



ANNUAL REPORT

PORT WARATAH COAL SERVICES LIMITED 2012

Port Waratah Coal Services Limited

A.C.N. 001 363 828

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

Directors

M Harvey
J M Cleland
A W Mason
Y Nakata
H M Newell
H Okamoto
A E Pitt
J E Richards
S Saito
D R Yeates

Chairman

Chief Executive Officer

S H du Plooy

Company Secretaries

G V Crowe
J A Oliver

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Auditor

Deloitte Touche Tohmatsu
Chartered Accountants

This financial report covers both Port Waratah Coal Services Limited as an individual entity and the consolidated entity consisting of Port Waratah Coal Services Limited and the entity it controlled during 2012. Port Waratah Coal Services Limited 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. PWCS' annual report is available on PWCS' website www.pwcs.com.au.

Chairman's Report

Port Waratah Coal Services loaded a record 105.9 million tonnes of coal in 2012, an 8.3% increase on 2011. This throughput was loaded onto 1,174 vessels, also a record performance.


The safety and welfare of our employees and contractors continues to be of paramount importance. The ten injuries recorded in our activities during the year dictate that our performance must improve in 2013 as we continue our journey of zero harm to all employees and contractors. Management has a significant suite of safety initiatives and programmes to address this during 2013, largely focussed on increasing the engagement of our employees and contractors in improving our performance. This includes a "safety culture" improvement programme which will involve contractors and employees at all levels of the organisation in assessing the effectiveness of our safety systems and recommending, designing and implementing improvements.

The final stage in the expansion of the Kooragang Terminal (under PWCS' existing Development Consent), known as Project 145, is complete with the exception of the fourth dump station. Construction of the fourth dump station has been hampered by water ingress into the excavated site. This has resulted in an adverse impact on both schedule and cost for Project 145. Despite the outstanding work, the project has been successful in providing capacity from 1 January 2013 to meet contracted demand. This project has successfully included the installation of rail infrastructure associated with a fourth coal receival stream. The first train departed from this new rail infrastructure in December 2012 and the final stages of Project 145 are scheduled to be completed by the third quarter of 2013.

Work continues on PWCS' proposed Terminal 4 facility. The Terminal 4 Preferred Project Report was lodged with the NSW Department of Planning and Infrastructure in February 2013. PWCS is seeking approval for the Terminal 4 facility to handle up to 70 million tonnes per year in the initial stages of development, within a master plan capable of delivering up to 120 million tonnes per year in the future. Terminal 4 feasibility works will be complete in mid 2013 and continue to be subject to both State and Federal Government project approval processes, which will continue throughout 2013.

2012 has proven to be a year of volatility for the Hunter Valley export coal industry. PWCS will continue to work with its Customers to define future demand requirements and evaluate optimal options to deliver additional export capacity from either its existing operations or new infrastructure in order to fulfill contracted demand nominations under the long term commercial framework.

On behalf of the Board I would like to thank our Chief Executive Officer, Hennie du Plooy, the Management team and all of our employees and contractors for their contributions to continued operational improvement and growth during 2012.



MICHAEL HARVEY
CHAIRMAN



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.

M Harvey

Bachelor of Science (Industrial Studies), Honours

Chairman, PWCS since August 2009

J M Cleland

Bachelor of Economics Graduate Diploma in Financial Management

Head of Infrastructure, Anglo American Metallurgical Coal Pty Ltd

Chairman, Dalrymple Bay Coal Terminal Pty Ltd

Chairman, Half Tide Marine Pty Ltd

Director, Integrated Logistics Company Pty Ltd

Director, Newcastle Coal Shippers Pty Limited

Director, PWCS since January 2012

A W Mason

Bachelor of Arts

Diploma in Financial Management

Diploma in Applied Finance and Investment

General Manager Finance and Commercial, Xstrata Coal (NSW) Pty Limited

Director, Austral Coal Limited and its related companies

Director, Bargo Collieries Pty Limited

Director, Cumnock Coal Pty Limited and its related companies

Director, Liddell Collieries Pty Limited and its related companies

Director, Narama Investments Pty Limited

Chairman, Newcastle Coal Shippers Pty Limited

Director, Oakbridge Pty Limited and its related companies

Director, OCAL Macquarie Pty Limited

Director, Resource Pacific Holdings Pty Limited and its related companies

Director, The Wallerawang Collieries Limited

Director, Ulan Coal Mines Limited

Director, Xstrata Coal (NSW) Pty Limited and its related companies

Director, Xstrata Rail (NSW) Pty Limited

Director, Xstrata Mangoola Pty Limited

Director, PWCS since February 2008

Y Nakata

Bachelor of Law

Managing Director, Nippon Steel & Sumitomo Metal Australia Pty Ltd

Director, PWCS since May 2009

H M Newell

Bachelor of Commerce (Econometrics), Honours

Master of Business Administration

Vice President – Infrastructure, Rio Tinto Energy

Director, Energy Resources of Australia Ltd

Director, Newcastle Coal Shippers Pty Limited

Director, PWCS since January 2013

H Okamoto

Bachelor of Chemical Engineering

Project Manager, Toyota Tsusho Corporation

Director, PWCS since March 2013

A E Pitt

Bachelor of Commerce, Honours

General Manager Commercial, Xstrata Coal Pty Limited

Director, Xstrata Rail (NSW) Pty Limited

Director, Newcastle Coal Shippers Pty Limited

Director, The Newcastle Wallsend Coal Co Pty Ltd

Alternate Director, Hunter Valley Coal Chain Coordinator Limited

Alternate Director, Integrated Logistics Company Pty Ltd

Director, PWCS since January 2010

J E Richards

Bachelor of Rural Science, Honours 1

Managing Director, The Bloomfield Group of companies

Director, Australian Coal Association Limited

Director, ACA Low Emissions Technologies Limited

Member, Australian Institute of Company Directors

Member, Executive Committee New South Wales Minerals Council Ltd

Director, PWCS since September 2010

S Saito

Bachelor of Economics

Director, Japan Coal Development Co., Ltd

Director, J.C.D. Australia Pty Limited

Director, PWCS since June 2011

D R Yeates

Bachelor of Engineering (Mining)

Graduate Diploma Management

Graduate Diploma Applied Finance & Investment

Master Business Administration

Acting Chief Executive Officer, Coal & Allied Industries Limited

Acting Managing Director, Rio Tinto Coal Australia Pty Limited

Director, Australian Coal Holdings Pty. Limited

Director, Blair Athol Coal Pty. Ltd

Director, Clermont Coal Mines Limited

Director, Coal & Allied Industries Limited

Director, Coal & Allied Operations Pty Ltd

Director, Hail Creek Marketing Pty Ltd

Director, Newcastle Coal Shippers Pty Limited

Director, Queensland Coal Pty. Limited

Director, Rio Tinto Coal Australia Pty Limited

Director, Rio Tinto Coal NSW Holdings Limited

Director, Warkworth Coal Sales Ltd and its related companies

Member, Blair Athol Joint Venture

Member, Clermont Joint Venture

Member, Hail Creek Joint Ventures

Member, Warkworth Joint Venture

Alternate Member, Kestrel Joint Venture

Director, PWCS since February 2013

Alternate Directors

S R Bridger (for A W Mason and A E Pitt)
Bachelor of Engineering (Civil), Honours
 Master of Engineering Science (Project Management) Executive
 General Manager, Wandoan Project, Xstrata Coal
 Director, Longstride Pty. Limited
 Director, Newcastle Coal Shippers Pty Limited
 Director, Surat Basin Rail Pty Ltd
 Director, Wicet Holdings Pty Limited
 Director, Wiggins Island Coal Export Terminal Pty Limited

K Fukamachi (for H Okamoto)
Bachelor of Law
Master of Business Administration
 Alternate Director, Mitsui Coal Holdings Pty Ltd

N Kushibuchi (for Y Nakata)
Bachelor of Social Science
 Managing Director, JFE Steel Australia Resources Pty Ltd

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

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

K Nakazato (for Y Nakata)
Bachelor of Commerce
 Director, Nippon Steel & Sumikin Resources Australia Pty Ltd

T Okada (for H Okamoto)
Bachelor of Business Administration
 Company Secretary, Navidale Pty. Limited
 Company Secretary, RHA Pastoral Company Pty Ltd
 Company Secretary, Toyota Tsusho Group and its related companies

