



2016 Sustainable Development Report

Pioneering through partnership



PORT WARATAH
COAL SERVICES

Celebrating 40 years

In 2016 Port Waratah looked back on 40 years of coal exports from our current terminals with pride. While much changed in that time in our industry and environment, Port Waratah's commitment to remain an industry pioneer and trusted partner to our stakeholders was a constant. It is in that spirit of 'Pioneering through Partnership' that we present our improved sustainable development report.

Coal is an important component of the global energy mix and while renewable energy sources will grow significantly, the growth in energy demand from the developing parts of Asia is such that we expect that coal will remain an important contributor for the foreseeable future. Our terminal services underpin the activities of an ever-changing Hunter Valley Coal Chain and will therefore remain of critical importance to the region.

To ensure that we can meet the changing expectations of our customers and community stakeholders, we are focused on the future and aim to improve our operations further by taking guidance from international standards as they evolve and develop. A focus on the future also requires that we continue to invest in our operations.

This year we demonstrated that commitment by investing in all sustainability aspects of our operations, from our people and community to our equipment and environmental performance. The installation of two new shiploaders is an investment of \$60 million in the reliability, safety and environmental performance of Carrington Terminal. New investment to the value of \$11.5 million in better storm water management and therefore environmental performance was approved and is being delivered. A key focus for the year was to integrate our relatively new Licence To Operate Framework (LTO) into our everyday work. This framework provides direction and governance for all activities that impact LTO and ensures that these activities take account of external trends.

A key investment in our people commenced in 2016 as we began implementing the Port Waratah Diversity and Inclusion Strategy. We have a strong record of non-discrimination, but we acknowledge that we have too few women in leadership roles. We sponsored female employees to participate in mentoring programmes and instituted a diversity and inclusion working group consisting of employees from all parts of our business.

In other areas of our people commitment, we still have room to improve. Disappointingly, we did not meet our 2016 safety objective of an injury-free workplace and our total of eight recordable injuries to employees and contractors was a deterioration on the previous year.

To ensure that our Community Investment and Partnership Programme continues to meet the needs of our partners and stakeholders, we conducted a comprehensive review resulting in some adjustments. We also received renewed support from the Board to maintain our commitment of \$750,000 annually for the next three years. Our partnerships stretch further though: we work to deliver the highest level of service to meet the needs of our customers and have therefore been focusing heavily on reducing vessel turnaround times to minimise demurrage costs. Our procurement processes continue to reinforce our position as a strong supporter of local suppliers and local industry.

At Port Waratah we aim to be a valued member of the local community. Our approach to community and support of local economic development and diversification aligns well with the City of Newcastle's ambition of being a smart, sustainable city. The NSW Government's plan for the Hunter City also has common goals with the Newcastle Community Strategic Plan, including recognition of businesses operating in the Port of Newcastle as significant employers and economic drivers for the region.

Port Waratah recognises the responsibilities this brings and looks forward to making the most of the challenges and opportunities of 2017. I hope you enjoy this report and as always, I invite you to provide us with feedback and comments.

Hennie

Hennie du Plooy
CEO



Front cover image: Carrington Coal Terminal, Port of Newcastle

Calypso Island (left) being loaded with 82,539t of coal. CMB Van Mieghem (right) being loaded with 62,950t of coal. Both vessels are heading to Japan.

In July 2016, Carrington Terminal took delivery of two new shiploaders. The Shiploader Replacement Project represents a \$60 million investment in the Carrington Terminal. We spent \$22 million in Australia, with \$9 million of that, in the local region on products and services such as engineering, training, quality assurance, project management, water and electrical systems. The shiploaders are designed and built to modern safety, environmental and technological standards.

About Port Waratah Coal Services

Headquartered in Kooragang, NSW, Port Waratah Coal Services receives, stockpiles, blends and loads coal for export in the Port of Newcastle, NSW, Australia. We own and manage the Kooragang and Carrington Coal Terminals, which operate 24/7, and have a combined capacity of 145 million tonnes per annum. Both terminals operate under Environment Protection Licences (EPL) issued and regulated by the NSW Environment Protection Authority.

Established 40 years ago, we have always been two things – a pioneer and a partner. We are committed to understanding and fulfilling our responsibilities as an employer and community member, as well as meeting our legal obligations. We currently employ 335 people, including 14 apprentices. We are an unlisted public company delivering high quality, cost-effective services, as well as reliable and equitable access to export terminal capacity. We work in partnership with more than 25 producers and other service providers in the Hunter Valley Coal Chain.

