| COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT ENTITY | | |
| Payable within one year | 23,779 | 25,837 |
| Payable later than one year but not later than five years | - | 12,567 |
| TOTAL CAPITAL EXPENDITURE COMMITMENTS | 23,779 | 38,404 |

## NOTE 28 FINANCIALS INSTRUMENTS

### (i) Interest Rate Risk

The parent entity's exposure to interest rate risk and the effective interest rates on financial instruments at balance date are:

| | Weighted average effective interest rate | Floating interest rate | Fixed interest rate maturities | | | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | | | 1 year or less | 2 to 5 years | over 5 years | | |
| | % | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **31 December 2015** | | | | | | | |
| *Assets* | | | | | | | |
| Cash | 2.6% | 5,679 | 43,000 | - | - | - | 48,679 |
| Trade Debtors | - | - | - | - | - | 13,750 | 13,750 |
| Other receivables | - | - | - | - | - | 1,140 | 1,140 |
| Shares at fair value - other corporations | - | - | - | - | - | 16,946 | 16,946 |
| *Total financial assets* | | 5,679 | 43,000 | - | - | 31,836 | 80,515 |
| *Liabilities* | | | | | | | |
| Trade and other payables | - | - | - | - | - | 16,997 | 16,997 |
| Secured bank loans | 3.6% | 958,874 | - | - | - | - | 958,874 |
| *Total financial liabilities* | | 958,874 | - | - | - | 16,997 | 975,871 |
| Net financial assets/(liabilities) | | (953,195) | 43,000 | - | - | 14,839 | (895,356) |
| **31 December 2014** | | | | | | | |
| *Assets* | | | | | | | |
| Cash | 3.1% | 3,611 | 34,000 | - | - | - | 37,611 |
| Trade Debtors | - | - | - | - | - | 17,147 | 17,147 |
| Receivables | - | - | - | - | - | 175 | 175 |
| Shares at cost - other corporations | - | - | - | - | - | 17,226 | 17,226 |
| *Total financial assets* | | 3,611 | 34,000 | - | - | 34,548 | 72,159 |
| *Liabilities* | | | | | | | |
| Trade and other payables | - | - | - | - | - | 19,165 | 19,165 |
| Secured bank loans | 4.1% | 1,007,898 | - | - | - | - | 1,007,898 |
| *Total financial liabilities* | | 1,007,898 | - | - | - | 19,165 | 1,027,063 |
| Net financial assets/(liabilities) | | (1,004,287) | 34,000 | - | - | 15,383 | (954,904) |

## NOTE 28 FINANCIALS INSTRUMENTS (continued)

### (ii) Credit Risk Management

The carrying amounts of financial assets included in the consolidated Statement of Financial Position represent the parent entity's maximum exposure to credit risk in relation to these assets. The parent entity holds no security in relation to financial assets. The consolidated entity continues to adopt a policy of only dealing with creditworthy counterparties.

Ongoing credit evaluation is performed on the financial condition of trade debtors and where appropriate, services are not performed until payment in advance of services to be rendered occurs.

### (iii) Net Fair Values

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values, unless stated expressly.

### (iv) Capital risk management

The capital structure of the consolidated entity consists of debt, which includes borrowings disclosed in Notes 12 and 14, cash and cash equivalents, disclosed in Note 4 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 16, 17 and 18.

### (v) Financial risk management objectives

Management provides treasury support to the business, co-ordinates access to financial markets and manages financial risks relating to the consolidated entity. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cashflow interest rate risk.

The consolidated entity seeks to minimise these risks by using a number of financial institutions, fixed interest rate periods and borrowings in Australian dollars only. The parent entity has a Treasury Policy Statement which is Board approved and provides written procedures over borrowing limits, payments, cash management and approvals. Compliance to the Treasury Policy Statement is reviewed by the internal auditors on a continuous basis. Management reports bi-monthly to the Board on borrowings.

The consolidated entity has no hedge or derivative financial instruments at the date of reporting.

### (vi) Foreign currency risk management

The parent entity enters certain supplier agreements denominated in foreign currencies from time to time, hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within Board approved policies.

The consolidated entity has no carrying amount of foreign currency denominated assets and liabilities at year end (2014: Nil).

## NOTE 28 FINANCIALS INSTRUMENTS (continued)

### (vii) Interest rate management

The consolidated entity is exposed to interest rate risk as the consolidated entity borrows funds at floating rates.

A 1% increase or decrease is used when reporting interest rate sensitivity risk to key management and the Board. At reporting date, if interest rates had been 1% higher or lower and all other variables were held constant, the consolidated entity's net profit after tax would decrease/increase $6.7 million (2014: $7.1 million) based on the level of borrowings at 31 December 2015, mainly due to the consolidated entity's exposure on its variable rate borrowings.

### (viii) Liquidity risk management

Ultimate responsibility for the liquidity risk management rests with the Board, who have built an appropriate liquidity risk management framework for the management of the consolidated entity's short, medium and long term funding requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and by continuously monitoring forecast and actual cashflows. Management report to the Board on a monthly basis for cashflow forecasting.

All of the consolidated entity's borrowings excluding repayments are subject to interest rate repricing in the next 12 months. The Board considers that the carrying amounts of the financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

The table below includes the weighted average effective interest rate and a reconciliation to the carrying amount in the Statement of Financial Position for borrowings.

| | Weighted average interest rate | Less than 6 months | Greater than 6 months and less than 1 year | 1- 6 years | Total |
|---|---|---|---|---|---|
| **2015** | % | $'000 | $'000 | $'000 | $'000 |
| Borrowings | 3.6% | 26,114 | 218,534 | 714,226 | 958,874 |
| **2014** | | | | | |
| Borrowings | 4.1% | 19,187 | 272,861 | 715,850 | 1,007,898 |

## NOTE 29 SUBSEQUENT EVENTS DISCLOSURE

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the entity, the results of those operations, or the state of affairs of the entity in future financial years.

## NOTE 30 ADDITIONAL COMPANY INFORMATION

Port Waratah is an unlisted public company, incorporated and operating in Australia.

**Registered office**

Port Waratah Coal Services Limited
Kooragang Island, Newcastle
NSW Australia

**Principal places of business**

Port Waratah Coal Services Limited
Carrington & Kooragang Island, Newcastle
NSW Australia

# Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 16 to 45:

(a) comply with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

(b) give a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(c) comply with International Financial Reporting Standards, as stated in Note 1 to the financial statements.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Dated this 21st day of March 2016.

Signed in accordance with a resolution of the Directors made pursuant to s295(5) of the Corporations Act 2001.

PENNY WINN
DIRECTOR

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# Independent Auditor's Report to the members of Port Waratah Coal Services Limited

We have audited the accompanying financial report of Port Waratah Coal Services Limited, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controls at the year's end or from time to time during the financial year as set out on pages 16 to 46.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Port Waratah Coal Services Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Opinion*

In our opinion:

(a) the financial report of Port Waratah Coal Services Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 21 March 2016

PORT WARATAH
COAL SERVICES

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