T J S Renwick (for D R Yeates)
Bachelor of Engineering (Mechanical), Honours
Master of Business Administration
 General Manger Infrastructure, Rio Tinto Coal Australia
 Director, Integrated Logistics Company Pty Ltd
 Director, Hunter Valley Coal Chain Coordinator Limited
 Alternate Director, Dalrymple Bay Coal Terminal Pty Limited
 Alternate Director, Half-Tide Marine Pty Limited

C Robertson (for J M Cleland)
Bachelor of Engineering (Electrical)
Master of Business Administration
 General Manager (Drayton mine), Anglo American
 Metallurgical Coal Pty Ltd

R Samukawa (for S Saito)
Bachelor of Economics
 Manager, J.C.D. Australia Pty Limited

A Taniguchi (for S Saito)
Bachelor of Law
Master of Business Administration
 Managing Director, J.C.D. Australia Pty Limited
 Director, Blair Athol Coal Pty. Ltd
 Director, Clermont Coal Mines Limited

P A Wilkes (for A W Mason and A E Pitt)
Bachelor of Business (Accounting)
 Financial Controller, Xstrata Coal (NSW) Pty Limited
 Director, Oceanic Coal Australia Pty Limited
 Director, Ravensworth Coal Terminal Pty Limited and its related companies
 Director, Resource Pacific Holdings Pty Limited
 Director, Resource Pacific Pty Limited
 Director, Tahmoor Coal Pty Limited
 Director, Xstrata Cumnock Management Pty Limited
 Director, Xstrata Mangoola Pty Limited
 Alternate Director, Port Kembla Coal Terminal 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	10
HSE Committee	4
Audit & Risk Committee	4
Financing 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		
<u>Directors</u>		
M Harvey	10	10
W H Champion	10	6
J M Cleland	10	10
R S Light	10	6
A W Mason	10	10
Y Nakata	10	5
H M Newell	-	-
G Okamatsu	10	7
H Okamoto	-	-
A E Pitt	10	10
J E Richards	10	8
S Saito	10	-
D R Yeates	-	-
<u>Alternate Directors</u>		
S R Bridger	10	-
K Fukamachi	10	-
A Hasumoto	1	-
N Kushibuchi	10	1
B F Lewis	10	1
R H McCullough	10	2
K Nakazato	10	2
S Ogake	9	-
T Okada	10	1
T J S Renwick	10	4
C Robertson	10	-
R Samukawa	-	-
A Taniguchi	10	10
G J Walker	10	2
P A Wilkes	10	-

Health, Safety and Environment Committee

M Harvey	4	4
D McLachlan	4	4
J E Richards	4	4

Audit & Risk Committee

A W Mason	4	4
M Harvey	4	4
R S Light	4	4
H M Newell	-	-
P C Taylor	4	2

Meetings held whilst in office Meetings attended

Financing Committee

R S Light	4	4
J M Cleland	4	3
A W Mason	4	4
G Okamatsu	4	4

Company Secretaries

The company secretaries are:

Mr G V Crowe. Mr Crowe was appointed to the position of company secretary in July 2008. Mr Crowe is a member of CPA Australia.

Mr J A Oliver. Mr Oliver was appointed to the position of company secretary in February 2008. Mr Oliver is a member of the Institute of Chartered Accountants in Australia and CPA Australia.

Principal Activities

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

Trading Results

The net profit of the consolidated entity for the financial year was \$144.2 million after an income tax expense of \$60.9 million.

Dividends

Total dividends paid during the financial year were as follows:

Importer & Exporter Class

Shares

Final 2011 dividend and First Interim 2012 dividend paid 28 March 2012.	\$15,200,000
Fully Franked	

Importer & Exporter Class

Shares

Second Interim 2012 dividend paid 19 September 2012.	\$15,200,000
Fully Franked	

\$30,400,000

Review of Operations

During the financial year the company handled 105.9 million tonnes of coal through its Carrington and Kooragang Terminals (2011, 97.8 million tonnes), representing increased tonnage of 8.3% on the previous year. The above mentioned tonnage was loaded aboard 1,174 vessels (2011, 1,025 vessels).

Steaming coal exports increased by 10.7% with shipments for the year totalling 91 million tonnes (2011, 82.2 million tonnes). Coking coal exports decreased by 4.5% with shipments for the year totalling 14.9 million tonnes (2011, 15.6 million tonnes).

The charge for coal handling services remained at \$4.50 per tonne throughout 2012.

At the end of the financial year there were 415 people (31 December 2011, 402 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

The company has continued to expand its coal handling facilities in the Port of Newcastle in order to meet continued demand for Hunter Valley export coal. Kooragang Terminal expansion works continued during 2012 with the completion of Project MPC (Master Plan Completion), bringing nameplate capacity to 133 Mtpa, and the completion of Project 145 works with the exception of the fourth dump station. Construction of the fourth dump station has been hampered by water ingress into the excavated site. The final stages of Project 145 works are scheduled to be completed by quarter three of 2013 and will increase nameplate capacity to 145 Mtpa.

Feasibility works for the proposed Terminal 4 facility commenced in July 2012 and are scheduled for completion in June 2013. The Terminal 4 Preferred Project Report and Response to Submissions were submitted to the NSW Department of Planning and Infrastructure in February 2013.

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 27 March 2012 (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 Government has Acts and Regulations that the company's operations are subject to. They are principally covered by the requirements of the:

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

The NSW Department of Planning and Infrastructure and the NSW Office of Environment and Heritage are the primary Government authorities responsible for the issuing of and administration of approvals, licences and permits in accordance with the requirements of the Acts and Regulations and in relation to the company's operation.

During the financial year the company received a penalty notice (pertaining to a blocked launder system) from the Environment Protection Authority on 2 October 2012 in relation to the contravention of the Carrington Terminal Environment Protection Licence. PWCS has reviewed maintenance programs to ensure that environmental protection equipment is maintained in a proper and efficient manner.

With the exception of the above incident the company complied with all environmental requirements. All external reporting requirements associated with the National Greenhouse and Energy Reporting Act (2007) and other legislation were undertaken.

Directors' Benefits

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

Indemnities and Insurance

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

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

- Each person who is or has been a Director, Alternate Director, Chief Executive Officer, General Manager or Secretary of the company;
- Other officers or former officers of the company or of its related bodies corporate as the Directors in each case determine; and

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:

- In defending proceedings in which judgement is given in favour of the person or in which the person is acquitted; or
- In connection with an application, in relation to such proceedings, in which the Court grants relief to the person under the Corporations Act 2001.

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

Proceedings on behalf of the Company

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

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

Auditor's Independence Declaration

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

Rounding of Amounts

The company is a company of the kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order unless otherwise stated.

Dated at Newcastle this 26th day of March 2013.

Signed in accordance with a resolution of the Directors.



M Harvey
Director

Deloitte.

Deloitte Touche Tohmatsu
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225 George Street
Sydney NSW 2000
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Sydney NSW 1219 Australia

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www.deloitte.com.au

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

26 March 2013

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 2012, 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



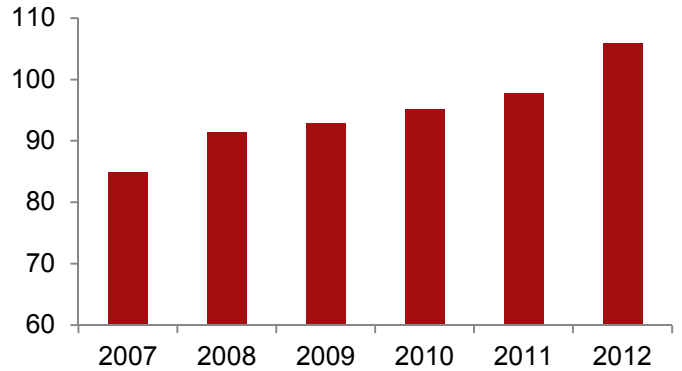
Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Performance Overview

Throughput (Mtpa)



