Port Waratah Coal Services Limited

ANNUAL REPORT 2016

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 2016

Directors

P A Winn (Chair)
R A Hassall
S Kaufman
B F Lewis
K R Moore
H Okamoto
A E Pitt
Y Takasugi
P A Wilkes
N Yamauchi

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 2016. Port Waratah Coal Services Limited ('Port Waratah', 'PWCS' or 'the company') 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 109.5 million tonnes of coal in 2016 which pleasingly represents a small increase on the 108.9 million tones loaded in 2015. This throughput was loaded onto 1,225 vessels.

Safety remains the priority at Port Waratah. Unfortunately, 2016 was a disappointing year with eight injuries recorded compared with three in 2015. This increase in injuries does not meet Directors' nor Management's expectations to provide a safe work place and the overall goal of the elimination of all injuries. Management, with the support of the Board, have initiated an improvement plan to address the increase in injuries which involves a number of initiatives, of which many have already commenced, and these will be continued in 2017.

2016 saw the delivery of a significant portfolio of Licence to Operate projects to ensure we can continue to operate in a long term sustainable manner. This work forms one of our key five drivers for success at Port Waratah.

Our industry remains a challenging one. It was encouraging to see a significant increase in coal prices in the second half of the year from the lows experienced at the start of 2016. As to whether this increase is sustainable for the future remains unclear. Port Waratah continued its focus on operational and cost improvements in 2016. A number of improvement projects were undertaken in 2016, including the approval of capital for the automation of our coal train unloading Dumpstations. The coal handling charge was maintained at the low level of $2.30 per tonne throughout 2016.

In 2016 the Board and Senior Management undertook a strategic review which considered the company's current and medium term context and direction. Resulting from this review a strategic plan with associated actions has been developed which will underpin the future direction of the company.

Following the New South Wales State and Commonwealth approvals of the proposed Terminal 4 facility in 2015, Port Waratah continued with the planning and work required under these approvals in 2016. Although there is no immediate requirement for the additional capacity available from this proposed facility, the continued validity of this approval provides Port Waratah and the Hunter Valley coal industry with the flexibility to respond, should this capacity be required in the future.

The two new Shiploaders at the Carrington Terminal were delivered from China and successfully commissioned in 2016. The old Shiploaders have been decommissioned and the last two machines were removed from the Carrington Terminal in early 2017 which completed this project.

This has been my second year as Port Waratah's Chair and I continue to enjoy the opportunity to be able to contribute to the ongoing success of the company and look forward to the challenges ahead.

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

R A Hassall
Bachelor of Chemical and Materials Engineering
General Manager Strategy, Productivity & IPM, Rio Tinto Coal Australia Pty Limited
Director, Black Hill Land Pty Ltd
Director, Coal & Allied Industries Ltd and related Companies
Director, Dolphin Properties Pty Limited
Director, Lower Hunter Land Holdings Pty Ltd
Director, Minmi Land Pty Ltd
Director, Namoi Valley Coal Pty Limited
Director, Newcastle Coal Shippers Pty Ltd
Director, Nords Wharf Land Pty Ltd
Director, Northern (Rhondda) Collieries Pty Ltd
Director, Novacoal Australia Pty Limited
Director, Oaklands Coal Pty Limited
Director, Rio Tinto Coal Australia Pty Ltd and related Companies
Director, Winchester South Development Company Pty Ltd
Director, PWCS since November 2016

S Kaufman
Master of Mineral Exploration
Bachelor of Applied Geology (Hons)
Affiliate, Australian Institute of Company Directors
Chief Executive Officer, Coal & Allied Industries Limited
Managing Director - Coal, Rio Tinto Coal Australia Pty Limited
Director, Blair Athol Coal Pty Ltd and related companies
Director, Dalrymple Bay Coal Terminal Pty Limited
Director, Dolphin Properties Pty Ltd
Director, Half-Tide Marine Pty Ltd
Director, Namoi Valley Coal Pty Limited
Director, Newcastle Coal Shippers Pty Limited
Director, Northern (Rhondda) Collieries Pty Ltd
Director, Novacoal Australia Pty Limited
Director, Oaklands Coal Pty Limited
Director, Rio Tinto Coal Australia Pty Ltd and related Companies
Director, Winchester South Development Company Pty Ltd
Alt Representative, Queensland Resources Council
Director, PWCS since August 2016

B F Lewis
Bachelor of Engineering (Electrical), Honours
Master of Business Administration
Chief Executive Officer and Managing Director, Bloomfield Collieries Pty Ltd and related Companies
Director, Australian Eco Oils Pty Limited
Director, Biodiesel Industries Australia Pty Limited
Director, Corky's Carbon and Combustion Pty Ltd
Director, Hunter Valley Coal Chain Coordinator Limited
Director, PWCS since July 2016

K R Moore
Bachelor of Business
Bachelor of Laws (Hons.)
Masters of Laws
Manager Infrastructure Strategy Anglo American Coal
Director, Dalrymple Bay coal Terminal Pty Ltd
Director, Half-Tide Marine Pty Ltd
Director, Hunter Valley Coal Chain Coordinator Limited
Director, Integrated Logistics Company Pty Ltd
Director, PWCS since February 2016

H Okamoto
Bachelor of Chemical Engineering
Group Leader, Coal Group, Toyota Tsusho Corporation
Managing Director, Toyota Tsusho Group and related Companies
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
Chairman, Dalrymple Bay Coal Terminal Pty. Ltd.
Chairman, Newcastle Coal Shippers Pty Limited
Director, Bowen Towage Service Pty. Limited
Director, Logistics and Procurement, Glencore Coal Assets Australia 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

Y Takasugi
Bachelor of Law
Director, Japan Coal Development Co., Ltd
Director, PWCS since July 2014

