Annual Report 2019

PORT WARATAH
COAL SERVICES

Port Waratah Coal Services Limited

A.C.N. 001 363 828

Financial Report for the year ended 31 December 2019

Directors

B F Lewis (Chairperson)
M R P Dodd
Y Esaki
T Kusuhara
K R Moore
D J Moult
A E Pitt
M Suenaga
P A Wilkes

Chief Executive Officer

S H du Plooy

Company Secretaries

K J Gadd
S P Gelder
J A Oliver

Contents

Auditor

Deloitte Touche Tohmatsu
Chartered Accountants

This financial report covers the consolidated entity consisting of Port Waratah Coal Services Limited and the entity it controlled during 2019. Port Waratah Coal Services Limited ('Port Waratah', 'PWCS' or 'the company') is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

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

A description of the nature of the company's operations and its principal activities is included in the review of operations and principal activities in the Directors' Report commencing on page 6. Port Waratah's annual report is available on the company's website www.pwcs.com.au.

Chairperson's Report

2019 was a year of growth and improvement for Port Waratah.

Annual throughput of 110.6 million tonnes in 2019 represented a 3% increase on the previous year. The increase in throughput reflects relatively stable market conditions.

2019 throughput was loaded onto 1,226 vessels with major export destinations continuing to be Japan, South Korea, Taiwan and China. Growth from other South East Asian markets is supporting stable market conditions.

The health and safety of our employees and contractors remains paramount at Port Waratah. 2019 saw a decrease in the number of recorded injuries to four. Whilst this outcome is encouraging, safety performance improvement remains a key focus and the Board and Management remain committed to improving this overall performance. In 2020, the focus will be on implementing and embedding projects in the areas of fatality prevention, hazard identification and risk management, fitness for work, occupational hygiene, health and wellbeing and incident investigation. The embedding activities will aim at building on the demonstrated improvements in safety culture maturity while growing the familiarity of contractors with the programme and principles.

The license to operate portfolio of projects continue to manage and reduce risk, improve performance and capitalise on opportunities with a continued focus on air quality, noise, water and environmental footprint.

Port Waratah also have a project portfolio targeting improved effectiveness of our organisation to better deliver terminal service to our customers.

It is anticipated that overall demand for services will increase incrementally in 2020, but consistent with past experience, remain variable between months. Port Waratah's core operating strategy remains to operate and maintain our assets in a sustainable manner to ensure we are able to make available our full contracted capacity. Significant growth capacity remains available at our existing Terminals and we remain confident that existing infrastructure is well positioned to meet changes in future demand.

The coal handling charge remains unchanged at the near record low of $2.40 per tonne from 1 January 2020. In 2020 Port Waratah will continue to improve its Asset and Maintenance strategies, cascading to planning and delivery. Optimising Port Waratah's asset and maintenance strategies and prioritising plant works across the Terminals will continue.

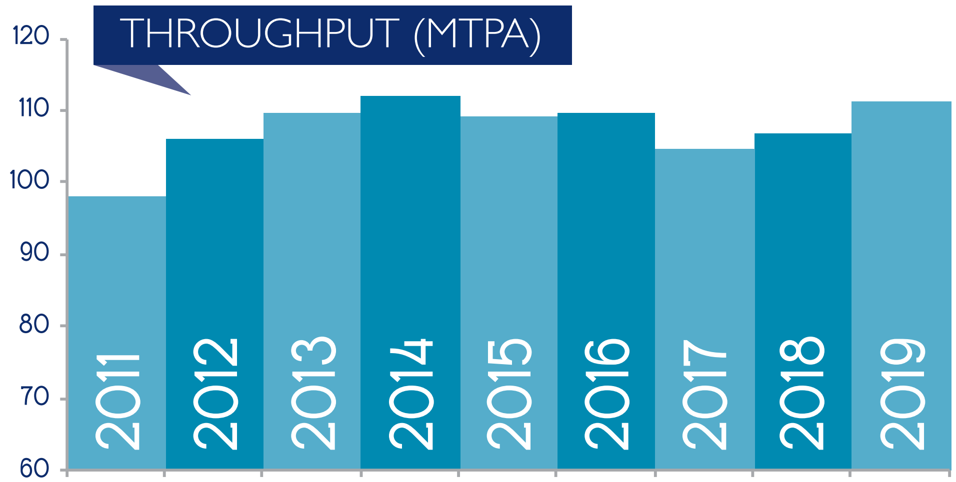
Port Waratah customer relationships remain strong, based on mutual understanding and trust. Port Waratah's program of active engagement with customers, potential customers and coal chain partners will continue to focus on key improvement areas identified in consultation with customers.

In 2020, Port Waratah will continue to focus on delivering strong results in the areas of health and safety, licence to operate, effective organization, operational delivery and coal chain performance.

On behalf of the Board I would again like to thank our Management, employees and contractors for their contributions to continued operational improvement and growth during the past year.

B Lewis

BRETT LEWIS
CHAIRPERSON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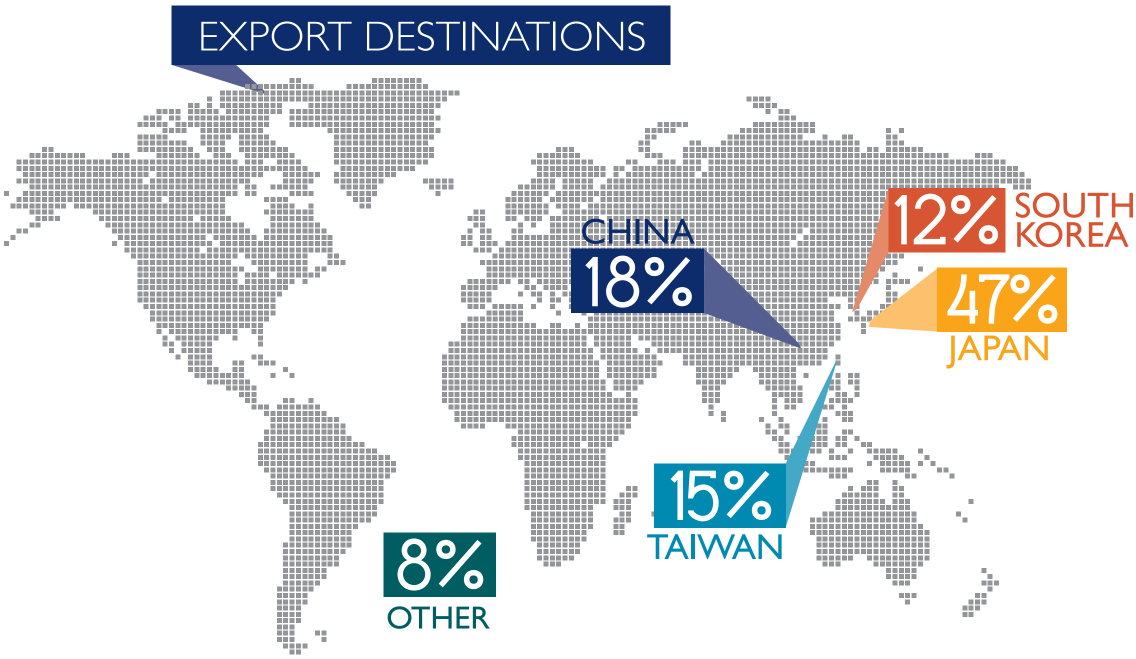
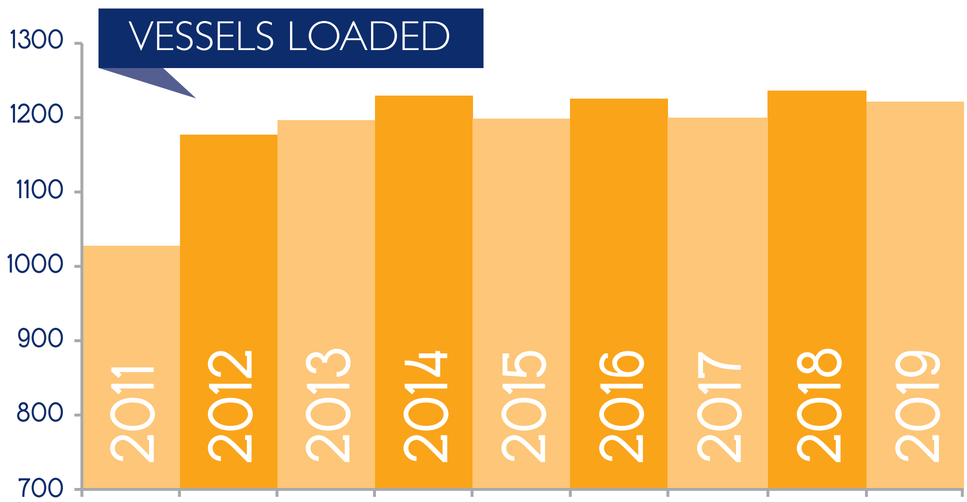