Export Destinations



Japan – 52.6%



China – 19.0%



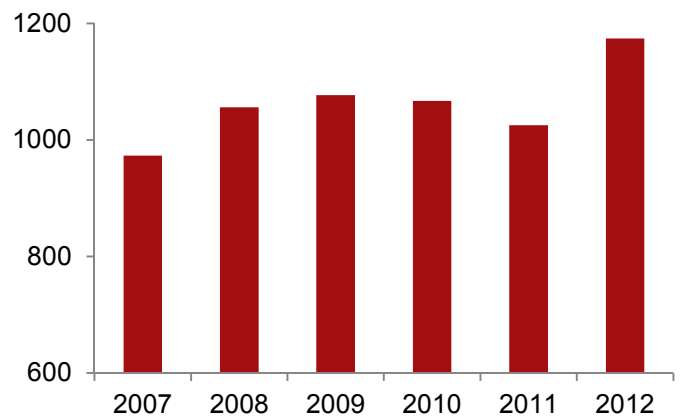
South Korea – 13.7%



Taiwan – 7.8%

Other – 6.9%

Vessels Loaded

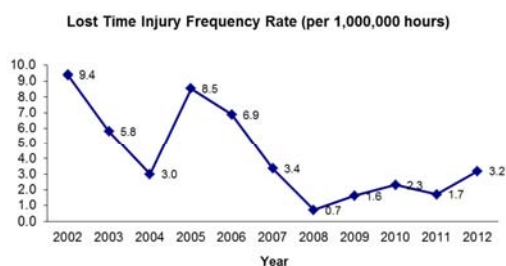
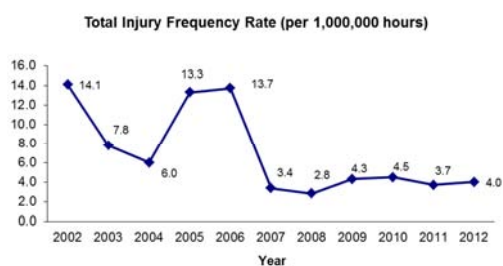


Year in Review

Safety

In 2012 there were ten injuries to our employees and contractors. The ten injuries comprised eight lost time injuries (four LTI's in 2011) and two medical treatment injuries (four MTI's in 2011). This is an unacceptable safety performance which must be improved as we continue on our journey of zero harm to all employees and contractors.

A number of safety initiatives and programs will be implemented during 2013, largely focussed on increasing the engagement of our employees and contractors in improving our performance. This includes a "safety culture" improvement program which will involve contractors and employees at all levels of the organisation in assessing the effectiveness of our safety systems and recommending, designing and implementing improvements.



The PWCS Health Study report was released in July 2012. The study found that, statistically speaking, there is a higher incidence of cancer diagnosis amongst people who have worked at PWCS' Kooragang Island facility than amongst people who worked at PWCS' Carrington facility, or within the New South Wales and Australian population in general. The main types of cancer detected were melanoma, prostate and colorectal (bowel). PWCS received expert medical advice that there is no established causal link between these types of cancer and typical occupational exposures. PWCS remains committed to implementing all of the recommendations from the Health Study report.

The recommendations were:

- That an independent occupational hygienist be consulted to evaluate the Kooragang Island site and its processes to recommend improvements, possible remediation and safety procedures;
- That an expert panel be assembled to provide advice on developing a cancer prevention and screening program; and
- That workers at the Kooragang Terminal be encouraged to contact their general practitioners and adhere to recommendations regarding cancer screening for melanoma, prostate cancer and colorectal cancer.

PWCS has made good progress with the recommendations. The work of the Industrial Hygienist is well under way and a panel of eminent experts in the field of each of the main cancers identified has been established and is working towards recommendations for screening processes.

Safety (continued)

Key Health and Safety highlights and initiatives for 2012 included:

- With the support of employees, PWCS combined the two site based Health Safety and Environment Committees (HSE) into one HSE Committee for both sites. The constitution was updated and signed by the Health and Safety Representatives;
- The implementation of the PWCS Management and High Usage High Exposure Contractor safety observation/audit process;
- The PWCS Crisis Management Plan was converted into the Business Resilience Management Plan and included a Business Impact Assessment, identifying key business operations, their risks and work-around plans;
- A Semi Quantitative Risk Assessment on PWCS fatality risks was completed in June 2012;
- Rollout of electronic induction process for all employees and contractors. Over 2000 contractors were inducted during the year;
- Over 200 samples were collected in 2012 as part of the PWCS Occupational Monitoring Program. The program targeted heat, dust, noise, welding, diesel and abrasive blasting particulate;
- Both Terminals participated in 18 emergency drills for the year – four with external emergency services, five emergency evacuations, one trial evacuation and eight initial response drills were conducted; and
- A hazardous materials survey was conducted across site in September 2012 on all known and suspected asbestos on site.

In addition to the above initiatives, wages employee participation in planned job observations and the Take 5 process continues to increase when compared with 2011.

PWCS donated \$10,000 to charities in 2012 as a result of approved employee safety suggestions, a scheme which was instigated in 2007.

Environment

PWCS' operations were conducted in compliance with licence and consent conditions during the year. Independent certification of the PWCS Environmental Management System to the ISO 14001 standard was maintained throughout 2012 with the system successfully re-certified.

PWCS received a penalty notice (pertaining to a blocked launder system) from the Environment Protection Authority on 2 October 2012 in relation to the contravention of the Carrington Terminal Environment Protection Licence. PWCS has reviewed maintenance programs to ensure that environmental protection equipment is maintained in a proper and efficient manner following communications from the NSW Environment Protection Authority.

Continual improvement was made on the PWCS dust management system with Kooragang Terminal upgraded to Carrington's award winning standards.

People

The total number of PWCS employees remained steady throughout 2012 with 402 at the beginning of the year compared to 415 employees at the end of 2012. The 2012 figure includes 12 Rio Tinto employees who are working within the Terminal 4 project team.

There was a turnover of 20 employees during 2012, which equates to an annual turnover rate of 5.0%. This turnover rate includes employees leaving PWCS as a result of resignation, completion of fixed term engagements and termination of employment.

PWCS commenced negotiations for a new Enterprise Agreement in July 2012. Agreement has not yet been reached and negotiations will continue in 2013.

There was one instance of unprotected industrial action during 2012, with a stoppage lasting 24 hours. An order was issued by Fair Work Australia that the unlawful industrial action cease and employees return to work.

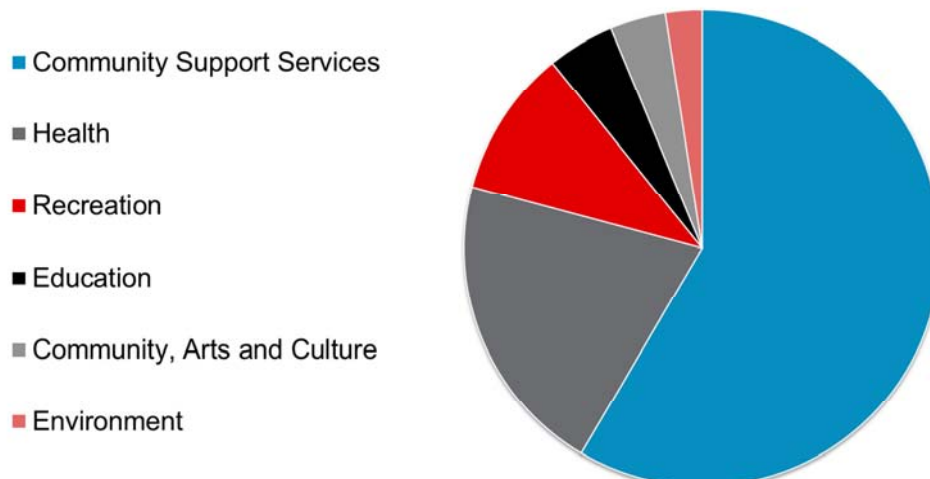
PWCS continued its partnership with Vision Australia, with the introduction of a paid work placement program. The program's objective is to provide vision impaired persons with valuable work experience and confidence to assist them in finding employment following the six month trainee program at PWCS.

PWCS was the host employer of 17 apprentices at the end of 2012. PWCS also continued providing traineeships, scholarships and other vacation work experience during 2012.

Community

During 2012 PWCS initiated a review that resulted in the development and approval of a revised stakeholder engagement program. Support of the local community will be realigned in accordance with the new strategy during 2013, with the objective of improving outcomes for community partners overall.

PWCS continued to be an active member of the community throughout 2012, donating \$584,000 to charities and local community organisations. The majority of these were distributed to organisations which provide support services to help some of the most vulnerable in our community. PWCS also heavily supported health organisations who work hard to help our community lead healthier and longer lives. Significant donations were made to BCS Life Care Hunter Services Group, Firstchance, Harry Meyn Memorial Foundation, Hunter Medical Research Institute, Humpty Dumpty Foundation, Hunter Prostate Cancer Alliance, Newcastle Mission to Seafarers, Newcastle Surf Lifesaving Club, Soul Café, Supporters of Cancer, Variety, the Children's Charity and the Westpac Rescue Helicopter Service. We were also proud to work with such organisations as the Newcastle Junior Special Olympics, the Newcastle Italian Film Festival and the Hunter Valley Electrical Vehicle Festival for the first time.