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 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

N Yamauchi
Bachelor of Economics
Master of Business Administration
Managing Director, JFE Steel Australia Resources Pty Ltd and related Companies
Director, Byerwen coal Pty Ltd
Director, Leichhardt Pastoral Pty Ltd
Director, PWCS since March 2017

Alternate Directors

M P Costello (for S Kaufman)
Bachelor of Mining Engineering
Masters in Business Administration
Senior Regional Separation Lead, Rio Tinto
Member of Mine Managers Association of Australia
Member of The Institute of Materials, Minerals and Mining

T Hanada (for Y Takasugi)
Bachelor of Economics
Manager, Japan Coal Development Co., Ltd

A Iwaba (for Y Takasugi)
Bachelor of Law
Managing Director, J.C.D. Australia Pty Limited
Director, Blair Athol Coal Pty. Ltd.
Director, Clermont Coal Mines Limited

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, Coal Mining Industry (Long Service Leave Funding) Corporation
Director, Glendell Mining Pty Limited
Director, Liddell Coal Operations Pty. Limited and related Companies
Director, Mt Owen Pty Limited and related companies
Director, HV Coking Coal Pty Limited
Director, Ulan Coal Mines Limited and related companies
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

A W Mason (for P A Wilkes & A E Pitt)
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 related Companies
Director, Glencore Coal Assets Australia Pty Ltd
Director, Liddell Collieries Pty Limited and related companies
Director, Narama Investments Pty Limited
Director, Oakbridge Pty Limited and related companies
Director, OCAL Macquarie Pty Limited
Director, Resource Pacific Holdings Pty Limited and related Companies
Alternate Director, Newcastle Coal Shippers Pty Limited

R H McCullough (for H Okamoto)
Bachelor of Engineering (Civil), Honours
Master of Business Administration
Director, Oakbridge 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, Tomen Panama Asset Management

J E Richards (for B Lewis)
Bachelor of Rural Science, Honours I
Chairman, The Bloomfield Group
Member, Australian Institute of Company Directors
Member, Coal Forum – Minerals Council of Australia
Member, Coal Innovation NSW
Member, Executive Committee NSW Minerals Council Ltd
Director, ACA Low Emissions Technologies Limited

T Sano (for N Yamauchi)
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

M Suenaga (for N Yamauchi)
Bachelor of Law
Managing Director, Nippon Steel & Sumitomo Metal Australia Pty Ltd
Managing Director, Nippon Steel & Sumikin Resources Australia Pty Ltd
Director, Nippon Steel & Sumikin Newcastle Pty Ltd

S Suzuki (for H Okamoto)
Bachelor of Mechanical Engineering
Project Manager, Coal Group, Toyota Tsusho Corporation
Director, Tomen Panama Asset Management S.A.

O Takikawa (for Y Takasugi)
Bachelor of Economics
Deputy General Manager, Japan Coal Development Co., Ltd.

A Viertel (for R Hassall)
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

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	6
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	6	6
M R Eaglesham	1	1
R A Hassall	1	1
S Kaufman	2	2
B F Lewis	3	2
K R Moore	6	6
T Nomura	6	5
H Okamoto	6	1
A E Pitt	6	5
J E Richards	3	3
C Salisbury	3	1
Y Takasugi	6	-
I M Vella	1	1
S J Watson	4	3
P A Wilkes	6	6
N Yamauchi	-	-
Alternate Directors		
A Awaba	3	3
M P Costello	-	-
T Hanada	3	-
K Ito	3	2
S Keenan	6	2
M Klasen	6	-
T Kuga	6	-
B F Lewis	3	-
A W Mason	6	1
R H McCullough	6	-
J Miyamoto	5	-
L W Muir	6	2
M Okano	3	-
J E Richards	3	1
T Sano	6	1
M Shiraishi	1	-
S Suzuki	4	3
O Takikawa	3	-
A W Viertel	5	1
N Yamauchi	6	-

	Meetings held whilst in office	Meetings attended
Health, Safety and Environment Committee		
P A Winn	4	4
S Coleman	4	4
B F Lewis	2	2
J E Richards	2	2
Audit & Risk Committee		
P A Wilkes	4	4
A E Pitt	4	4
N St George	4	4
P A Winn	4	4

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 $11.1 million after an income tax expense of $3.3 million.

Dividends

Total dividends paid during the financial year were as follows:

<u>Importer & Exporter Class Shares</u> Final 2015 dividend and First Interim 2016 dividend paid 30 March 2016. Fully Franked	$16,600,000
<u>Importer & Exporter Class Shares</u> Second Interim 2016 dividend paid 21 September 2016. Fully Franked	$16,600,000
	$33,200,000

Review of Operations

During the financial year the company handled 109.5 Million tonnes of coal through its Carrington and Kooragang Terminals (2015, 108.9 Million tonnes), representing increased tonnage of 0.6% on the previous year. The above mentioned tonnage was loaded aboard 1,225 vessels (2015, 1,193 vessels).

Steaming coal exports decreased by 2.3% with shipments for the year totaling 94.5 million tonnes (2015, 96.7 million tonnes). Coking coal exports increased by 23% with shipments for the year totaling 15.0 million tonnes (2015, 12.2 million tonnes).

The charge for coal handling services was maintained at $2.30 per tonne during the year.

At the end of the financial year there were 335 people (31 December 2015, 346 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. Planning work required to meet approval requirements has commenced and will continue. The Terminal 4 facility will be constructed when customer contracted demand dictates.

In January 2017, Rio Tinto Limited announced the proposed sale of subsidiary entity Coal & Allied Industries Limited to Yancoal Australia Limited. Transactions with Coal & Allied are disclosed in Note 21 of the Financial Report.

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 21 March 2016 (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.