EXPORT DESTINATIONS
12% SOUTH KOREA
CHINA 18%
47% JAPAN
15% TAIWAN
8% OTHER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CEO’s Year in Review

This year has been another positive year for Port Waratah Coal Services in terms of our operational performance, our commitment to our employees and the community in which we operate. Both Port Waratah and overall coal chain volumes grew marginally in 2019 with Port Waratah finishing the year at 110.6 million tonnes, which is Port Waratah’s second highest year and a considerable increase upon the 107 million tonnes achieved in 2018.

Our performance in 2019

In October we were awarded the 2019 SafeWork NSW Excellence Award for our innovative Marine Survey Trolley. This followed the Highly Commended Port Waratah received at the National Safety Awards of Excellence for Best Solution of a WHS Risk (Medium to Large Business). The process to develop the Marine Survey Trolley is indicative of the ownership our people have over health and safety.

Port Waratah started 2019 with two recordable injuries. After achieving six months injury free, two recordable injuries occurred in the last quarter. The health and safety of our workforce is our top priority and we remain committed to our goal of zero injuries. We have focused on embedding the Work to Live safety culture programme through completion of leadership refresher sessions, as well as ongoing reinforcement of the principles. We also continued to embed a quality pre-task hazard assessment culture with the “right tool for the job” project which is designed to provide guidance on when to use a Take 5 or a JSEA. A new online induction and competency management system for contractors was implemented this year. This system ensures that contract workers provide evidence of the required competencies to perform their role and receive a quality induction prior to commencing work. We commenced a review of our critical control monitoring programme to ensure that we are checking the right controls, with the right level of detail and at the right frequency to prevent a fatality. In September we also launched the Live Better, Work Better wellbeing programme. The programme aims to assist employees with their physical, emotional, social, spiritual and intellectual wellbeing.

Port Waratah started the year with poor environmental performance. In July, the Environment Protection Authority (EPA) issued four final enforcement outcomes in relation to the four immediately reportable incidents that occurred between November 2018 and April 2019. In each case, the EPA noted that Port Waratah self-reported these matters, took prompt action to minimise environmental impacts and has since implemented additional measures to avoid any potential reoccurrence of a similar nature. Environmental performance improved in the second half of the year after implementing a Licence to Operate (LTO) improvement plan. We have achieved six months without a reportable environmental incident, finishing the year recording five reportable incidents. A highlight for 2019 was commissioning 13 Mega Litres (ML) of additional stormwater storage capacity at the Carrington Terminal, improving Operations’ ability to manage storm events, which has been an ongoing improvement focus for the Carrington Terminal.

Our commitment to community engagement continue with Pulse surveys undertaken in March and September as part of our collaboration with CSIRO’s Local Voices Community Attitudes Survey. Results from the Anchor and Pulse surveys show trust and acceptance of Port Waratah remains steady and strong. Storylines, a project reflecting on our Community Partnerships from 2016 to 2018, was launched in February 2019, whilst we continue to invest $750,000 per year in our local community and are very proud to continue to support a number of local charities and community organisations. Continuing to champion our contribution to the global sustainability agenda in our local context, we mapped our Community Investment and Partnership Programme against the UN’s Sustainable Development Goals demonstrating the positive indirect impact we make.

Our performance is a reflection of our people and our culture. We work in partnership with our people and invest in opportunities to build the potential of our team and improve our performance. Organisational and leadership changes have laid the necessary foundations to pursue a ‘One Team’ approach and develop a culture of shared responsibility through stronger collaboration between teams and improved communications. This included the introduction of a Senior Leadership Team, simplified leadership structure and emphasis on cross functional teams for key projects and improvement initiatives. During November and December Employee Development Days were attended by 91% of employees.

This year the agenda was focused on the continued development in team effectiveness to support the business's 'One Team' approach. High profile sports coach Wayne Pearce was a keynote speaker sharing his insights into high performing teams. Gender diversity improved across the business with an 8% increase in female representation and the recruitment of Port Waratah's second female apprentice. The organisation now has a gender equal Senior Leadership team with 50% female representation.

The implementation of employee engagement improvement initiatives from the 2017 survey continued across the key focus areas of change management, continuous improvement, internal communications and performance management. In late 2019, the biennial employee engagement survey was completed. The communication and associated action planning will occur in 2020.

Throughout 2019 we maintained high operational performance, in particular very low vessel turnaround time, above target rates and high reliability. Throughput fell short of budgeted and contracted volumes, however it exceeded the previous year's throughput due to higher Customer demand.

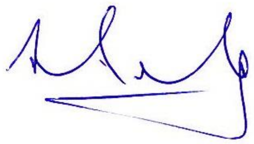
Operating and lease costs were $172.8 million against budget of $178.8 million. Lower than budget performance was primarily attributable to lower people costs due to a combination of vacant roles and timings of leave plus lower asset maintenance costs due to deferral of projects. During the year Port Waratah successfully refinanced $120.8 million in the Australian debt market.

Ongoing review of preventative maintenance work in 2019 delivered a reduction in down time hours required for yard machine maintenance. Key major projects were implemented to repair corroded or damaged structural steelwork including at Rail Receival 3, Surge Bin 6, Stackers 1 and 2 and across a number of gantries at Carrington Terminal as well as Shiploader 7.08 and Reclaimer 4.11 at Kooragang Terminal.

In June 2019, Kooragang's 4.12 Reclaimer suffered a failure to one of the bucketwheel shaft bearings. New bearings were fitted to the bucketwheel shaft over the 12-week outage. During inspections of the other three Kooragang Reclaimers for like faults, it was found one of the 4.59 Reclaimer bucketwheel shaft bearings was displaying early signs of wear. A decision was made to replace these bearings in a coordinated four-week outage that commenced in September. It is pleasing to note that during these two activities no safety incidents occurred.

This year we have reshaped our maintenance planning function with a key focus on long, medium and short term planning horizons.

One of our key metrics is vessel turnaround time. Fast vessel turnaround minimises demurrage costs for our Customers. The reduction of vessel turnaround time to a historic low average of 2.6 days per vessel is a proud achievement for us, setting a new industry benchmark. This is a remarkable decrease of 44% (from 4.6 days) over three years. We engage closely with our Customers via a variety of initiatives to ensure the Port Waratah team continues to deliver to our Customers' expectations. We have sought feedback on Port Waratah's Services Portal, resulting in ongoing enhancement, ensuring Customers can undertake timely transactions and achieve refined reporting outcomes. Our Customer focused 24/7 Live Run and Customer Relations teams continue to excel in Customer support with regular positive and constructive feedback provided during the formal quarterly Customer discussions, demonstrating strong relationships and trust.