Commercial

PWCS continued its capacity expansion program to meet the long term contracted demand of Coal Producers in accordance with the long term commercial framework during 2012. The coal industry however has faced a volatile economic environment during the year. As a result, PWCS is working with its Customers to align its capacity expansion program with a softening in demand. PWCS also continues to focus its efforts on giving effect to the contractual alignment principles in the long term commercial framework.

Operations

Throughput for 2012 was 105.9 Mtpa, against a budget of 120.5 Mtpa and nameplate capacity of 133 Mtpa. This result represented an increase of 8.3% on the 2011 year result of 97.8 Mtpa. The difference between actual throughput and nameplate capacity represents interface and performance issues associated with the operation of the Hunter Valley Coal Chain. Operations achieved a favourable result in train cancellations, with the actual cancellations attributable to the Terminals being 0.7%, well below the target of 1.9%.

Kooragang Terminal

Favourable operational performance measures for Kooragang Terminal were achieved throughout the year. A summary of terminal performance achieved follows:

<u>Measure</u>	<u>Target</u>	<u>Actual</u>
Gross Unload Rate tonnes per hour	7,000	7,059
Gross Load Rate tonnes per hour	5,200	5,315

Kooragang Terminal achieved 636 days Serious Injury Free in 2012. Unfortunately this record was broken by an injury in October 2012.

Continued integration of capital expansion equipment to the terminal progressed throughout the year. Continuous berth preparation and coordination with the Newcastle Port Corporation was also a major achievement. During December 2012, five vessels were berthed at the Kooragang Terminal for the first time.

Carrington Terminal

Favourable operational performance measures for Carrington Terminal were achieved throughout the year. A summary of terminal performance achieved follows:

<u>Measure</u>	<u>Target</u>	<u>Actual</u>
<u>Gross Unload Rate tonnes per hour</u>		
Rail Receival 1	2,750	2,940
Rail Receival 3	3,250	3,558
Gross Load Rate tonnes per hour	1,979	2,151

Carrington Terminal achieved 652 days Serious Injury Free during 2012. Unfortunately this record was broken by an injury in October 2012.

The Carrington Terminal has continued to maintain a strong focus on environmental performance. The environmental process and system improvements made to date, along with the proactive involvement of all Carrington Terminal team members, are critical to continuing our environmental performance. An engineering study to evaluate options for further improvement was initiated and is expected to result in significant work during 2013.

Significant projects undertaken at Carrington Terminal during 2012 include the upgrade to yard conveyor drives, reclaimers slew bearing replacement and painting and upgrade of plant and equipment.

Logistics

During 2012 the Hunter Valley Coal Chain Live Run underwent a major restructure with the formation of the Integrated Live Run (ILR) Centre, located at the Hunter Valley Coal Chain Co-Coordinator's office. PWCS participated in this project and transitioned its Live Run team to the ILR Centre in June 2012.

During 2012, Logistics developed and implemented operating strategies to support the integration of capital expansion infrastructure into Operations. The completion of projects including Dump Station 4 and the rail infrastructure strategy during 2013 will assist to maximise the utilisation of Terminal assets.

Expansion

The expansion of coal terminal infrastructure at the Kooragang Terminal continued during the year. Project 145, which commenced in 2011, is scheduled for finalisation by quarter three of 2013. The project's rail infrastructure and in-loading conveyor system were completed in December 2012, along with the upgrade of the reclaim and shipping stream system's peak throughput to 9,500 tonnes per hour. Construction of the fourth dump station continues to be impacted by water ingress into the excavated site.

Upon completion of the fourth rail receival station, the combined nameplate annual capacity of the Carrington and Kooragang terminals will be 145 million tonnes.

Development

PWCS continues to progress future expansion to meet the coal industry capacity requirements. The Prefeasibility Study for the proposed Terminal 4 facility was successfully completed in April 2012 and the Feasibility Study commenced in July 2012. The Response to Submissions from the Environmental Assessment for the Terminal 4 facility and the Terminal 4 facility Preferred Project Report were submitted in February 2013. The Feasibility Study is scheduled for completion in August 2013.

Engineering studies, site investigation works and continuing investigations of the environmental, commercial and market related issues concerning the development of the proposed Terminal 4 facility have continued in 2012. Extensive terminal and port modelling has been conducted to support the Terminal 4 capacity and design options. In addition, PWCS commenced an engineering study aimed at identifying further opportunities to increase the nameplate capacity of the existing terminals – projects which would, like Terminal 4, be the subject of new development approvals.

Rio Tinto's Project Development and Implementation group continue to be engaged by PWCS to assist the PWCS owner's team and draw on relevant capability and expertise.

A corporate project portfolio management system was introduced during the year to better manage nominated projects for 2013 and beyond, thereby ensuring alignment with our business plan strategies.



HENNIE DU PLOOY
CHIEF EXECUTIVE OFFICER



Statement of Comprehensive Income

for the financial year ended 31 December 2012

	Note	Consolidated		Company	
		31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
Continuing operations					
Revenue	2	541,596	438,678	541,596	438,678
Other income	2	2,424	2,885	2,424	3,188
Employee benefit expenses		(66,537)	(63,301)	(66,537)	(63,301)
Depreciation and amortisation expenses	2	(92,963)	(79,553)	(92,963)	(79,553)
Finance costs	2	(45,854)	(40,921)	(45,854)	(40,921)
Materials and services		(106,165)	(81,032)	(106,165)	(81,032)
Other expenses		<u>(27,468)</u>	<u>(24,810)</u>	<u>(27,468)</u>	<u>(24,810)</u>
Profit before income tax expense		205,033	151,946	205,033	152,249
Income tax expense	3	<u>(60,948)</u>	<u>(44,370)</u>	<u>(60,948)</u>	<u>(44,370)</u>
Profit for the year	18	<u>144,085</u>	<u>107,576</u>	<u>144,085</u>	<u>107,879</u>
Other comprehensive income	17	160	164	160	164
Total comprehensive income for the year		<u><u>144,245</u></u>	<u><u>107,740</u></u>	<u><u>144,245</u></u>	<u><u>108,043</u></u>

Notes to the financial statements are included on pages 22 to 40.

Statement of Financial Position

for the financial year ended 31 December 2012

	Note	Consolidated		Company	
		31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
CURRENT ASSETS					
Cash and cash equivalents	4	5,447	6,560	5,447	6,560
Trade and other receivables	5	26,113	19,529	26,113	19,529
Inventories	6	7,186	6,886	7,186	6,886
Other	7	2,541	2,523	2,541	2,523
TOTAL CURRENT ASSETS		<u>41,287</u>	<u>35,498</u>	<u>41,287</u>	<u>35,498</u>
NON-CURRENT ASSETS					
Other financial assets	8	15,750	15,591	15,750	15,591
Property, plant and equipment	9	1,823,228	1,592,334	1,823,228	1,592,334
Other	10	8,757	5,920	8,757	5,920
TOTAL NON-CURRENT ASSETS		<u>1,847,735</u>	<u>1,613,845</u>	<u>1,847,735</u>	<u>1,613,845</u>
TOTAL ASSETS		<u>1,889,022</u>	<u>1,649,343</u>	<u>1,889,022</u>	<u>1,649,343</u>
CURRENT LIABILITIES					
Trade and other payables	11	38,517	43,548	38,517	43,548
Borrowings	12	92,231	391,458	92,231	391,458
Current tax payables	3	26,238	10,763	26,238	10,763
Provisions	13	23,196	33,675	23,196	33,675
TOTAL CURRENT LIABILITIES		<u>180,182</u>	<u>479,444</u>	<u>180,182</u>	<u>479,444</u>
NON-CURRENT LIABILITIES					
Borrowings	14	1,009,923	607,847	1,009,923	607,847
Deferred tax liabilities	3	99,866	93,966	99,866	93,966
Provisions	15	54,592	37,472	54,592	37,472
TOTAL NON-CURRENT LIABILITIES		<u>1,164,381</u>	<u>739,285</u>	<u>1,164,381</u>	<u>739,285</u>
TOTAL LIABILITIES		<u>1,344,563</u>	<u>1,218,729</u>	<u>1,344,563</u>	<u>1,218,729</u>
NET ASSETS		<u>544,459</u>	<u>430,614</u>	<u>544,459</u>	<u>430,614</u>
EQUITY					
Issued capital	16	139,868	139,868	139,868	139,868
Reserves	17	324	164	324	164
Retained earnings	18	404,267	290,582	404,267	290,582
TOTAL EQUITY		<u>544,459</u>	<u>430,614</u>	<u>544,459</u>	<u>430,614</u>

Notes to the financial statements are included on pages 22 to 40.