Following a rain event in January 2017, a Carrington Terminal wharf sump pump discharge line became blocked resulting in an overflow into the harbour.

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 consents, licences and relevant legislation was completed.

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.

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.

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 of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with the instrument to the nearest thousand dollars unless otherwise stated.

Dated at Newcastle this 28th day of March 2017.

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 1220 Australia

Tel: +61 2 9322 7000
Fax: +61 2 9322 7004
www.deloitte.com.au

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

28 March 2017

Dear Directors

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 2016, 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

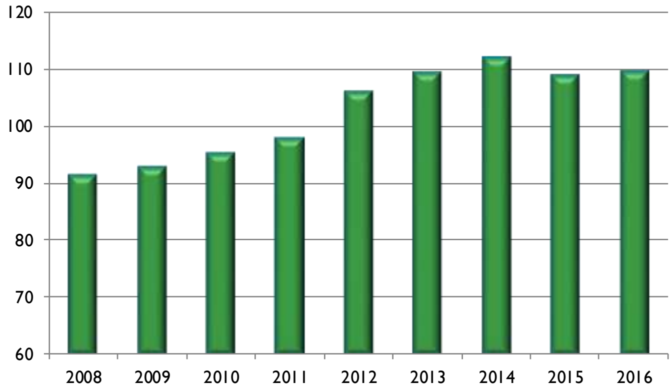
Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

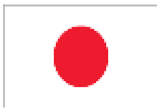
Member of Deloitte Touche Tohmatsu Limited

Performance Overview

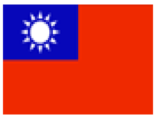
Throughput (Mtpa)



Export Destinations

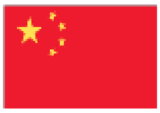


Japan – 50%



Taiwan – 13%

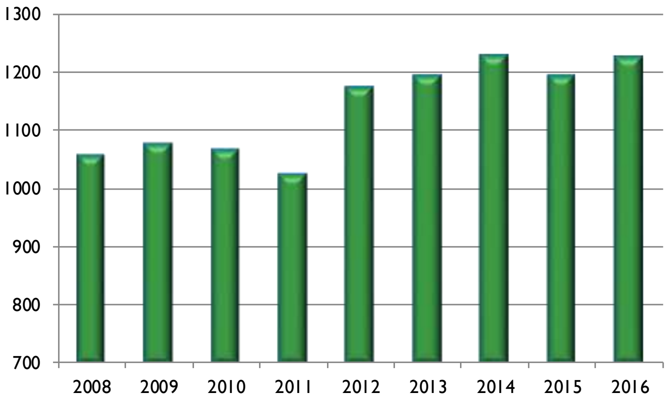
South Korea – 12%



China – 12%

Other – 13%

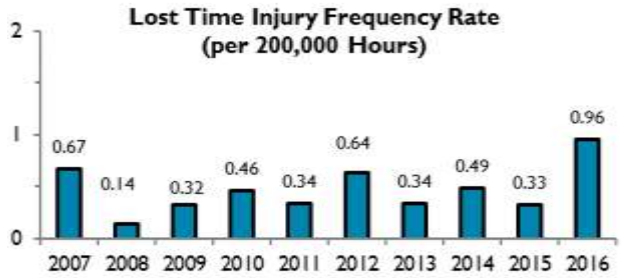
Vessels Loaded

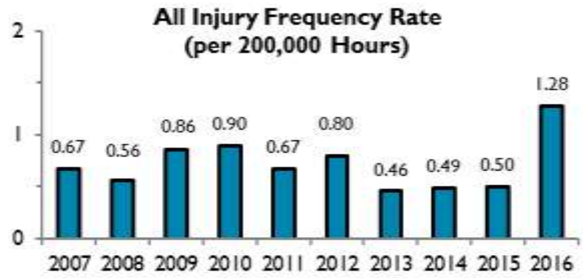


Year in Review

Safety and health

During 2016 Port Waratah's operations recorded a disappointing total of eight recordable injuries. This included five lost time injuries to employees and one to a contractor, as well as one medical treatment injury each to an employee and a contractor. Safety performance as measured by the number of injuries was particularly disappointing against the background of significant improvement over the previous four years.





The year's injury performance placed an even higher priority on the need to engage employees in safety improvement and the range of improvement activities was therefore increased. Improvement initiatives included:

- Conducting hazard awareness training for all employees;
- Reviewing and updating (with employee input) the Take 5 pre-task risk assessment process;
- Reviewing the content of employee safety cells with the objective of improving the effectiveness of these as a forum for employee engagement in safety activities, reporting and consultation;
- Reviewing and updating Port Waratah's Golden Rules with employee input to transition from 'rules' to 'personal commitments'; and
- Reviewing the work processes and controls in place for managing the risks of working in Elevated Work Platforms.

In addition to the above, a key achievement for the year was the implementation and later expansion of a Critical Controls Management Programme. This programme is specifically focused on ensuring that the planned controls are in place on tasks that have an exposure to fatality risks. The initial programme covering five fatality risks was successfully expanded to cover eight risks, as well as an increase in the frequency of verifications.

Employee health initiatives undertaken during 2016 included:

- Sponsoring entry in the community event Run Newcastle;
- Voluntary flu vaccinations;
- Screening for skin cancer and bowel cancer; and
- Introduction of a stretching program.

A number of key auditing activities aimed at achieving assurance and ensuring compliance with external standards of Port Waratah's health and systems continued in 2016:

- One external surveillance audit and a recertification audit of Health and Safety Systems to OHSAS 18001;

- More than 280 internal and contractor audits assessing implementation and compliance of our safety systems; and
- Review and Approval of the Port Waratah Maritime Security Plan by The Department of Infrastructure and Regional Development.