HENNIE DU PLOOY
CHIEF EXECUTIVE OFFICER

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 26.

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

M R P Dodd
Master of Engineering
Master of Business Administration
Chartered Engineer, Institute of Mechanical Engineers
Graduate, Australian Institute of Company Directors
Director, Hunter Valley Coal Chain Coordinator Limited
Director, HVO Coal Sales Pty Ltd
Director, Newcastle Coal Infrastructure Group Pty Ltd
Director, Wiggins Island Coal Export Terminal Pty Limited
Director, WICET Holdings Pty Ltd
Director, WICET Services Pty. Ltd.
Director, PWCS since March 2020

Y Esaki
Bachelor of Economics
Director, Japan Coal Development Co., Ltd
Director, PWCS since November 2017

T Kusuhara
Master of Chemical Engineering
Group Leader, Manager, Toyota Tsusho Corporation
Director, Tomen Panama Asset Management S.A.
Director, PWCS since April 2019

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

D J Moult
Bachelor of Mining Engineering
Master of Business Administration
Chief Executive Officer, Yancoal Australia Ltd and related Companies
Director, PWCS since March 2020

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

M Suenaga
Bachelor of Law
Managing Director, Nippon Steel Australia Pty. Limited
Managing Director, Nippon Steel Raw Materials Australia Pty Ltd
Director, Nippon Steel Newcastle Pty Ltd
Director, PWCS since May 2019

P A Wilkes
Bachelor of Business (Accounting)
Director of Finance, Glencore Coal Assets Australia Pty Limited
Director, Bulga Coal Pty Limited and related Companies
Director, Cumnock Coal Pty Limited and related Companies
Director, Glencore Coal Assets Australia Pty Limited and related Companies
Director, Glencore Newpac Pty Limited
Director, Liddell Collieries Pty. Limited and related Companies
Director, Narama Investments Pty Limited
Director, Newcastle Coal Shippers Pty Limited
Director, Oakbridge Pty Limited and related Companies
Director, PWCS since July 2013

Alternate Directors

D W H Chin (for D J Moult and M R P Dodd)
Bachelor of Commerce (Accounting and Finance)
Master of Business Administration
Graduate, Australian Institute of Company Directors
General Manager, Business Development, Yancoal Australia
Director, HVO Coal Sales Pty Ltd

T Kobayashi (for M Suenaga)
Bachelor of Political Science
Managing Director, JFE Steel Australia Resources Pty Ltd

M K J R Lawson (for P A Wilkes)
Bachelor of Commerce (Accounting)
Member, Australian Institute of Company Directors
Fellow, Chartered Accountants Australia & New Zealand
Fellow, AusIMM – The Minerals Institute
Financial Controller, Glencore Coal Assets Australia Pty Limited
Director, Bulga Coal Management Pty Limited and related Companies
Director, Oakbridge Pty Limited and related Companies
Director, The Wallerawang Collieries Pty Limited and related Companies
Director, Liddell Collieries Operations Pty. Limited and related Companies
Director, Oceanic Coal Australia Pty Limited and related Companies

T Matsuda (for Y Esaki)
Bachelor of Political Science
Managing Director, J.C.D. Australia Pty. Ltd.
Director, Blair Athol Coal Pty. Ltd.
Director, Clermont Coal Mines Limited

T Miyazaki (for M Suenaga)
Bachelor of Law
Director, Nippon Steel Australia Pty. Limited
Director, Nippon Steel Raw Materials Australia Pty Ltd
Director, Nippon Steel Newcastle Pty Ltd

K Nagai (for Y Esaki)
Bachelor of Commerce
Director, J.C.D. Australia Pty Limited
Director, Blair Athol Coal Pty. Ltd.
Director, Clermont Coal Mines Limited

T Okubo (for T Kusuhara)
Bachelor of Economics
General Manager, Mineral & Metal Resources and Energy Division, Mitsui & Co. (Australia) Ltd
Director, Mitsui Coal Holdings Pty Ltd
Director, Mitsui Iron Ore Corporation Pty Ltd
Director, Mitsui Co. Iron Ore Exploration & Mining Pty Ltd
Director, Mitsui-Itochu Iron Pty Ltd
Alternate Director, BHP Billiton Mitsui Coal Pty Ltd

Y Okumura (for Y Esaki)
Bachelor of Commerce (Accounting)
Manager, Japan Coal Development Co., Ltd

J E Richards (for B F Lewis)
Bachelor of Rural Science, Honours I
Chairman, The Bloomfield Group

S Suzuki (for T Kusuhara)
Bachelor of Mechanical Engineering
Project Manager, Energy Trade Department, Toyota Tsusho Corporation
Director, Tomen Panama Asset Management S.A.

T Waki (for Y Esaki)
Bachelor of Law
Assistant Manager, Japan Coal Development Co., Ltd

Directors' Meetings

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

Board of Directors	5
HSE Committee	4
Audit & Risk Committee	4

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

	Meetings held whilst in office	Meetings attended
Board of Directors		
Directors		
B F Lewis	5	5
M R P Dodd	-	-
Y Esaki	5	-
T Kusuhara	4	4
K R Moore	5	4
D J Moult	-	-
H Okamoto	1	-
A E Pitt	5	4
R H Schmidt	5	2
M Suenaga	4	3
P A Wilkes	5	5
P A Winn	5	5
C T Woodward	5	4
N Yamauchi	1	1
Alternate Directors		
D W H Chin	-	-
M R P Dodd	5	4
Y Hirose	2	-
A Iwaba	2	2
T Kobayashi	4	-
T Kusuhara	1	-
M K J R Lawson	5	1
T Matsuda	3	3
R H McCullough	1	-
T Miyazaki	5	1
L W Muir	1	-
K Nagai	5	-
T Okubo	3	-
Y Okumura	5	-
J E Richards	5	-
M Suenaga	1	-
S Suzuki	5	1
T Waki	3	-

	Meetings held whilst in office	Meetings attended
Health, Safety and Environment Committee		
P A Winn	4	4
T Hooper	4	3
B F Lewis	4	4
Audit & Risk Committee		
P A Wilkes	4	4
A E Pitt	4	2
N St George	4	4
P A Winn	4	4
C Woodward	4	3

Company Secretary

The company secretaries are:

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

Mr S P Gelder. Mr Gelder was appointed to the position of Company Secretary in November 2019. Mr Gelder is a member of CPA Australia.

Ms K J Gadd. Ms Gadd was appointed to the position of Company Secretary in November 2019. Ms Gadd is a member of Chartered Accountants Australia and New Zealand.

Principal Activities

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

Trading Results

The net profit of the consolidated entity for the financial year was $20.5 million after an income tax expense of $8.5 million.

Dividends

Total dividends paid during the financial year were as follows:

Importer & Exporter Class Shares Final 2018 dividend and First Interim 2019 dividend paid 20 March 2019. Fully Franked	$17,300,000
Importer & Exporter Class Shares Second Interim 2019 dividend paid 25 September 2019. Fully Franked	$17,300,000
	$34,600,000

Review of Operations

During the financial year the company handled 110.6 million tonnes of coal through its Carrington and Kooragang Terminals (2018, 107.0 million tonnes), representing increased tonnage of 3% on the previous year. The above mentioned tonnage was loaded aboard 1,226 vessels (2018, 1,229 vessels).

Steaming coal exports increased by 3.5% with shipments for the year totaling 97.8 million tonnes (2018, 94.5 million tonnes). Coking coal exports increased by 2% with shipments for the year totalling 12.8 million tonnes (2018, 12.5 million tonnes).

The charge for coal handling services was maintained at $2.40 per tonne during the year.

At the end of the financial year there were 320 people (31 December 2018, 321 people) employed by the company.