Statement of Changes in Equity

for the financial year ended 31 December 2012

	Note	Consolidated			
		Share Capital	Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance at 31 December 2011	16, 17, 18	<u>139,868</u>	<u>164</u>	<u>290,582</u>	<u>430,614</u>
Profit for the year		-	-	144,085	144,085
Fair value of equity instruments movement for the year	17	-	160	-	160
Dividends paid	19	-	-	<u>(30,400)</u>	<u>(30,400)</u>
Balance at 31 December 2012	16, 17, 18	<u><u>139,868</u></u>	<u><u>324</u></u>	<u><u>404,267</u></u>	<u><u>544,459</u></u>

	Note	Company			
		Share Capital	Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance at 31 December 2011	16, 17, 18	<u>139,868</u>	<u>164</u>	<u>290,582</u>	<u>430,614</u>
Profit for the year		-	-	144,085	144,085
Fair value of equity instruments movement for the year	17	-	160	-	160
Dividends paid	19	-	-	<u>(30,400)</u>	<u>(30,400)</u>
Balance at 31 December 2012	16, 17, 18	<u><u>139,868</u></u>	<u><u>324</u></u>	<u><u>404,267</u></u>	<u><u>544,459</u></u>

	Note	Consolidated			
		Share Capital	Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance at 31 December 2010	16, 17, 18	<u>139,868</u>	<u>-</u>	<u>200,315</u>	<u>340,183</u>
Profit for the year		-	-	107,576	107,576
Adjustment to opening retained earnings for fair value of equity instruments	18	-	-	12,591	12,591
Fair value of equity instruments movement for the year	17	-	164	-	164
Dividends paid	19	-	-	<u>(29,900)</u>	<u>(29,900)</u>
Balance at 31 December 2011	16, 17, 18	<u><u>139,868</u></u>	<u><u>164</u></u>	<u><u>290,582</u></u>	<u><u>430,614</u></u>

	Note	Company			
		Share Capital	Reserves	Retained Earnings	Total
		\$'000	\$'000	\$'000	\$'000
Balance at 31 December 2010	16, 17, 18	<u>139,868</u>	<u>-</u>	<u>200,012</u>	<u>339,880</u>
Profit for the year		-	-	107,879	107,879
Adjustment to opening retained earnings for fair value of equity instruments	18	-	-	12,591	12,591
Fair value of equity instruments movement for the year	17	-	164	-	164
Dividends paid	19	-	-	<u>(29,900)</u>	<u>(29,900)</u>
Balance at 31 December 2011	16, 17, 18	<u><u>139,868</u></u>	<u><u>164</u></u>	<u><u>290,582</u></u>	<u><u>430,614</u></u>

Notes to the financial statements are included on pages 22 to 40.

Statement of Cash Flows

for the financial year ended 31 December 2012

	Note	Consolidated		Company	
		31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		588,948	483,600	588,948	483,600
Payments to suppliers and employees		(253,226)	(218,806)	(253,226)	(218,806)
Dividends received		1,007	994	1,007	1,296
Interest received		802	797	802	797
Interest and other costs of finance paid		(61,062)	(51,681)	(61,062)	(51,681)
Net Income tax paid		(39,573)	(37,406)	(39,573)	(37,406)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(iii)	<u>236,896</u>	<u>177,498</u>	<u>236,896</u>	<u>177,800</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(311,670)	(281,475)	(311,670)	(281,475)
Proceeds from sale of property, plant and equipment		604	200	604	200
Proceeds from sale of associate		-	302	-	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(311,066)</u>	<u>(280,973)</u>	<u>(311,066)</u>	<u>(281,275)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings		(102,543)	(71,396)	(102,543)	(71,396)
Proceeds from borrowings		206,000	209,000	206,000	209,000
Dividends paid	19	(30,400)	(29,900)	(30,400)	(29,900)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>73,057</u>	<u>107,704</u>	<u>73,057</u>	<u>107,704</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(1,113)</u>	<u>4,229</u>	<u>(1,113)</u>	<u>4,229</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		<u>6,560</u>	<u>2,331</u>	<u>6,560</u>	<u>2,331</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	(i)	<u>5,447</u>	<u>6,560</u>	<u>5,447</u>	<u>6,560</u>

Included in the \$61,062,000 disclosed as 'Interest and other costs of finance paid' is \$12,584,000 of interest which has been capitalised in plant and equipment.

Notes to the financial statements are included on pages 22 to 40.

Notes to the Statement of Cash Flows

for the financial year ended 31 December 2012

	Consolidated		Company	
	31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'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	5,447	6,560	5,447	6,560
(ii) FINANCING FACILITIES				
The parent entity has access to: Secured bank loan facilities with various maturity dates				
Amount used	1,107,915	1,004,458	1,107,915	1,004,458
Amount unused	150,000	356,000	150,000	356,000
	<u>1,257,915</u>	<u>1,360,458</u>	<u>1,257,915</u>	<u>1,360,458</u>
(iii) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the period	144,085	107,576	144,085	107,879
Depreciation expense	92,963	79,553	92,963	79,553
Amortisation of borrowing costs	607	888	607	888
Profit on sale of plant & equipment	(204)	(15)	(204)	(15)
Capitalised interest	(12,584)	(17,138)	(12,584)	(17,138)
Interest unwinding on rehabilitation provision	3,374	3,820	3,374	3,820
<u>Changes in assets & liabilities:</u>				
Increase/(decrease) in income tax payable	15,475	1,598	15,475	1,598
(Increase)/decrease in trade debtors	(6,584)	(151)	(6,584)	(151)
(Increase)/decrease in other assets, prepayments and deferred borrowing costs	(4,070)	(4,339)	(4,070)	(4,339)
(Increase)/decrease in inventory	(300)	576	(300)	576
Increase/(decrease) in deferred taxes	5,900	5,364	5,900	5,364
Increase/(decrease) in trade creditors & provisions	(1,766)	(234)	(1,766)	(234)
Net cash flows from operating activities	<u>236,896</u>	<u>177,498</u>	<u>236,896</u>	<u>177,800</u>

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 1 SUMMARY OF ACCOUNTING POLICIES USED IN THE FINANCIAL STATEMENTS

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 report includes the separate financial statements of the company and the consolidated financial statements of the Group.

In the current year, the company 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 company's annual reporting period.

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

The financial statements were authorised for issue by the Directors on 26 March 2013.

Basis of Preparation

The financial report has 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.

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 parent entity, Port Waratah Coal Services Limited, and the consolidated financial report of the consolidated entity comprising the parent entity, and the entities it controlled, 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.

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

Early adoption of Standards and Interpretations

The Directors have elected under s.334(5) of the Corporations Act 2001 to apply AASB 9 'Financial Instruments' in advance of its effective date. The standard is not required to be applied until annual reporting periods beginning 1 January 2013. The impact of the adoption of this standard results in a reclassification of \$2,835,000 disclosed as shares at cost - other corporations to shares at fair value - other corporations on 1 January 2011. An increase to opening retained earnings at 1 January 2011 of \$12,591,032 and an increase to shares held at fair value - other corporations of \$12,591,032 to reflect the fair value adjustment in the equity instrument at 1 January 2011.

Standards and Interpretations in issue not yet adopted

Initial application of the following Standards and Interpretations is not expected to have any material impact to the financial report of the consolidated entity and the company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 13 'Fair Value Measurement' and related AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	31 December 2013
AASB 119 'Employee Benefits (2011)', AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' and AASB 2011-11 'Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements'	1 January 2013	31 December 2013
AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income'	1 July 2012	31 December 2013

Amendments to Australian Accounting Standards arising from AASB 119 will impact the disclosure between current and non-current employee benefits provisions of the Company and the Group from 1 January 2013 due to a change in the definition of short term employee benefits. The definition has changed from "due to be settled" to "expected to be settled wholly before twelve months after the end of annual reporting period".

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 Company or the Group, as the issue of the above noted Interpretations do not affect its present policies and operations.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which in all cases will be the Company's annual reporting period beginning on 1 January 2013 or later.

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

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 subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries 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 company obtains control and until such time as the company ceases to control such entity. Control is achieved where the company 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.

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 company financial statements.

Other financial assets are classified into the following specified categories:

- loans and receivables
- shares at fair value.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less 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 company 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% (2011: 3%) and a discount factor of 8% (2011: 8%) are used.

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

Shares at fair value (continued)

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 company'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.