Licence to operate

Port Waratah's Licence to Operate (LTO) framework was substantially embedded during 2016 by implementing a portfolio of projects, which were developed in 2015 via a number of workshops involving a cross section of the Port Waratah workforce. The LTO portfolio of projects has been developed as a program of works over several years to achieve the LTO goals aligned with the key pillars of the business strategy. This programme aims to give effect to the overarching building blocks of excellence in environmental management and strong community relationships.

Port Waratah's environmental improvement programmes remained focused on the main areas of operational risk, with these being dust emissions, potential noise impacts and the management of site water systems to avoid potential pollution incidents.

Significant progress was made during 2016 with the investment in improving the water management systems at both the Kooragang and Carrington Terminals. The 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 and transfer storm water. Implementation of this work is ongoing and will continue into 2017. Of particular note is the development of the Carrington Terminal Stormwater Strategy, which is a long term programme of projects aimed at substantially increasing the storage capacity of the Carrington Terminal stormwater management system based on a design storm event that will meet the regulator's expectations.

The key water management projects completed during 2016 included:

- Upgrade of the stormwater detention ponds at Kooragang Terminal;
- Increased storm pumping capacity at Kooragang Terminal;
- Increase of the weir height at the western primary settling chamber at Kooragang Terminal;
- Commencement of the controlled discharge filtration system at Carrington Terminal; and
- Upgrade of wharf drainage and stormwater storage and transfer at Kooragang Terminal.

Dust management improvements included a number of activities including the sealing and revegetation of disturbed areas, review of veneering products available for use and a procedural review of stockpile spray operation and improvements in the management of the system relevant to maintenance activities. Port Waratah also played a proactive role in the progression of coal chain air quality measures such as rail wagon monitoring, trialing of wagon washing mechanisms and empty wagon fugitive dust emission quantification.

The management of potential noise impacts from Port Waratah activities involved a number of projects during 2016 including a review and reassessment of numerous sound power levels relevant to plant items at both terminals. The sound power levels are used by Port Waratah to model theoretical noise emissions from site when plant is operating and to also prioritise specific improvement projects such as the Carrington Drive Strategy. This drive strategy involves the progressive procurement and replacement of noisy drives with new drives that comply with the Port Waratah low noise engineering specifications.

During 2016 Port Waratah completed a surveillance audit of the Environmental Management System (EMS) in accordance with the ISO 14001:2004 Standard. Also included in the audit was the completion of a gap analysis relevant to the ISO 14001:2015 standard, which the EMS will be audited and potentially certified under during 2017.

Port Waratah's stakeholder engagement strategy was comprehensively reviewed during 2016 and was found to have delivered significant improvements in stakeholder perception and relationships since implementation in 2012. Community engagement activities in 2016 continued to expand and develop in accordance with the enhanced Strategy. Traditional engagement channels such as the quarterly Community Newsletter and Community Terminal Meetings were maintained, while participation in market stalls increased in Carrington and Stockton. Port Waratah social media was launched in late 2015, proving a valuable engagement channel increasing engagement reach with a variety of stakeholders.

2016 also marked a year of review of the Community Investment and Partnership Programme. This review, conducted for Management by an independent external party, concluded that the programme is fit for purpose and highly valued by the community. The review also identified improvements to be implemented, some of which commenced in 2016.

Port Waratah invested $0.74 Million in approximately 137 different community based organisations during 2016. The majority of benefits were allocated to programs for the general community, including community services, culture and recreation programs and portside suburb initiatives. Approximately 24% of funded projects related to health based programs, such as RUN Newcastle, which supported the John Hunter Children's Hospital and the DADEE program, a lifestyle program targeting fathers as the agents of change to improve their daughters' physical activity levels, sport skills and social-emotional wellbeing. Educational projects were also supported, with local schools being major benefactors.

The Kooragang and Carrington Terminal Sponsorship and Donations Committees are a key component of the Community Investment and Partnership Programme. These committees have continued their strong interaction with portside suburb schools and community groups throughout the year. During 2016 the committees supported numerous community events including market stall events in Carrington and Stockton, the Throsby Creek community clean up, a working bee at a local school and a movie fundraising community event for Lifeline. In addition, to build on the STEM-focussed components of the programme. Port Waratah hosted tours for portside feeder high schools, offering students opportunities to enhance and contextualise their curriculum and learning.

Port Waratah's LTO framework was substantially embedded during 2016 and will continue to guide much of the work to be done in this area in future years. Employee support for this activity demonstrates that the workforce is well placed to respond to the growing challenges in this sphere.

Effective organisation

Employee numbers reduced from 346 at 1 January 2016 to 335 at 31 December 2016. This reduction can be partly attributed to organisational changes in the operations area. The employee turnover rate for 2016 was 7.46% (25 employees). This turnover rate includes employees leaving Port Waratah as a result of resignation, ill health, completion of fixed term engagements and organisation changes.

At the September 2016 Board Meeting, Directors approved an investment in the automation of the Port Waratah Rail Dumpstations. This project is a comprehensive change management across both technology and people, and is expected to have an extended impact into 2017 including a further reduction in operator roles.

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 30 May 2016. 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 2015-2016 reporting period is available on the Port Waratah website with information on how employees and shareholders can provide comment.

A number of organisational development and cultural initiatives were introduced and/or continued at Port Waratah during 2016, which included:

- The completion of the "It's Who We Are" team programme, aimed at introducing the Business Strategy to teams and enhancing team building skills;
- The rollout of the "It's How We Lead" leadership development programme for frontline operations supervisors. The program aimed to introduce consistent leadership expectations, capabilities and mindsets amongst our leaders;
- The continuation of the "What's Next?" employee engagement programme resulting in a number of improvement projects being undertaken across the business;
- The continued delivery of the Port Waratah Diversity and Inclusion Strategy including formation of the Diversity and Inclusion Working Group; and
- Port Waratah was the host employer of 14 apprentices at the end of 2016.