Subsequent Events

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

Changes in State of Affairs

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

Future Developments and Results

In 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 19 March 2019 (being the date of the previous year's Directors' Report) and the date of this report.

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

Environmental Regulation

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

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

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

A total of two immediately reportable incidents were recorded at Port Waratah during 2019. The first incident in February 2019 occurred at the Kooragang Terminal wharf maintenance bay where process water containing coal fines entered the harbour via a service pit following clean-up activities. The service pit was subsequently changed to a water tight sealed services pit.

In April 2019, a grease distribution block located on 7.10 Shiploader at the Kooragang Terminal developed a pin hole leak that resulted in an estimated 23kg of grease being released from the system into the harbour over an 11-hour period. A complete review of the hydrocarbon management system on the shiploaders was conducted following the review, with changes currently being implemented to minimise the risk of a similar incident.

Port Waratah received a warning from the EPA in relation to the February incident and an official caution in relation to the April incident. Additionally, Port Waratah received two Penalty Infringement Notices from the EPA in relation to two incidents that occurred in late 2018 in relation to coal material entering the harbour.

The company complied with all environmental legislative requirements and operations were conducted in accordance with licence and consent conditions.

All external reporting requirements associated with consents, licences and relevant legislation were completed.

Indemnities and Insurance

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

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

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

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

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

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

Directors' Benefits

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

Proceedings on behalf of the Company

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

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

Auditor's Independence Declaration

The Auditor's Independence Declaration is included on page 52 of the annual report.

Rounding of Amounts

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

Dated at Newcastle this 17th day of March 2020.

Signed in accordance with a resolution of the Directors.

B Lewis

BRETT LEWIS
DIRECTOR

Statement of Profit or Loss and Other Comprehensive Income

for the financial year ended 31 December 2019

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Revenue	4	337,850	358,676
Other income	4	2,906	3,103
Total Revenue		340,756	361,779
Employee benefit expenses		(59,424)	(59,378)
Depreciation and amortisation expenses	4	(116,993)	(106,936)
Finance costs	4	(29,998)	(33,432)
Materials and services expenses		(90,843)	(92,132)
Other expenses		(14,423)	(23,110)
Profit before income tax expense		29,075	46,791
Income tax expense	5	(8,529)	(13,588)
Profit for the year	22	20,546	33,203
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
Net fair value loss on fair value equity instruments	21	(83)	(54)
Total comprehensive income for the year		20,463	33,149

Notes to the financial statements are included on pages 15 to 47.

Statement of Financial Position

for the financial year ended 31 December 2019

	Note	Consolidated 2019 $'000	2018 $'000
CURRENT ASSETS			
Cash and cash equivalents	6	72,367	51,188
Trade and other receivables	7	13,150	11,907
Contract assets	8	16,406	26,336
Inventories	9	8,894	8,384
Tax receivable	5	-	2,148
Other assets	10	5,165	5,819
TOTAL CURRENT ASSETS		115,982	105,782
NON-CURRENT ASSETS			
Investments	11	16,545	16,629
Property, plant and equipment	12	1,213,238	1,306,466
Right of use assets	13	22,802	-
Investment property	14	18,624	18,624
Other assets	15	3,981	4,194
TOTAL NON-CURRENT ASSETS		1,275,190	1,345,913
TOTAL ASSETS		1,391,172	1,451,695
CURRENT LIABILITIES			
Trade and other payables	16	14,029	14,320
Borrowings	17	234,300	188,800
Lease liabilities	18	4,875	-
Tax payable	5	6,157	-
Provisions	19	28,732	30,164
TOTAL CURRENT LIABILITIES		288,093	233,284
NON-CURRENT LIABILITIES			
Borrowings	17	466,145	580,310
Lease liabilities	18	18,288	-
Deferred tax liabilities	5	70,589	78,047
Provisions	19	66,896	64,756
TOTAL NON-CURRENT LIABILITIES		621,918	723,113
TOTAL LIABILITIES		910,011	956,397
NET ASSETS		481,161	495,298
EQUITY			
Issued capital	20	139,868	139,868
Reserves	21	1,119	1,202
Retained earnings	22	340,174	354,228
TOTAL EQUITY		481,161	495,298

Notes to the financial statements are included on pages 15 to 47.

Statement of Changes in Equity

for the financial year ended 31 December 2019

Consolidated

	Note	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 December 2018	20, 21, 22	139,868	1,202	354,228	495,298
Profit for the year	22	-	-	20,546	20,546
Other comprehensive income for the year	21	-	(83)	-	(83)
Dividends declared	24	-	-	(34,600)	(34,600)
Balance at 31 December 2019	20, 21, 22	139,868	1,119	340,174	481,161

Consolidated

	Note	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 31 December 2017	20, 21, 22	139,868	1,256	355,225	496,349
Profit for the year	22	-	-	33,203	33,203
Other comprehensive income for the year	21	-	(54)	-	(54)
Dividends declared	24	-	-	(34,200)	(34,200)
Balance at 31 December 2018	20, 21, 22	139,868	1,202	354,228	495,298

Notes to the financial statements are included on pages 15 to 47.

Statement of Cash Flows

for the financial year ended 31 December 2019

	Note	Consolidated 2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		380,500	379,120
Payments to suppliers and employees		(201,844)	(221,496)
Cash generated from operations		178,656	157,624
Dividends received	4	1,146	1,133
Interest received		1,560	1,460
Interest paid		(23,632)	(27,091)
Income tax paid		(7,683)	(8,392)
NET CASH FLOWS FROM OPERATING ACTIVITIES	23	150,047	124,734
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(17,396)	(20,315)
Proceeds from sale of property, plant and equipment		143	35
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(17,253)	(20,280)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans	23	120,800	232,000
Repayment of bank loans	23	(189,613)	(297,843)
Repayment of lease liabilities	23	(8,202)	-
Dividends paid	24	(34,600)	(34,200)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(111,615)	(100,043)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		21,179	4,411
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		51,188	46,777
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	23	72,367	51,188

Notes to the financial statements are included on pages 15 to 47.

Notes to the Financial Statements

for the financial year ended 31 December 2019

NOTE 1 BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated entity is a for-profit entity for the purpose of preparing the financial statements.

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

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The consolidated entity is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

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

Going Concern
As at 31 December 2019, the consolidated entity is in a net current liability position of $172.1 million. Bank loans of $234.3 Million are reported as current. The bank loans comprise loans of $166.3 million maturing in September and December 2020 and scheduled loan repayments of $68 million. It is management's intention to refinance the maturing loans in 2020.

Given the consolidated entity's cash balance of $72.4 million, its strong and consistent cash flows from operations and history of successfully refinancing debt in prior years, management are confident that the refinancing of the debt will be completed prior to maturity and that the consolidated entity will be able to pay its liabilities in the next 12 months as and when they fall due.

Approval of financial Statements
The financial statements were authorised for issue by the Directors on 17 March 2020.

NOTE 2 CRITICAL JUDGEMENTS AND KEY SOUCES OF UNCERTAINCY

In applying the consolidated entity's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the critical judgements that the Directors have made in the process of applying the consolidated entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Significant Estimate - Provision for restoration and rehabilitation and discount rates applied
The consolidated entity has a requirement to remediate land owned and leased which a liability has been recorded to represent the discounted value of the cost to remediate the land. The consolidated entity uses external experts to assist in the estimation of the restoration and rehabilitation costs which includes an additional contingency as is common with such estimates. The entity also estimates the expected rehabilitation dates based on current lease expiry options and internal management plans. The consolidated entity applies discount rates to the estimates based on current market assessments of the time value of money and the risks specific to the provision for restoration and rehabilitation liability.

NOTE 3 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being Port Waratah Coal Services Limited (the parent entity) and its subsidiary as defined in Accounting Standard AASB 10 'Consolidated Financial Statements'. Details of Port Waratah's subsidiary appears in Note 31 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated entity is defined as the consolidation of the parent entity and its subsidiary.