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 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.

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

Tax consolidation

The company 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 company (as head entity in the tax-consolidated group).

Payables

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

Borrowings

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

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

Borrowing Costs

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

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

Cash and Cash Equivalents

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

Property, Plant and Equipment

Land is recognised at cost.

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

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

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

Property, Plant and Equipment (continued)

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

Buildings	10 – 25 years
Plant and equipment	1 – 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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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

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.

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

Revenue Recognition (continued)

Dividend and interest revenue

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

Goods and Services Tax

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

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

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

Impairment of Assets

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

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

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

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

Leased Assets

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

Notes to the Financial Statements

for the financial year ended 31 December 2012

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

Provisions

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

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

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

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% (2011: 3%) and a discount rate of 8% (2011: 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 company has an investment in an unlisted entity whose shares are not traded in an active market. This investment has been classified as 'shares at fair value - other corporations' (because the directors consider that the fair value can be reliably measured). Fair value has been determined in accordance with generally accepted pricing models based on discounted cashflows. Gains and losses arising from changes in fair value are recognised in ether 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. 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 reclassified to profit or loss.

Dividends on shares held at fair value are recognised in profit or loss when the company'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.

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE		Consolidated		Company	
		31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
2	PROFIT FROM OPERATIONS				
	(a) Revenue				
	Revenue from continuing operations consisted of the following items:				
	Revenue from the rendering of Coal Handling Services	541,596	438,678	541,596	438,678
	(b) Other Income				
	Dividends from other corporations	1,007	993	1,007	1,296
	Interest received	889	837	889	837
	Other	324	1,040	324	1,040
	Gain on disposal of property, plant and equipment	204	15	204	15
		<u>2,424</u>	<u>2,885</u>	<u>2,424</u>	<u>3,188</u>
	Total Revenue and Other Income	<u>544,020</u>	<u>441,563</u>	<u>544,020</u>	<u>441,866</u>
	(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	92,963	79,553	92,963	79,553
	Borrowing costs:				
	Interest and finance charges paid/payable	42,480	37,101	42,480	37,101
	Interest unwinding on rehabilitation provision	3,374	3,820	3,374	3,820
		<u>45,854</u>	<u>40,921</u>	<u>45,854</u>	<u>40,921</u>
	Defined contribution superannuation expense	6,042	5,954	6,042	5,954
	Rental expense relating to operating leases and access agreements	5,621	5,641	5,621	5,641
3	INCOME TAX				
	(a) Income tax recognised in profit or loss				
	Tax expense comprises:				
	Current tax expense	55,048	39,006	55,048	39,006
	Deferred tax expense relating to the origination and reversal of temporary differences	5,900	5,364	5,900	5,364
		<u>60,948</u>	<u>44,370</u>	<u>60,948</u>	<u>44,370</u>
	Total tax expense	<u>60,948</u>	<u>44,370</u>	<u>60,948</u>	<u>44,370</u>
	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	205,033	151,946	205,033	152,249
	Income tax expense calculated at 30%	61,510	45,584	61,510	45,675
	Add/(Less) Capital loss	194	-	194	-
	Non-deductible expenses	131	175	131	175
	Research and development tax rebate	(526)	(928)	(526)	(928)
	Franking credits	(431)	(465)	(431)	(556)
	Adjustments recognised in the current year in relation to current tax of prior years	70	4	70	4
		<u>60,948</u>	<u>44,370</u>	<u>60,948</u>	<u>44,370</u>

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE	3	INCOME TAX (continued)	Consolidated		Company	
			31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
		(b) Current tax payables:				
		Income tax payable attributable to:				
		Parent entity and entities in the tax consolidated group	26,238	10,763	26,238	10,763
		(c) Deferred tax balances				
		Deferred tax assets comprise:				
		Temporary differences	16,450	14,077	16,450	14,077
		Setoff to deferred tax liabilities	(16,450)	(14,077)	(16,450)	(14,077)
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		Deferred tax liabilities comprise:				
		Temporary differences	(116,316)	(108,043)	(116,316)	(108,043)
		Setoff from deferred tax assets	16,450	14,077	16,450	14,077
			<u>(99,866)</u>	<u>(93,966)</u>	<u>(99,866)</u>	<u>(93,966)</u>

Taxable and deductible temporary differences arise from the following:

	Consolidated and Company				
	Balance at 1-Jan-11 \$'000	Charged to income \$'000	Balance at 31-Dec-11 \$'000	Charged to income \$'000	Balance at 31-Dec-12 \$'000
Gross deferred tax liabilities:					
Inventories	(2,239)	173	(2,066)	(90)	(2,156)
Work in progress	(694)	(146)	(840)	(650)	(1,490)
Other receivables	(12)	2	(10)	(7)	(17)
Property, plant and equipment	(95,968)	(4,311)	(100,279)	(5,526)	(105,805)
Other assets	(739)	(1,042)	(1,781)	(656)	(2,437)
Research and development tax incentive	-	(3,067)	(3,067)	(1,344)	(4,411)
	<u>(99,652)</u>	<u>(8,391)</u>	<u>(108,043)</u>	<u>(8,273)</u>	<u>(116,316)</u>
Gross deferred tax assets:					
Provisions	6,453	1,251	7,704	912	8,616
Other accruals	35	(7)	28	14	42
Rehabilitation depreciation and interest unwinding	4,563	1,782	6,345	1,447	7,792
	<u>11,051</u>	<u>3,026</u>	<u>14,077</u>	<u>2,373</u>	<u>16,450</u>
	<u>(88,601)</u>	<u>(5,365)</u>	<u>(93,966)</u>	<u>(5,900)</u>	<u>(99,866)</u>

Relevance of tax consolidation to the consolidated entity

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

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.

Notes to the Financial Statements

for the financial year ended 31 December 2012

	Consolidated		Company	
	31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
NOTE 4 CASH AND CASH EQUIVALENTS				
Cash on hand and short term deposits	<u>5,447</u>	<u>6,560</u>	<u>5,447</u>	<u>6,560</u>
NOTE 5 TRADE AND OTHER RECEIVABLES				
Trade debtors and accrued income	25,898	19,285	25,898	19,285
Other debtors	<u>215</u>	<u>244</u>	<u>215</u>	<u>244</u>
	<u>26,113</u>	<u>19,529</u>	<u>26,113</u>	<u>19,529</u>
NOTE 6 INVENTORIES				
Maintenance stores and supplies	<u>7,186</u>	<u>6,886</u>	<u>7,186</u>	<u>6,886</u>
NOTE 7 OTHER CURRENT ASSETS				
Prepayments	<u>2,541</u>	<u>2,523</u>	<u>2,541</u>	<u>2,523</u>
NOTE 8 NON CURRENT - FINANCIAL ASSETS				
Shares at fair value - other corporations	<u>15,750</u>	<u>15,591</u>	<u>15,750</u>	<u>15,591</u>

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 2012 the parent entity held 2,835,000 (31 December 2011: 2,835,000) ordinary shares in NCS which represented 8.964% of the issued capital of NCS.

For the year ended 31 December 2012 NCS contributed an amount of \$1 million in dividends (31 December 2011: \$1 million) to the pre tax profit of the parent entity and the consolidated entity.

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

Consolidated Entity and Company	Land	Buildings	Plant and	Total
	\$'000	\$'000	equipment \$'000	\$'000
Gross carrying amount				
Balance at 1 January 2011	20,913	20,659	2,191,484	2,233,056
Additions	113	552	402,869	403,534
Under construction at cost	-	-	(104,921)	(104,921)
Disposals	-	(211)	(10,805)	(11,016)
Balance at 1 January 2012	<u>21,026</u>	<u>21,000</u>	<u>2,478,627</u>	<u>2,520,653</u>
Additions	9,833	-	230,314	240,147
Under construction at cost	-	-	84,110	84,110
Disposals	-	(574)	(34,260)	(34,834)
Balance at 31 December 2012	<u>30,859</u>	<u>20,426</u>	<u>2,758,791</u>	<u>2,810,076</u>
Accumulated depreciation				
Balance at 1 January 2011	-	10,954	839,252	850,206
Disposals	-	(75)	(1,365)	(1,440)
Depreciation expense	-	1,286	78,267	79,553
Balance at 1 January 2012	<u>-</u>	<u>12,165</u>	<u>916,154</u>	<u>928,319</u>
Disposals	-	(564)	(33,870)	(34,434)
Depreciation expense	-	720	92,243	92,963
Balance at 31 December 2012	<u>-</u>	<u>12,321</u>	<u>974,527</u>	<u>986,848</u>
Net book value				
As at 31 December 2011	<u>21,026</u>	<u>8,835</u>	<u>1,562,473</u>	<u>1,592,334</u>
As at 31 December 2012	<u>30,859</u>	<u>8,105</u>	<u>1,784,264</u>	<u>1,823,228</u>