Operational delivery

The Hunter Valley coal industry continued to face a challenging market environment during 2016, however experienced some relief in the second half of the year with an uplift in global coal prices. 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 retained the coal handling charge applicable to its services at $2.30 per tonne for 2016. This historically low coal handling charge will be maintained during 2017.

In addition, a focus on outbound planning and improvements in collaboration with the Hunter Valley Coal Chain Coordinator, enabled a reduction in the average vessel turnaround time from 4.8 days in 2015 to 4.6 days in 2016, although there was significant variation throughout the year with fluctuating demand and the impact of weather on vessel movements. Operations also achieved a favourable result in train cancellations, with the actual cancellations attributable to the Terminals being 0.2%, well below the target of 0.7%.

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 2016, with terminal records achieved for daily, weekly and monthly rail receival. Records were also achieved in the daily and weekly shiploading area. Other performance achievements included improvements in Gross Load Rates, Gross Unload Rates, Trim Rates and Terminal Load Rates. Another highlight was the 14.3% improvement on the best ever performance for Kooragang Terminal mean time between failure.

Embedding and streamlining of Port Waratah's customer interface continued in 2016. A customer satisfaction survey was conducted in the last quarter of 2016, which may identify areas in which specific improvement activities are required. Any improvement activities identified will be prioritised and actioned accordingly.

Development

Significant work was completed in 2016 in progressing the Water Improvement Projects Portfolio and replacing the Carrington Terminal Shiploaders. During the year, construction of the two new Shiploaders for Carrington was completed successfully in China and the Shiploaders have since been delivered and commissioned on site. In addition to the arrival and commissioning of the two new Shiploaders, one of the redundant Carrington Shiploaders, was also successfully removed from the wharf. The two new Shiploaders are performing well and have loaded approximately 3 Million tonnes of coal since being commissioned.

Port Waratah's water projects portfolio made significant progress in 2016, with the completion a number of major projects including the Kooragang Terminal K4 Wharf Drainage Upgrade and Carrington Terminal's Sewerage Treatment Plant Upgrade. The next major project, increasing the stormwater capacity of the Kooragang Terminal's wharf water management systems, was initiated during the year and is on track.

These projects have contributed in a significant manner to the Hunter Valley Coal Chain by way of meeting customer and regulator expectations.

Conclusion

Safety performance in 2016 highlighted the significant challenge that remains on the way to our goal of zero-injuries. The Management team remain committed to this goal as a primary objective.

There have been significant achievements delivered through Port Waratah's environmental improvement programmes during the year and Management will continue its focus on actively managing operational risk during 2017.

Implementation of the Licence to Operate framework developed in the previous year was successful in laying foundations for engagement with neighbouring communities on the one hand and progressive improvement in environmental performance on the other. Employee support for this activity demonstrated that the workforce is well placed to respond to the challenges in this sphere.

Major projects such as the water management programme and the replacement of the Carrington Terminal Shiploaders demonstrates Port Waratah's commitment to providing reliable and complying infrastructure into the future.

Port Waratah Management recognises the business' close relationship with and dependence on the Hunter Valley Coal chain and continues 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 2016

		Consolidated	
	Note	31-Dec-16 $'000	31-Dec-15 $'000
Continuing operations			
Revenue	2	322,927	342,949
Other income	2	12,564	3,163
Employee benefit expenses		(63,177)	(61,377)
Depreciation and amortisation expenses	2	(108,018)	(108,304)
Finance costs	2	(39,893)	(44,192)
Materials and services expenses		(83,681)	(84,652)
Other expenses		(26,382)	(27,402)
Profit before income tax expense		14,340	20,185
Income tax expense	3	(3,271)	(5,617)
Profit for the year	18	11,069	14,568
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Net fair value gain/(loss) on fair value equity instruments	17	(636)	(280)
Total comprehensive income for the year		10,433	14,288

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

Statement of Financial Position

for the financial year ended 31 December 2016

		Consolidated	
	Note	31-Dec-16	31-Dec-15
		$'000	$'000
CURRENT ASSETS			
Cash and cash equivalents	4	35,071	48,679
Trade and other receivables	5	35,409	14,890
Inventories	6	8,581	7,959
Other assets	7	2,909	1,613
TOTAL CURRENT ASSETS		81,970	73,141
NON-CURRENT ASSETS			
Financial assets	8	16,310	16,946
Property, plant and equipment	9	1,593,950	1,666,809
Other assets	10	7,496	8,082
TOTAL NON-CURRENT ASSETS		1,617,756	1,691,837
TOTAL ASSETS		1,699,726	1,764,978
CURRENT LIABILITIES			
Trade and other payables	11	24,972	16,997
Borrowings	12	242,550	244,648
Tax payable	3	2,514	1,864
Provisions	13	29,017	33,580
TOTAL CURRENT LIABILITIES		299,053	297,089
NON-CURRENT LIABILITIES			
Borrowings	14	659,341	710,779
Deferred tax liabilities	3	99,246	101,391
Provisions	15	61,772	52,638
TOTAL NON-CURRENT LIABILITIES		820,359	864,808
TOTAL LIABILITIES		1,119,412	1,161,897
NET ASSETS		580,314	603,081
EQUITY			
Issued capital	16	139,868	139,868
Reserves	17	884	1,520
Retained earnings	18	439,562	461,693
TOTAL EQUITY		580,314	603,081

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

Statement of Changes in Equity

for the financial year ended 31 December 2016

	Note	Consolidated			
		Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 December 2015	16, 17, 18	139,868	1,520	461,693	603,081
Profit for the year		-	-	11,069	11,069
Fair value of equity instruments movement for the year	17	-	(636)	-	(636)
Dividends paid	19	-	-	(33,200)	(33,200)
Balance at 31 December 2016	16, 17, 18	139,868	884	439,562	580,314