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

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

NOTE 4 PROFIT FROM OPERATIONS

	Consolidated	
	2019	2018
	$'000	$'000
(a) Revenue		
Revenue from continuing operations consisted of the following items:		
Coal handling services	265,549	257,179
Ship or Pay revenue	70,027	98,887
Other coal handing revenue	2,274	2,610
	337,850	358,676
(b) Other Income		
Dividends received	1,146	1,133
Interest received	1,598	1,514
Sundry income	162	456
	2,906	3,103
Total Revenue and Other Income	340,756	361,779

	Consolidated	
	2019 $'000	2018 $'000
NOTE 4 PROFIT FROM OPERATIONS (CONTINUED)		
(c) Timing of Revenue Recognition		
At a point in time	268,025	260,244
Over time	72,731	101,535
	340,756	361,779

Accounting Policy

Revenue Recognition

Coal handling services
Coal handling services includes the receiving, blending, stockpiling and loading of coal onto vessels. Services are billed at the end of the month for all completed loading onto vessels. Revenue is accrued as contract assets upon the stockpiling of coal (50% of coal handling charge) and for partial loading on vessels (50% of coal handling charge) at the end of the financial year.

Ship or Pay revenue
Port Waratah holds 10 year rolling contracts for the provision of coal handling services with customers under Long Term Ship or Pay Agreements.

Under these Long Term Ship or Pay Agreements, ship or pay charges are due in the event that nominated and allocated capacity is unused. Ship or pay revenue is accrued as a contract asset at the end of the period to which it relates.

Other coal handling revenue
Revenue from remnant charges and other coal handling related services are recognised when the services are provided.

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

Other revenue includes activities outside of the operating activities and proceeds from the disposal of property, plant and equipment.

	Note	Consolidated 2019 $'000	2018 $'000

NOTE 4 PROFIT FROM OPERATIONS (CONTINUED)

(d) Profit before income tax

Profit before income tax has been arrived at after charging the following expenses.

	Note	2019 $'000	2018 $'000
Aggregate depreciation allocated, whether recognised as an expense or capitalised as part of the carrying amount of other assets:			
Buildings	12	599	595
Plant and Equipment	12	108,821	106,341
Right of Use Assets (Land leases)	13	7,573	-
		116,993	106,936
Finance costs:			
Interest and finance charges		23,023	27,546
Amortisation of capitalised borrowing costs		1,022	924
Interest unwinding on lease liabilities		991	-
Interest unwinding on rehabilitation provision		4,962	4,962
		29,998	33,432
Defined contribution superannuation expense		5,608	5,709
Rental expense relating to operating leases and access agreements		-	9,486

Accounting Policy

Operating Leases & Access Agreements

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right of use asset and a corresponding lease liability at the date at which the leased asset is available for use by the consolidated entity.

Refer Note 13 Right of Use Assets and Note 34 Other Accounting Policies for further information on the impact to the consolidated entity.

	Consolidated 2019 $'000	Consolidated 2018 $'000
NOTE 5 INCOME TAX		
(a) Income tax recognised in profit or loss		
Tax expense comprises:		
Current tax expense / (benefit)	15,987	(150)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	(7,458)	13,738
Total tax expense	8,529	13,588
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	29,075	46,791
Income tax expense calculated at 30%	8,722	14,036
Add / (less): Non-deductible expenses	204	187
Add / (less): Franking credits	(491)	(486)
Add / (less): Adjustments recognised in the current year in relation to current tax of prior years	94	(149)
	8,529	13,588
(b) Current tax receivable / (payable)		
Income tax receivable / (payable) attributable to:		
Parent entity and entities in the tax consolidated group	(6,157)	2,148
(c) Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	36,586	32,646
Setoff to deferred tax liabilities	(36,586)	(32,646)
	-	-
Deferred tax liabilities comprise:		
Temporary differences	(107,175)	(110,693)
Setoff from deferred tax assets	36,586	32,646
	(70,589)	(78,047)

NOTE 5 INCOME TAX (CONTINUED)

	Consolidated				
	Balance at 1 Jan 2018 $'000	Charged to income $'000	Balance at 31 Dec 2018 $'000	Charged to income $'000	Balance at 31 Dec 2019 $'000
Gross deferred tax liabilities:					
Inventories	(2,039)	(476)	(2,515)	(153)	(2,668)
Work in progress	(481)	(156)	(637)	(40)	(677)
Trade and other receivables	(2,481)	(4,783)	(7,264)	2,942	(4,321)
Property, plant and equipment	(105,147)	6,733	(98,414)	7,364	(91,050)
Right of use assets	-	-	-	(6,840)	(6,840)
Other assets	(1,423)	(78)	(1,502)	(116)	(1,618)
Research and development tax incentive	(440)	79	(361)	361	-
	(112,010)	1,318	(110,693)	3,518	(107,175)
Gross deferred tax assets:					
Employee benefits	8,742	(145)	8,597	19	8,616
Other accruals	946	(300)	646	237	883
Lease liabilities	-	-	-	6,949	6,949
Income tax loss	19,404	(15,922)	3,482	(3,482)	-
Provision for restoration and rehabiliation	18,608	1,313	19,921	217	20,138
	47,701	(15,054)	32,646	3,940	36,586
	(64,309)	(13,738)	(78,047)	7,458	(70,589)

Relevance of tax consolidation to the consolidated entity

The parent entity and its wholly-owned Australian resident subsidiary have formed a tax-consolidated group effective 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 31.

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.

NOTE 5 INCOME TAX (CONTINUED)

Accounting Policy

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.

The consolidated entity recognises both a deferred tax asset and a deferred tax liability on the initial recognition of a lease.

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.

NOTE 5 INCOME TAX (CONTINUED)

Accounting Policy

Income Tax (Continued)

Current and deferred tax for the period

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

Tax consolidation

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the parent entity (as head entity in the tax-consolidated group).

NOTE 6 CASH AND CASH EQUIVALENTS

	Consolidated	
	2019 $'000	2018 $'000
Cash on hand and short term deposits	72,367	51,188

Accounting Policy

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.

	Consolidated 2019 $'000	Consolidated 2018 $'000
NOTE 7 TRADE AND OTHER RECEIVABLES		
Trade debtors and accrued income	12,996	11,340
Other debtors	154	567
	13,150	11,907

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

Accounting Policy

Trade and other receivables

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

NOTE 8 CONTRACT ASSETS

	2019 $'000	2018 $'000
Contract assets related to Ship or Pay Agreements	16,406	26,336

Refer Note 4 Profit from Operations for Accounting Policies for Ship or Pay Agreements.

NOTE 9 INVENTORIES

	2019 $'000	2018 $'000
Maintenance stores and supplies	8,894	8,384

Accounting Policy

Inventories

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

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

	Consolidated	
	2019 $'000	**2018 $'000**
NOTE 10 OTHER ASSETS		
Prepayments	5,165	5,819
NOTE 11 INVESTMENTS		
Equity investments at fair value through other comprehensive income:		
Shares in Newcastle Coal Shippers Pty Limited (NCS)	16,545	16,629

Shares at fair value represent investment in:

At 31 December 2019 the parent entity held 2,835,000 (2018: 2,835,000) ordinary shares in NCS which represented 8.964% (2018: 8.964%) of the issued capital of NCS.

NCS is a company which is not quoted on a stock exchange. The principal activity of NCS during the year was to consolidate the interest of NSW Coal Miners in Port Waratah Coal Services Limited.

For the year ended 31 December 2019 NCS contributed an amount of $1.1 million in dividends (2018: $1.1 million) to the pre tax profit of the parent entity and the consolidated entity.