	Consolidated		Company	
	31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets during the year:				
Buildings	720	1,286	720	1,286
Plant and equipment	<u>92,243</u>	<u>78,267</u>	<u>92,243</u>	<u>78,267</u>
	<u>92,963</u>	<u>79,553</u>	<u>92,963</u>	<u>79,553</u>

NOTE 10 NON-CURRENT ASSETS - OTHER

Capitalised borrowing costs	9,185	6,058	9,185	6,058
Less accumulated amortisation	<u>(428)</u>	<u>(138)</u>	<u>(428)</u>	<u>(138)</u>
	<u>8,757</u>	<u>5,920</u>	<u>8,757</u>	<u>5,920</u>

NOTE 11 CURRENT TRADE AND OTHER PAYABLES

Trade payables	21,926	24,887	21,926	24,887
Accruals	<u>16,591</u>	<u>18,661</u>	<u>16,591</u>	<u>18,661</u>
	<u>38,517</u>	<u>43,548</u>	<u>38,517</u>	<u>43,548</u>

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

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE		Consolidated		Company	
		31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
NOTE 12	CURRENT BORROWINGS				
	Bank loans - secured (i)	<u>92,231</u>	<u>391,458</u>	<u>92,231</u>	<u>391,458</u>
	(i) Bank loans are fully secured by a first ranking fixed and floating charge over all the assets and undertakings of the parent entity.				
NOTE 13	CURRENT PROVISIONS				
	Provision for restoration and rehabilitation	-	13,774	-	13,774
	Employee benefits	<u>23,196</u>	<u>19,901</u>	<u>23,196</u>	<u>19,901</u>
		<u>23,196</u>	<u>33,675</u>	<u>23,196</u>	<u>33,675</u>
NOTE 14	NON-CURRENT BORROWINGS				
	Bank loans - secured (i)	<u>1,015,684</u>	<u>613,000</u>	<u>1,015,684</u>	<u>613,000</u>
	Deferred borrowing costs	(8,553)	(7,033)	(8,553)	(7,033)
	Accumulated amortisation	<u>2,792</u>	<u>1,880</u>	<u>2,792</u>	<u>1,880</u>
		<u>(5,761)</u>	<u>(5,153)</u>	<u>(5,761)</u>	<u>(5,153)</u>
		<u>1,009,923</u>	<u>607,847</u>	<u>1,009,923</u>	<u>607,847</u>
	(i) Bank loans are fully secured by a first ranking fixed and floating charge over all the assets and undertakings of the parent entity. The loans mature in September 2014, December 2015, December 2016 and March 2017 and bear a weighted average floating rate of interest as set out in Note 27. All loans are denominated in Australian dollars.				
NOTE 15	NON-CURRENT PROVISIONS				
	Provision for restoration and rehabilitation	52,556	35,408	52,556	35,408
	Employee benefits	<u>2,036</u>	<u>2,064</u>	<u>2,036</u>	<u>2,064</u>
		<u>54,592</u>	<u>37,472</u>	<u>54,592</u>	<u>37,472</u>
	<i>Employee benefits</i>				
	Balance at beginning of the year	21,965	20,349	21,965	20,349
	Additional employee provisions recognised	8,563	5,911	8,563	5,911
	Reductions arising from payments of employee provisions	<u>(5,296)</u>	<u>(4,295)</u>	<u>(5,296)</u>	<u>(4,295)</u>
	Balance at 31 December 2012	<u>25,232</u>	<u>21,965</u>	<u>25,232</u>	<u>21,965</u>
	Current (Note 13)	23,196	19,901	23,196	19,901
	Non-current (Note 15)	<u>2,036</u>	<u>2,064</u>	<u>2,036</u>	<u>2,064</u>
		<u>25,232</u>	<u>21,965</u>	<u>25,232</u>	<u>21,965</u>
	<i>Provision for restoration and rehabilitation</i>				
	Balance at beginning of the year	49,182	54,753	49,182	54,753
	Unwinding of discount	3,374	3,820	3,374	3,820
	Provision movement for the year	<u>-</u>	<u>(9,391)</u>	<u>-</u>	<u>(9,391)</u>
	Balance at 31 December 2012	<u>52,556</u>	<u>49,182</u>	<u>52,556</u>	<u>49,182</u>
	Current (Note 13)	-	13,774	-	13,774
	Non-current (Note 15)	<u>52,556</u>	<u>35,408</u>	<u>52,556</u>	<u>35,408</u>
		<u>52,556</u>	<u>49,182</u>	<u>52,556</u>	<u>49,182</u>

Notes to the Financial Statements

for the financial year ended 31 December 2012

	Consolidated		Company	
	31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
NOTE 16 ISSUED CAPITAL				
93,376,250 Coal Exporter class shares	98,663	98,663	98,663	98,663
39,241,250 Coal Importer class shares	41,205	41,205	41,205	41,205
	<u>139,868</u>	<u>139,868</u>	<u>139,868</u>	<u>139,868</u>

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.

NOTE 17 RESERVES

Fair value of equity instruments reserve

Opening balance	164	-	164	-
Fair value of equity instruments movement for the year	160	164	160	164
Reserves at the end of the financial year	<u>324</u>	<u>164</u>	<u>324</u>	<u>164</u>

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	290,582	200,315	290,582	200,012
Net profit attributable to members	144,085	107,576	144,085	107,879
Adjustment to opening retained earnings for fair value of equity instruments	-	12,591	-	12,591
Dividends provided for or paid (Note 19)	(30,400)	(29,900)	(30,400)	(29,900)
Retained earnings at the end of the financial year	<u>404,267</u>	<u>290,582</u>	<u>404,267</u>	<u>290,582</u>

Consolidated and Company

	2012		2011	
	Cents per share	31-Dec-12 \$'000	Cents per share	31-Dec-11 \$'000
NOTE 19 DIVIDENDS				
Recognised amounts				
Fully paid ordinary shares				
Final 2011 dividend and first interim 2012 dividend:				
Franked to 30% (Prior year: 30%)	11.46	15,200	11.24	14,900
Second interim 2012 dividend:				
Franked to 30% (Prior year: 30%)	11.46	15,200	11.31	15,000
	<u>22.92</u>	<u>30,400</u>	<u>22.55</u>	<u>29,900</u>
	Consolidated		Company	
	31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
Adjusted franking account balance	<u>93,087</u>	<u>73,908</u>	<u>93,087</u>	<u>73,908</u>

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 20 KEY MANAGEMENT PERSONNEL

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

	Consolidated		Company	
	31-Dec-12 \$'000	31-Dec-11 \$'000	31-Dec-12 \$'000	31-Dec-11 \$'000
Short-term employee benefits	2,559	2,159	2,559	2,159
Post-employment benefits	430	494	430	494
Other long-term benefits	-	3	-	3
Termination benefits	-	149	-	149
	<u>2,989</u>	<u>2,805</u>	<u>2,989</u>	<u>2,805</u>

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 \$1.5 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

Included in the balance of Trade and Other Receivables (Note 5) is \$4.3 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 \$0.5 million payable to Coal & Allied in respect of services provided to the parent company.

The parent entity paid \$2.6 million to Rio Tinto Technology and Innovation's Project Development and Implementation Group (a division of Technological Resources Pty Limited) for management support and service functions in the delivery of the Terminal 4 project and \$0.8 million for asset management reviews.

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

(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
R S Light	18 December 2012
W H Champion	31 January 2013
G Okamatsu	5 March 2013

Alternate Directors

G J Walker	18 December 2012
R S Light	19 December 2012
W H Champion	31 January 2013
S Ogake	6 February 2013

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 22 REMUNERATION OF AUDITORS

	Consolidated and Company	
	31-Dec-12 \$	31-Dec-11 \$
Remuneration of Auditors		
Amounts received or due and receivable by the auditors for:		
Auditing the financial report	77,500	74,000
Corporate Portfolio Management Office development services	1,277,250	-
Leadership and engagement services	102,056	-
Terminal 4 governance services	46,274	-
	<u>1,503,080</u>	<u>74,000</u>

The auditors received no benefits other than amounts shown.