	Note	Consolidated			
		Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 December 2014	16, 17, 18	139,868	1,800	479,925	621,593
Profit for the year		-	-	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

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

Statement of Cash Flows

for the financial year ended 31 December 2016

	Note	Consolidated 31-Dec-16 $'000	Consolidated 31-Dec-15 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		361,495	379,930
Payments to suppliers and employees		(206,693)	(206,868)
Dividends received	2	1,100	1,086
Interest received		1,163	1,623
Interest and other costs of finance paid		(33,857)	(39,592)
Net income tax paid		(4,765)	(12,691)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(iii)	118,443	123,488
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(44,455)	(30,905)
Proceeds from sale of property, plant and equipment		252	309
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(44,203)	(30,596)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		190,000	-
Repayment of borrowings		(244,648)	(49,024)
Dividends paid	19	(33,200)	(32,800)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(87,848)	(81,824)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(13,608)	11,068
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		48,679	37,611
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	(i)	35,071	48,679

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 2016

	Consolidated	
	31-Dec-16	31-Dec-15
	$'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:		
Cash and cash equivalents	35,071	48,679
(ii) FINANCING FACILITIES		
The parent entity has access to:		
Secured bank loan facilities with various maturity dates		
Amount used	904,226	958,874
Amount unused	-	-
	904,226	958,874
(iii) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	11,069	14,568
Depreciation expense	108,018	108,304
Amortisation of deferred borrowing costs	(140)	296
(Gain)/Loss on sale of plant & equipment	(221)	(159)
Interest unwinding on rehabilitation provision	4,681	4,408
Changes in assets & liabilities:		
(Decrease)/increase in income tax payable	650	(4,835)
Decrease/(increase) in trade debtors	(11,254)	2,432
Decrease/(increase) in deferred borrowing costs	1,252	439
Decrease/(increase) in other assets and prepayments	(710)	1,045
Decrease/(increase) in inventory	(622)	(185)
(Decrease)/increase in deferred taxes	(2,145)	(2,239)
(Decrease)/increase in provisions	(110)	1,582
(Decrease)/increase in trade creditors	7,975	(2,168)
Net cash flows from operating activities	118,443	123,488

Notes to the Financial Statements

for the financial year ended 31 December 2016

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 28 March 2017.

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.

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 ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, 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

The consolidated entity has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual improvements to Australian Accounting Standards 2012 – 2014 cycle, and
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure initiative: Amendments to AASB 101.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

Early adoption of Standards and Interpretations

In the reporting period beginning 1 January 2011, Directors elected under section 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.

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 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017	31 December 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	31 December 2017
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', AASB 2015-10 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128'	1 January 2018	31 December 2018
AASB 15 'Revenue from contracts with customers'	1 January 2018	31 December 2018
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 2017 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.

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% (2015: 3%) and a discount factor of 8% (2015: 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 accruals

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.

Other Payables

Refundable security deposits held for customers in connection with Long Term Ship or Pay Agreements are reported as other payables.

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

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.

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.

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
Leasehold improvements	5 – 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)

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.

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.

Other income

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. Nett settlement sum claims received are recognised when it is virtually certain the company is entitled to settlement net of any costs incurred to obtain the settlement.

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.

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

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.

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.

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.

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

Provisions (continued)

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.

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% (2015: 3%) and a discount rate of 8% (2015: 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 and is classified under level 3 in the fair value measurement hierarchy. 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-16	31-Dec-15
	$'000	$'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	322,927	342,949
(b) Other Income		
Dividends from other corporations	1,100	1,086
Interest received	1,343	1,687
Other	153	231
Gain/(Loss) on disposal of property, plant and equipment	234	159
Nett settlement sum claims received	9,734	-
	12,564	3,163
Total Revenue and Other Income	335,491	346,112
(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	108,018	108,304
Borrowing costs:		
Interest and finance charges	33,015	37,424
Amortisation of capitalised borrowing costs	2,197	2,360
Interest unwinding on rehabilitation provision	4,681	4,408
	39,893	44,192
Defined contribution superannuation expense	5,864	5,669
Rental expense relating to operating leases and access agreements	9,006	8,407

NOTE 3 INCOME TAX

(a) Income tax recognised in profit or loss

	Consolidated 31-Dec-16 $'000	Consolidated 31-Dec-15 $'000
Tax expense comprises:		
Current tax expense	5,417	7,856
Deferred tax expense relating to the origination and reversal of temporary differences	(2,145)	(2,239)
Total tax expense	3,271	5,617
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	14,340	20,185
Income tax expense calculated at 30%	4,302	6,056
Add/(Less): Non-deductible expenses	295	172
Research and development tax rebate	(5)	(45)
Franking credits	(471)	(466)
Capital losses	(750)	-
Adjustments recognised in the current year in relation to current tax of prior years	(100)	(100)
	3,271	5,617

(b) Current tax payable

	31-Dec-16 $'000	31-Dec-15 $'000
Income tax payable attributable to:		
Parent entity and entities in the tax consolidated group	2,514	1,864

(c) Deferred tax balances

	31-Dec-16 $'000	31-Dec-15 $'000
Deferred tax assets comprise:		
Temporary differences	28,853	26,934
Setoff to deferred tax liabilities	(28,853)	(26,934)
	-	-
Deferred tax liabilities comprise:		
Temporary differences	(128,099)	(128,325)
Setoff from deferred tax assets	28,853	26,934
	(99,246)	(101,391)

NOTE 3 INCOME TAX (continued)

Taxable and deductible temporary differences arise from the following:

	Consolidated				
	Balance at 1-Jan-15 $'000	Charged to income $'000	Balance at 1-Jan-16 $'000	Charged to income $'000	Balance at 31-Dec-16 $'000
Gross deferred tax liabilities:					
Inventories	(2,332)	(56)	(2,388)	(284)	(2,672)
Work in progress	(645)	13	(632)	80	(552)
Other receivables	(6)	(3)	(9)	(2,167)	(2,176)
Property, plant and equipment	(117,019)	199	(116,820)	2,470	(114,350)
Other assets	(2,632)	151	(2,481)	81	(2,400)
Research and development tax incentive	(6,537)	542	(5,995)	46	(5,949)
	(129,171)	846	(128,325)	226	(128,099)
Gross deferred tax assets:					
Provisions	8,033	475	8,508	275	8,783
Other accruals	978	(107)	871	528	1,399
Rehabilitation depreciation and interest unwinding	16,530	1,025	17,555	1,116	18,671
	25,541	1,393	26,934	1,919	28,853
	(103,630)	2,239	(101,391)	2,145	(99,246)

Relevance of tax consolidation to the consolidated entity

The parent entity and its wholly-owned Australian resident subsidiary 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-16	31-Dec-15
	$'000	$'000

NOTE 4 CASH AND CASH EQUIVALENTS

Cash on hand and short term deposits	35,071	48,679

NOTE 5 CURRENT TRADE AND OTHER RECEIVABLES

Trade debtors and accrued income	16,350	13,750
Other debtors	19,059	1,140
	35,409	14,890

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 CURRENT INVENTORIES

Maintenance stores and supplies	8,581	7,959

NOTE 7 CURRENT OTHER ASSETS

Prepayments	2,909	1,613

NOTE 8 NON-CURRENT FINANCIAL ASSETS

Shares at fair value - other corporations	16,310	16,946

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 2016 the parent entity held 2,835,000 (31 December 2015: 2,835,000) ordinary shares in NCS which represented 8.964% (31 December 2015: 8.964%) of the issued capital of NCS.

For the year ended 31 December 2016 NCS contributed an amount of $1.1 million in dividends (31 December 2015: $1.1 million) to the pre tax profit of the parent entity and the consolidated entity.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

Consolidated	Land $'000	Buildings $'000	Plant and Equipment $'000	Total $'000
Gross carrying amount				
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 1 January 2016	30,859	20,170	2,921,059	2,972,088
Additions	5,206	-	62,260	67,466
Under construction at cost	-	-	(32,272)	(32,272)
Disposals	-	-	(3,184)	(3,184)
Balance at 31 December 2016	36,065	20,170	2,947,864	3,004,098
Accumulated depreciation				
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 1 January 2016	-	14,291	1,290,988	1,305,279
Disposals	-	-	(3,148)	(3,148)
Depreciation expense	-	624	107,394	108,018
Balance at 31 December 2016	-	14,915	1,395,233	1,410,148
Net book value				
As at 31 December 2015	30,859	5,879	1,630,071	1,666,809
As at 31 December 2016	36,065	5,255	1,552,631	1,593,950

	Consolidated 31-Dec-16 $'000	Consolidated 31-Dec-15 $'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:		
Buildings	624	665
Plant and Equipment	107,394	107,639
	108,018	108,304

	Consolidated	
	31-Dec-16	**31-Dec-15**
	$'000	**$'000**

NOTE 10 NON-CURRENT OTHER ASSETS

Capitalised borrowing costs	8,664	10,084
Less: Accumulated amortisation	(1,168)	(2,002)
	7,496	8,082

NOTE 11 CURRENT TRADE AND OTHER PAYABLES

Trade payables	6,201	6,829
Accruals	11,145	10,168
Other payables	7,626	-
	24,972	16,997

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

NOTE 12 CURRENT BORROWINGS

Bank loans - secured (i)	242,550	244,648

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

NOTE 13 CURRENT PROVISIONS

Employee benefits	26,558	25,186
Provision for restoration and rehabilitation	2,459	8,394
	29,017	33,580

NOTE 14 NON-CURRENT BORROWINGS

Bank loans - secured (i)	661,676	714,226
Deferred borrowing costs	(6,816)	(8,068)
Accumulated amortisation	4,481	4,621
	(2,335)	(3,447)
	659,341	710,779

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

The loans mature in September 2017, August 2018, September 2018, December 2019, September 2020, December 2020 and September 2021 and bear a weighted average floating rate of interest as set out in Note 28.

	Consolidated	
	31-Dec-16 $'000	31-Dec-15 $'000

NOTE 15 NON-CURRENT PROVISIONS

Employee benefits	1,995	2,515
Provision for restoration and rehabilitation	59,777	50,123
	61,772	52,638
Employee benefits		
Balance at beginning of the year	27,701	26,119
Additional employee provisions recognised	7,624	7,871
Reductions arising from payments of employee provisions	(6,772)	(6,289)
Balance at 31 December 2016	28,553	27,701
Current (Note 13)	26,558	25,186
Non-current (Note 15)	1,995	2,515
	28,553	27,701
Provision for restoration and rehabilitation		
Balance at beginning of the year	58,517	55,099
Unwinding of discount	4,681	4,408
Provision movement for the year	(962)	(990)
Balance at 31 December 2016	62,236	58,517
Current (Note 13)	2,459	8,394
Non-current (Note 15)	59,777	50,123
	62,236	58,517

NOTE 16 ISSUED CAPITAL

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.