Accounting Policy

Shares at fair value through other comprehensive income

The parent entity has an investment in an unlisted entity whose shares are not traded in an active market. This investment has been classified as fair value through other comprehensive income as the shares are not held for trading. 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% (2018: 3%) and a discount factor of 8% (2018: 8%) are used.

A change of +/-1% in the discount rate applied for the share at fair value through other comprehensive income would result in a difference in value of ($1.3 million) / $1.2 million.

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 through other comprehensive income are recognised in profit or loss when the parent entity's right to receive dividends is established.

NOTE 12 PROPERTY, PLANT AND EQUIPMENT

Consolidated	Land $'000	Buildings $'000	Plant and Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2018	39,650	20,170	2,864,471	2,924,290
Additions	-	-	8,276	8,276
Under construction at cost	-	-	12,044	12,044
Disposals	-	-	(292)	(292)
Transfers to investment property	(18,624)	-	-	(18,624)
Balance at 31 December 2018	21,026	20,170	2,884,499	2,925,695
Additions	-	61	31,294	31,355
Under construction at cost	-	-	(13,960)	(13,960)
Disposals	-	-	(2,869)	(2,869)
Balance at 31 December 2019	21,026	20,231	2,898,965	2,940,222
Accumulated depreciation				
Balance at 1 January 2018	-	15,518	1,497,025	1,512,542
Disposals	-	-	(249)	(249)
Depreciation expense	-	595	106,341	106,936
Balance at 31 December 2018	-	16,113	1,603,116	1,619,229
Disposals	-	-	(1,665)	(1,665)
Depreciation expense	-	599	108,821	109,420
Balance at 31 December 2019	-	16,712	1,710,272	1,726,984
Net book value				
As at 31 December 2018	21,026	4,057	1,281,383	1,306,466
As at 31 December 2019	21,026	3,519	1,188,693	1,213,238

NOTE 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Accounting Policy

Property, Plant and Equipment

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

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

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

Buildings	10 – 25 years
Leasehold improvements	5 – 25 years
Plant and equipment	3 – 25 years

Property, plant and equipment lives are limited to lower of 25 years (reflecting commercial obsolescence) or the life of land lease for the terminal the asset is located.

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.

	Consolidated	
	2019 $'000	2018 $'000
NOTE 13 RIGHT OF USE ASSETS		
Gross carrying amount	27,137	-
Accumulated depreciation	(4,335)	-
	22,802	-
Gross carrying amount		
Balance at 1 January	-	-
Initial recognition under AASB 16	29,778	-
Additions	597	-
Disposals	(3,238)	-
Closing balance at 31 December	27,137	-
Accumulated depreciation		
Balance at 1 January	-	-
Disposals	(3,238)	-
Depreciation expense	7,573	-
Closing balance at 31 December	4,335	-

Accounting Policy

Right of Use Assets

All right of use assets held by the consolidated entity related to the leases for land. The consolidated entity recognises a right of use asset at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any dismantling costs not previously recognised, plus any initial direct costs incurred.

Right of use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life (using the same basis as those of property, plant and equipment) or the end of the lease term. Right of use lives vary from 6 years to 23 years.

Extension and termination options are included in a number of property leases across the consolidated entity. These are used to maximise operational flexibility in terms of managing the assets used in the consolidated entity's operations. All extension and termination options held are exercisable only by the consolidated entity and not by the respective lessor.

	Consolidated	
	2019 $'000	2018 $'000

NOTE 14 INVESTMENT PROPERTY

	2019 $'000	2018 $'000
Opening balance at 1 January	18,624	-
Transfers from property, plant and equipment	-	18,624
Closing balance at 31 December	18,624	18,624

No investment property is currently leased nor are there any future contractual obligations.

Accounting Policy

Investment Property

Investment property is measured at cost and relates to biodiversity offset land held.

NOTE 15 OTHER ASSETS

	2019 $'000	2018 $'000
Capitalised borrowing costs	5,332	5,332
Accumulated amortisation	(1,351)	(1,138)
	3,981	4,194

Accounting Policy

Capitalised 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.

	Consolidated	
	2019 $'000	2018 $'000

NOTE 16 TRADE AND OTHER PAYABLES

Trade payables	5,140	4,504
Accruals	8,889	9,816
	14,029	14,320

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

Accounting Policy

Current Trade and Other Payables

Trade payables and accruals

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

NOTE 17 BORROWINGS

CURRENT		
Bank loans	234,300	188,800
NON-CURRENT		
Bank loans	469,766	584,079
Deferred transaction costs	(5,974)	(10,250)
Accumulated amortisation	2,353	6,481
	(3,621)	(3,769)
Total Non-Current Borrowings	466,145	580,310
Bank loans - Current	234,300	188,800
Bank loans - Non-Current	469,766	584,079
Total Bank loans	704,066	772,879

Current bank loans will be refinanced during 2020. Management considers these bank loans will be refinanced on market competitive terms and conditions. Bank loans are fully secured by a first ranking fixed and floating charge over all the assets and undertakings of the parent entity. All loans are denominated in Australian dollars.

The Bank loans mature in September 2020, December 2020, September 2021, September 2022, December 2023, September 2025 and December 2026 and bear a weighted average floating rate of interest as set out in Note 33.

NOTE 17 BORROWINGS (CONTINUED)

Accounting Policy

Borrowings

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

Subsequent to initial recognition, bank loans 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 bank loan using the effective interest rate method.

	Consolidated	
	2019 $'000	2018 $'000
NOTE 18 LEASE LIABILITES		
Lease liabilities - Current	4,875	-
Lease liabilities - Non-Current	18,288	-
	23,163	-

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

Refer Note 34 for details on the adoption of AASB 16 Leases. Lease liabilities relate to right of use assets for land rental. Completion Date does not include the exercising of options.

NOTE 18 LEASE LIABILITIES (CONTINUED)

	Consolidated	
	2019 $'000	2018 $'000
Land rental leases in which the consolidated entity is the lessee have both fixed payment leases and variable payment leases. The breakdown of lease payments is as follows:		
Fixed payments	100	-
Variable payments	8,102	-
Total payments	8,202	-

The consolidated entity expects the ratio of variable to fixed payments to remain consistent in future years.

Accounting Policy

Lease Liabilities

The consolidated entity assesses whether a contract is or contains a lease, at inception of the contract. AASB 16 Leases determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The consolidated entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- Variable lease payments change based on consumer price index movements and periodic market rental rate assessments.

No leases have a guaranteed residual value at the completion of the lease term.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest.

In determining the lease term, management considers all facts and circumstances in deciding whether to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

	Consolidated	
	2019 $'000	2018 $'000
NOTE 19 PROVISIONS		
CURRENT		
Employee benefits	27,705	27,314
Provision for restoration and rehabilitation	1,027	2,850
	28,732	30,164
NON-CURRENT		
Employee benefits	798	1,204
Provision for restoration and rehabilitation	66,098	63,552
	66,896	64,756
Employee benefits		
Balance at beginning of the year	28,518	28,923
Additional employee provisions recognised	6,021	7,559
Reductions arising from payments of employee provisions	(6,036)	(7,964)
Balance at end of the year	28,503	28,518
Employee benefits - Current	27,705	27,314
Employee benefits - Non-Current	798	1,204
Total Employee benefits	28,503	28,518
Provision for restoration and rehabilitation		
Balance at beginning of the year	66,402	62,026
Unwinding of discount	4,962	4,962
Provision movement for the year	(4,239)	(586)
Balance at end of the year	67,125	66,402
Provision for restoration and rehabilitation - Current	1,027	2,850
Provision for restoration and rehabilitation - Non-Current	66,098	63,552
Total Provision for restoration and rehabilitation	67,125	66,402

NOTE 19 PROVISIONS (CONTINUED)

Accounting Policy

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.