NOTE 23 COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments

	31-Dec-12 \$'000	31-Dec-11 \$'000
Various contracts in respect of expansion projects and 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	<u>53,003</u>	<u>165,563</u>

Operating Lease Commitments

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

Due within 1 year	3,521	3,700
Due within 1-5 years	3,926	7,824
Due after 5 years	<u>1,616</u>	<u>1,730</u>
Total	<u>9,063</u>	<u>13,254</u>

	Completion Date	Renewal Option	Option Period
Operating Leases			
Land - Kooragang Conveyor Corridor and Berth Area	Dec 2032	Yes	10 Years
Land - Carrington Stockpile and Berth Area	Dec 2014	Yes	10 Years

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.

Due within 1 year	12,766	11,529
Due within 1-5 years	18,360	22,965
Due after 5 years	<u>8,869</u>	<u>13,751</u>
Total	<u>39,995</u>	<u>48,245</u>

Foreign Currency Commitments

The parent entity has no foreign currency commitments at year end (2011: \$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 company operates in one geographic and operating segment.

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 26 CONTROLLED ENTITY INFORMATION

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

NOTE 27 FINANCIAL 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 2012							
<i>Assets</i>							
Cash	2.8%	5,447	-	-	-	-	5,447
Debtors	-	-	-	-	-	25,898	25,898
Other receivables	-	-	-	-	-	215	215
Shares at fair value - other corporations	-	-	-	-	-	15,750	15,750
<i>Total financial assets</i>		5,447	-	-	-	41,863	47,310
<i>Liabilities</i>							
Trade and other payables	-	-	-	-	-	38,517	38,517
Secured bank loans	4.7%	1,107,915	-	-	-	-	1,107,915
<i>Total financial liabilities</i>		1,107,915	-	-	-	38,517	1,146,432
Net financial (liabilities)		(1,102,468)	-	-	-	3,346	(1,099,122)
31 December 2011							
<i>Assets</i>							
Cash	4.0%	6,560	-	-	-	-	6,560
Debtors	-	-	-	-	-	19,285	19,285
Receivables	-	-	-	-	-	244	244
Shares at cost - other corporations	-	-	-	-	-	15,591	15,591
<i>Total financial assets</i>		6,560	-	-	-	35,120	41,680
<i>Liabilities</i>							
Trade and other payables	-	-	-	-	-	43,548	43,548
Secured bank loans	5.5%	1,004,458	-	-	-	-	1,004,458
<i>Total financial liabilities</i>		1,004,458	-	-	-	43,548	1,048,006
Net financial (liabilities)		(997,898)	-	-	-	(8,428)	(1,006,326)

(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 company 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.

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 27 FINANCIAL INSTRUMENTS (Continued)

(iv) Capital risk management

The capital structure of the company consists of debt, which includes borrowings disclosed in note 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 provide treasury support to the business, co-ordinates access to financial markets and manages financial risks relating to the company. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cashflow interest rate risk.

The company seeks to minimise these risks by using a number of financial institutions, fixed interest rate periods and borrowings in Australian dollars only. The company 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 monthly to the Board on borrowings.

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

(vi) Foreign currency risk management

The company has entered certain supplier agreements denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within Board approved policies.

The carrying amount of the company's foreign currency denominated assets and liabilities at year end is:

	<i>Liabilities</i>		<i>Assets</i>	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
United States Dollar	-	440	-	440

(vii) Interest rate management

The company is exposed to interest rate risk as the company 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 company's net profit would decrease/increase \$7.8 million (2011: \$7.0 million) based on the level of borrowings at 31 December 2012, mainly due to the company'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 company's short, medium and long term funding requirements. The company 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.

2012	Weighted average interest	Less than 6 months \$'000	Greater than 6 months		Total \$'000
	rate %		and less than 1 year \$'000	1- 6 years \$'000	
Borrowings	4.7%	46,173	46,058	1,015,684	<u>1,107,915</u>
2011					
Borrowings	5.5%	51,374	340,084	613,000	<u>1,004,458</u>

Notes to the Financial Statements

for the financial year ended 31 December 2012

NOTE 28 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 29 ADDITIONAL COMPANY INFORMATION

PWCS 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 17 to 40:

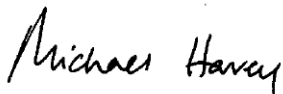
- (a) comply with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2012 and of their performance, as represented by the results 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 Company will be able to pay its debts as and when they become due and payable.

Dated this 26th day of March 2013.

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



M Harvey
Director



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

We have audited the accompanying financial report of Port Waratah Coal Services Limited, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 17 to 41.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

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

Auditor's Independence Declaration

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

Opinion

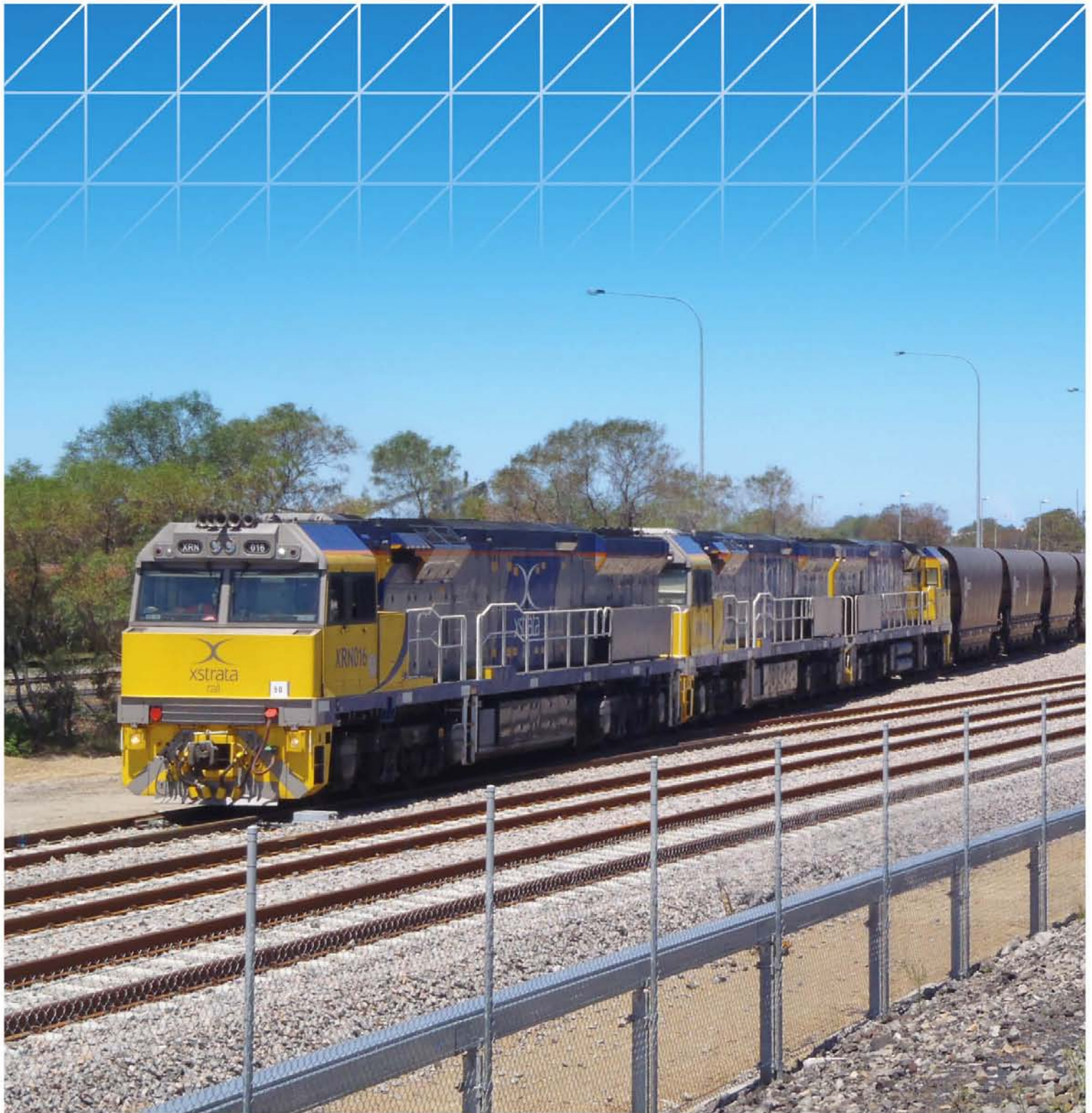
In our opinion:

- (a) the financial report of Port Waratah Coal Services Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company and consolidated entity's financial position as at 31 December 2012 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Jason Thorne
Partner
Chartered Accountants
Sydney, 26 March 2013



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