	Consolidated	
	31-Dec-16 $'000	31-Dec-15 $'000

NOTE 17 RESERVES

Fair value of equity instruments reserve		
Opening balance	1,520	1,800
Fair value of equity instruments movement for the year	(636)	(280)
Reserves at the end of the financial year	884	1,520

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	461,693	479,925
Net profit attributable to members	11,069	14,568
Dividends provided for or paid (Note 19)	(33,200)	(32,800)
Retained earnings at the end of the financial year	439,562	461,693

NOTE 19 DIVIDENDS

	2016		2015	
Recognised amounts	Cents per share	31-Dec-16 $'000	Cents per share	31-Dec-15 $'000
Fully paid ordinary shares				
Final 2015 dividend and first interim 2016 dividend:				
Franked to 30% (Prior year: 30%)	12.52	16,600	12.37	16,400
Second interim 2016 dividend:				
Franked to 30% (Prior year: 30%)	12.52	16,600	12.37	16,400
	25.04	33,200	24.74	32,800

	Consolidated	
	31-Dec-16 $'000	31-Dec-15 $'000
Franking account balance	130,041	139,033

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-16	**31-Dec-15**
	$	**$**
Short-term employee benefits	1,881,481	1,848,876
Post-employment benefits	151,396	147,942
Termination benefits	-	87,363
	2,032,877	2,084,181

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 $1.0 million in respect of the secondment of employees to Port Waratah.

Included in the balance of Trade and Other Receivables (Note 5) is $1.9 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.

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**
T Nomura	20 March 2017
S J Watson	4 November 2016
I M Vella	19 August 2016
J E Richards	19 July 2016
M R Eaglesham	10 February 2016
Alternate Directors	
N Yamauchi	20 March 2017
S Keenan	14 March 2017
K Ito	24 June 2016
M Okano	17 May 2016
M Shiraishi	8 February 2016

NOTE 22 REMUNERATION OF AUDITORS

	Consolidated	
	31-Dec-16 $	31-Dec-15 $
Remuneration of Auditors		
Amounts received or due and receivable by the auditors for audit services:		
Auditing the financial report	83,500	81,800
Amounts received or due and receivable by the auditors for other services:		
OH & S Consulting Services	28,763	-
	112,263	81,800

The auditors received no benefits other than amounts shown.

NOTE 23 COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments

	Consolidated	
	31-Dec-16	31-Dec-15
	$'000	$'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	14,543	23,779

Operating Lease Commitments

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

	31-Dec-16	31-Dec-15
Due within 1 year	5,131	5,039
Due within 1-5 years	19,888	19,409
Due after 5 years	17,832	23,024
Total	42,852	47,472

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-16	31-Dec-15
Due within 1 year	6,245	5,951
Due within 1-5 years	8,198	13,232
Total	14,443	19,183

Foreign Currency Commitments

The parent entity has no foreign currency commitments at year end (2015: $Nil).

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 (2015: $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.

	31-Dec-16 $'000	31-Dec-15 $'000
FINANCIAL POSITION		
ASSETS		
Current assets	81,970	73,141
Non-current assets	1,617,756	1,691,837
TOTAL ASSETS	1,699,726	1,764,978
LIABILITIES		
Current liabilities	299,053	297,089
Non-current liabilities	820,359	864,808
TOTAL LIABILITIES	1,119,412	1,161,897
EQUITY		
Issued capital	139,868	139,868
Retained earnings	884	1,520
Reserves	439,562	461,693
TOTAL EQUITY	580,314	603,081
FINANCIAL PERFORMANCE		
Profit for the year	11,069	14,568
Other comprehensive income	(636)	(280)
TOTAL COMPREHENSIVE INCOME	10,433	14,288
COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT ENTITY		
Payable within one year	14,543	23,779

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 $'000	Fixed interest rate maturities 1 year or less $'000	2 to 5 years $'000	over 5 years $'000	Non-interest bearing $'000	Total $'000
31 December 2016							
Assets							
Cash	2.3%	35,071	-	-	-	-	35,071
Trade Debtors	-	-	-	-	-	16,350	16,350
Other receivables	-	-	-	-	-	19,059	19,059
Shares at fair value - other corporations	-	-	-	-	-	16,310	16,310
Total financial assets		35,071	-	-	-	51,719	86,790
Liabilities							
Trade and other payables	-	-	-	-	-	24,972	24,972
Secured bank loans	3.3%	904,226	-	-	-	-	904,226
Total financial liabilities		904,226	-	-	-	24,972	929,198
Net financial assets/(liabilities)		(869,155)	-	-	-	26,747	(842,408)
31 December 2015							
Assets							
Cash	2.6%	5,679	43,000	-	-	-	48,679
Trade Debtors	-	-	-	-	-	13,750	13,750
Receivables	-	-	-	-	-	1,140	1,140
Shares at cost - 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)

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 (2015: 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 $6.3 million (2015: $6.7 million) based on the level of borrowings at 31 December 2016, 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- 5 years	Total
2016	**%**	**$'000**	**$'000**	**$'000**	**$'000**
Borrowings	3.3%	32,308	210,242	661,676	904,226
2015					
Borrowings	3.6%	26,114	218,534	714,226	958,874

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 (ABN 99 001 363 828) 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 2016 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 28th day of March 2017.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

PENNY WINN
DIRECTOR

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

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

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

Opinion

We have audited the financial report of Port Waratah Coal Services Limited (the "Entity") and its subsidiary (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by the Directors as set out on pages 16 to 46.

In our opinion the accompanying financial report of the Entity, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Group, would be in the same terms if given to the Directors as at the time of this auditor's report.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Other Information

The Directors are responsible for the other information. The other information comprises the Chair's Report, Director's Report, Performance Overview and Year in Review for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The Directors 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.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Report continued

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 28 March 2017

PORT WARATAH COAL SERVICES LIMITED
ABN 99 001 363 828

REGISTERED OFFICE
Curlew Street
Kooragang Island NSW 2304
Phone: +61 2 4907 2000
Fax: +61 2 4907 3000
www.pwcs.com.au