Provisions

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

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

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

NOTE 19 PROVISIONS (CONTINUED)

Accounting Policy

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% (2018: 3%) and a discount rate of 8% (2018: 8%). The discount rates applied to the future cash flow forecasts represent an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the restoration and rehabilitation provision for which the future cash flow estimates have not been adjusted.

The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the restoration and rehabilitation liability. Future restoration and rehabilitation estimates are reviewed periodically and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

A change of +/-1% in the discount rate applied for the provision for restoration and rehabilitation would result in a difference in the value of the liability of ($7.6 million) / $9.2 million and result in change in unwinding costs of $0.2 million / ($0.1 million).

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.

NOTE 20 ISSUED CAPITAL

	Consolidated	
	2019 $'000	2018 $'000
93,376,250 Coal Exporter class shares	98,663	98,663
39,241,250 Coal Importer class shares	41,205	41,205
	139,868	139,868

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

Each class of share has equal voting and dividend rights.

	Consolidated	
	2019 $'000	2018 $'000

NOTE 21 RESERVES

	2019 $'000	2018 $'000
Fair value of equity instruments reserve		
Opening balance	1,202	1,256
Fair value of equity instruments movement for the year	(83)	(54)
Reserves at the end of the financial year	1,119	1,202

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.

Accounting Policy

Reserves

The parent entity has an investment in an unlisted entity whose shares are not traded in an active market. This investment has been classified as 'shares at fair value - other corporations' (because the directors consider that the fair value can be reliably measured). Fair value has been determined in accordance with generally accepted pricing models based on discounted cashflows and is classified under level 3 in the fair value measurement hierarchy. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value of equity instruments reserve, with the exception of impairment losses which are recognised in the profit or loss.

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

NOTE 22 RETAINED EARNINGS

	2019 $'000	2018 $'000
Retained earnings at the beginning of the financial year	354,228	355,225
Net profit for the year	20,546	33,203
Dividends declared (Note 24)	(34,600)	(34,200)
Retained earnings at the end of the financial year	340,174	354,228

	Consolidated	
	2019 $'000	2018 $'000

NOTE 23 CASH FLOW INFORMATION

(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:

	2019 $'000	2018 $'000
Cash and cash equivalents	72,367	51,188

(ii) FINANCING FACILITIES

The parent entity has access to:

	2019 $'000	2018 $'000
Secured bank loan facilities with various maturity dates		
Amount used	704,066	772,879
Amount unused	-	-
	704,066	772,879

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

	2019 $'000	2018 $'000
Profit for the year	20,546	33,203
Depreciation expense	116,993	106,936
Amortisation of deferred borrowing costs	928	834
Loss on sale of plant & equipment	58	3
Interest unwinding on lease liabilities	991	-
Interest unwinding on rehabilitation provision	4,962	4,962
Changes in assets & liabilities:		
(Decrease) / increase in tax payable	8,305	(8,508)
Decrease / (increase) in trade debtors and contract assets	8,687	(15,926)
Decrease / (increase) in deferred transaction costs	(780)	(2,800)
Decrease / (increase) in other assets	867	(2,358)
Decrease / (increase) in inventory	(510)	(1,547)
(Decrease) / increase in deferred taxes	(7,458)	13,738
(Decrease) / increase in provisions	(3,251)	(991)
(Decrease) / increase in trade creditors	(291)	(2,812)
Net cash flows from operating activities	150,047	124,734

	Consolidated	
	2019 $'000	2018 $'000

NOTE 23 CASH FLOW INFORMATION (CONTINUED)

(iv) NET DEBT RECONCILIATION

Net debt

	2019 $'000	2018 $'000
Cash and cash equivalents	72,367	51,188
Bank loans - repayable within one year	(234,300)	(188,800)
Bank loans - repayable after one year	(469,766)	(584,079)
Lease liabilities - repayable within one year	(4,875)	-
Lease liabilities - repayable after one year	(18,289)	-
Net debt	(654,862)	(721,691)
Cash and cash equivalents	72,367	51,188
Bank loans - variable interest rates	(704,066)	(772,879)
Lease liabilities - fixed interest rates	(23,163)	-
Net debt	(654,862)	(721,691)

Consolidated	Cash $'000	Bank Loans $'000	Lease Liabilities $'000	Total $'000
Net debt as at 1 Jan 2019	51,188	(772,879)	-	(721,691)
Changes from Cashflows:				
Cashflows	21,179	-	-	21,179
Bank loan refinancing	-	(120,800)	-	(120,800)
Bank loan repayments	-	189,613	-	189,613
Lease repayments	-	-	8,202	8,202
Changes from Non-Cash Movements:				
Initial adoption of AASB 16 Leases	-	-	(29,778)	(29,778)
Lease recognition	-	-	(597)	(597)
Interest unwinding on leases	-	-	(991)	(991)
Net debt as at 31 Dec 2019	72,367	(704,066)	(23,163)	(654,862)

NOTE 24 DIVIDENDS

	2019		2018	
Recognised amounts	Cents per share	2019 $'000	Cents per share	2018 $'000
Fully paid ordinary shares				
Final 2018 dividend and first interim 2019 dividend:				
Franked to 30% (Prior year: 30%)	12.37	17,300	12.89	17,100
Second interim 2019 dividend:				
Franked to 30% (Prior year: 30%)	12.37	17,300	12.89	17,100
	24.74	34,600	25.78	34,200

	Consolidated	
	2019 $'000	2018 $'000
Franking account balance	112,603	118,780

NOTE 25 KEY MANAGEMENT PERSONNEL

Remuneration of Key Management Personnel

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

	Consolidated	
	2019 $	2018 $
Short-term employee benefits	2,663,883	2,064,846
Post-employment benefits	195,922	137,942
Other long-term benefits	-	-
Termination benefits	440,130	33,488
	3,299,935	2,236,276

NOTE 26 RELATED PARTY TRANSACTIONS

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 Industries Limited for which Coal & Allied Industries Limited was due a fee of $1.7 million pursuant to an agreement between the parent entity and Coal & Allied Industries Limited approved by the Board of Directors of the parent entity.

Included in the balance of Trade and Other Receivables (Note 7) is $2.3 million receivable from Yancoal Australia Limited, Coal & Allied Operations Pty Limited and their subsidiaries in respect of coal handling services provided by the parent entity. Ship or pay contract restrict the public disclosure of revenue generated from the coal handling services on a customer basis.

The entity receives dividends from Newcastle Coal Shippers Pty Limited as detailed in Note 4 Profit from Operations.

d) 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**
H Okamoto	31 March 2019
N Yamauchi	21 May 2019
P A Winn	12 December 2019
R Schmidt	12 March 2020
C Woodward	12 March 2020
Alternate Directors	
T Kusuhara	31 March 2019
R H McCullough	31 March 2019
L W Muir	31 March 2019
M Suenaga	21 May 2019
A Iwaba	4 June 2019
Y Hirose	1 July 2019
M Dodd	12 March 2020

	Consolidated	
	2019	2018
	$	$

NOTE 27 REMUNERATION OF AUDITORS

Remuneration of Auditors

Audit of the financial report	95,700	93,800

NOTE 28 COMMITMENTS FOR EXPENDITURE

Capital expenditure commitments

	Consolidated	
	2019	2018
	$'000	$'000
Various contracts in respect of plant and equipment for which no provision has been made in the financial statements at the end of the financial year.		
Payable within one year	1,783	4,671

Foreign Currency Commitments

The parent entity has no foreign currency commitments at year end (2018: $Nil).

NOTE 29 SUPERANNUATION COMMITMENTS

The parent entity contributes to superannuation funds which provide accumulated benefits to employees. The rights of members and/or their dependents are protected by the rules of the funds.

NOTE 30 SEGMENT INFORMATION

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

NOTE 31 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 (2018: $2).

NOTE 32 PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements.

	2019 $'000	2018 $'000
FINANCIAL POSITION		
ASSETS		
Current assets	115,982	105,782
Non-current assets	1,275,190	1,345,913
TOTAL ASSETS	1,391,172	1,451,695
LIABILITIES		
Current liabilities	288,093	233,284
Non-current liabilities	621,918	723,113
TOTAL LIABILITIES	910,011	956,397
EQUITY		
Issued capital	139,868	139,868
Reserves	1,119	1,202
Retained earnings	340,174	354,228
TOTAL EQUITY	481,161	495,298
FINANCIAL PERFORMANCE		
Profit for the year	20,546	33,203
Other comprehensive income	(83)	(54)
TOTAL COMPREHENSIVE INCOME	20,463	33,149
COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT		
Payable within one year	1,783	4,671

NOTE 33 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 2019							
Assets							
Cash and short term deposits	1.4%	8,367	64,000	-	-	-	72,367
Trade debtors	-	-	-	-	-	12,996	12,996
Other receivables	-	-	-	-	-	154	154
Contract assets	-	-	-	-	-	16,406	16,406
Shares at fair value through OCI	-	-	-	-	-	16,545	16,545
Total financial assets		8,367	64,000	-	-	46,101	118,468
Liabilities							
Trade and other payables	-	-	-	-	-	14,029	14,029
Bank loans	2.4%	704,066	-	-	-	-	704,066
Lease liabilities	3.4%	-	4,875	16,862	1,427	-	23,163
Total financial liabilities		704,066	4,875	16,862	1,427	14,029	741,258
Net financial assets/(liabilities)		(695,699)	59,125	(16,862)	(1,427)	32,072	(622,790)
31 December 2018							
Assets							
Cash and short term deposits	2.5%	4,188	47,000	-	-	-	51,188
Trade debtors	-	-	-	-	-	11,340	11,340
Other receivables	-	-	-	-	-	567	567
Contract assets	-	-	-	-	-	26,336	26,336
Shares at fair value through OCI	-	-	-	-	-	16,629	16,629
Total financial assets		4,188	47,000	-	-	54,872	106,060
Liabilities							
Trade and other payables	-	-	-	-	-	14,320	14,320
Bank loans	3.5%	772,879	-	-	-	-	772,879
Total financial liabilities		772,879	-	-	-	14,320	787,199
Net financial assets/(liabilities)		(768,691)	47,000	-	-	40,552	(681,139)

Shares at fair value through other comprehensive income are recorded as level 3 and all other assets and liabilities are recorded as level 1 in the fair value hierarchy. There is has been no change during the year in the fair value hierarchy level applied.

NOTE 33 FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Credit Risk Management

The carrying amounts of trade and other debtors 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 bank guarantees relating to Ship or pay contracts with customers and adopt a policy of only dealing with creditworthy counterparties.

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

(iii) Net Fair Values

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

(iv) Capital Risk Management

The capital structure of the consolidated entity consists of debt, which includes borrowings disclosed in Notes 17 and 18, cash and cash equivalents, disclosed in Note 6 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 20, 21 and 22.

Under the terms of major borrowing facilitates, the consolidated entity is required to comply with the following financial covenants:-

- Total External Liabilities / Totals Tangible Assets (excluding AASB 16 Leases adjustments) must be less than 80%.

(v) Financial risk management objectives

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

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

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

(vi) Foreign currency risk management

The parent entity enters certain supplier agreements denominated in foreign currencies from time to time, hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within Board approved policies. The consolidated entity has no carrying amount of foreign currency denominated assets and liabilities at year end (2018: Nil).

(vii) Interest rate management

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

A 1% increase or decrease is used when reporting interest rate sensitivity risk to key management and the Board. At reporting date, if interest rates had been 1% higher or lower and all other variables were held constant, the consolidated entity's net profit after tax would decrease/increase $4.9 million (2018: $5.4 million) based on the level of borrowings at 31 December 2019, mainly due to the consolidated entity's exposure on its variable rate borrowings.

NOTE 33 FINANCIAL INSTRUMENTS (CONTINUED)

(viii) Liquidity risk management

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

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

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

	Weighted average %	Less than 6 months $'000	Greater than 6 months and $'000	1 to 5 years $'000	Over 5 Years $'000	Total $'000
2019						
Bank loans	2.4%	32,588	201,712	448,966	20,800	704,066
Lease liabilities	3.4%	2,437	2,437	16,862	1,427	23,162
		35,025	204,149	465,828	22,227	727,228
2018						
Bank loans	3.5%	31,959	156,842	584,079	-	772,879

Accounting Policy

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 eliminated on consolidation.

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

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.

NOTE 34 OTHER ACCOUNTING POLICIES

Application of New and Revised Accounting Standards

The consolidated entity has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- AASB 16 Leases
- AASB 2018-1 Amendments to Aust. Accounting Standards – Annual Improvements 2015-2017 Cycle
- Interpretation 23 Uncertainty over Income Tax Treatments.

The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

Impact of Initial Application of AASB 16 Leases

The consolidated entity changed its accounting policies as a result of adopting AASB 16 Leases. The consolidated entity elected to adopt the new standard under the retrospective with cumulative effect approach and recognise a right of use asset and lease liability on 1 January 2019 for $29.8 million using an incremental borrowing rate of 3.40%. Under AASB 16 Leases, payment for leases are treated as lease liability repayments and additional depreciation and interest expense is recognised over the year. The comparative figures are accounted for under AASB 117 Leases as operating leases and are shown as other expenses with no right of use or lease liabilities recognised.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the consolidated entity's incremental borrowing rate as of 1 January 2019. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, any dismantling costs not previously recognised, plus any initial direct costs incurred.

No leases were combined into a portfolio of leases for initial or subsequent recognition. Any leases for land rentals with terms of less than 12 months were accounted for under AASB16 Leases and short term lease exemption relief was not taken. No lease contracts include onerous provisions. The adoption of the new standard did not result in any impairment of assets.

Lease repayments for 2019 of $8.2 million would have previously been classified as other expenses with additional depreciation ($7.6 million) and interest expense ($1.0 million) being recognised in 2019. The introduction of the standard resulted in the entity reporting a net profit $0.4 million lower than if the new standard wasn't applied.

The following table shows the operating lease commitments disclosed applying AASB 117 Leases, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	2019 $'000
Measurement of lease liabilities on initial recognition:	
Operating lease commitments as at 31 December 2018	37,034
Short-term leases and leases of low-value assets	(2,978)
Contracts reassessed as lease contracts	3,239
Effect of discounting the above amounts and removal of indexation	(7,517)
Lease liability recognised at 1 January 2019	29,778

NOTE 34 OTHER ACCOUNTING POLICIES (CONTINUED)

Standards and Interpretations in issue not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the consolidated entity. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Accounting Policy

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.

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.

NOTE 35 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 36 ADDITIONAL COMPANY INFORMATION

Port Waratah (ABN 99 001 363 828) is an unlisted public company, incorporated and operating in Australia.

Registered office

Port Waratah Coal Services Limited
Kooragang Island, Newcastle
NSW Australia

Principal places of business

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

Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 11 to 47:

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

b) give a true and fair view of the consolidated entity's financial position as at 31 December 2019 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 2 to the financial statements.

In the Directors' opinion:

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

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

Dated this 17th day of March 2020.

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

BRETT LEWIS
DIRECTOR

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

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

Opinion

We have audited the financial report of Port Waratah Coal Services Limited (the "Company") and its subsidiary (the "Group") which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Yvonne van Wijk
Partner
Chartered Accountants
Sydney, 17 March 2020

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

17 March 2020

Dear Board Members

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 report of Port Waratah Coal Services Limited for the financial year ended 31 December 2019, 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 faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Y van Wijk

Yvonne van Wijk
Partner
Chartered Accountant