About this report

Our fifth annual Sustainable Development Report describes our corporate sustainability performance for the 2016 calendar year. Unlike our last report in 2015, this year we describe our performance in terms of our business drivers for success. This better aligns with our business strategy and internal reporting. The report has been written using the Global Reporting Initiative (GRI) Standards as a guidance tool. Whilst we are not yet 100% in accordance with GRI, we hope to achieve the core option status in the future. A list of the Standard Disclosures we have met for 2016, and their location in the report or other publications is available in a Report Content Index on our website www.pwcs.com.au.

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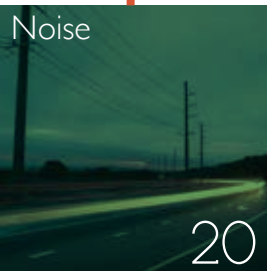
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Air Quality



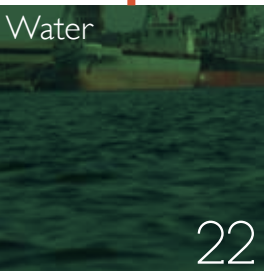
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OUR 5 DRIVERS FOR SUCCESS



Health and Safety

Our performance must reflect that we hold the health and safety of people in our business as an overriding value.



Licence to Operate

Our environmental performance and our engagement with stakeholders will support being granted ongoing and, if required, new Licences to Operate.



Effective Organisation

Our culture encourages and rewards employee alignment and engagement. Our systems support efficient and effective leadership, robust governance and excellence in operational delivery.



Operational Delivery

We deliver the services our customers expect and we care for our assets so that we can do so reliably on an ongoing basis at the lowest sustainable coal handling charge. We have efficient and robust governance and commercial processes.



Coal Chain

We engage proactively and positively with end users, customers and other service providers in the interest of maximising coal chain performance while securing our commercial model.

We understand our development opportunities and are positioned to be able to pursue them when required.

Our export services connect Hunter Valley coal with the world

This year we celebrate our 40th anniversary. Behind us, and in front of us, lies steadfast success built on our roles as pioneers and partners.

Carrington Terminal became operational in 1976 and today, together with Kooragang Terminal, Port Waratah is considered a world-leading facility with a combined annual maximum throughput rate of 145 million tonnes.

The Port of Newcastle has seen many changes over the years, with the growth of the coal trade playing a significant role in our city and region. Port Waratah has led the way, growing steadily, with the addition of the Kooragang Terminal in 1984, a major milestone in our history. We have pioneered investment in equipment and automation, and have continued to modernise and improve our facilities and systems to meet expectations of our customers and other stakeholders.

Of course, our people are the key to our success and in our 40th year, 87 of our 335 employees – almost a quarter of our workforce – have achieved a service milestone of 20 years or more.

Pioneering through partnership

Pioneering in industry. Partnering with stakeholders. We are proud partners of more than 25 other organisations working together to make the Hunter Valley Coal Chain one of the largest and most collaborative coal supply chains in the world.

We continuously refine and improve our processes in terms of operational capacity, safety measures, and our social and environmental impacts. As a partner, we have always listened to our employees, customers, suppliers and our community. We pride ourselves on working closely with port authorities to deliver a quality and effective service.

Being a sustainable business

Sustainable development themes of health, safety, environmental, social and economic issues are integral to all our decision making, activities, and processes. We positively contribute to sustainable development supported by our corporate values and our drivers for success. Our core values – integrity, being progressive, dedicated to excellence, and caring, guide how we conduct our business and help us achieve our goal to maintain our role as a reliable and trustworthy service. We work consistently as a team towards our strategic goals.



1977



EARLY 1980s



2012



Our five drivers for success: Health and Safety, Licence To Operate, Effective Organisation, Operational Delivery, and Coal Chain – support how we deliver our vision and purpose. It is these drivers that collectively sum up our sustainability objectives and provide the foundations upon which our activities are measured and managed. They help us focus on building a more sustainable and agile business, and influence the prioritisation of our work.

As a relatively young sustainability reporter, but a 40-year old company with many existing systems, we recognise that we need to develop some of our processes so our reporting can be more comprehensive. We are guided by our values, business principles, business drivers and our Licence To Operate Framework.

Our key impacts

Like any business, our key sustainable development contributions and impacts are delivered through our business strategies, policies, systems and processes, as well as through our relationships with our stakeholders. Port Waratah does not own, mine, or sell coal. We facilitate its stockpiling and loading for export.

Operating in the Port of Newcastle, we have the potential to impact both natural and urban environments. Our Environmental Programme encompasses four key issues: air quality, noise, water, and environmental footprint (waste, energy and water consumption, and biodiversity). Our employees frequently participate in environmental and community projects, such as the Throsby Creek clean-up days, Stockton Public School working bees and tree planting projects.

Sustainability, social responsibility and shared value

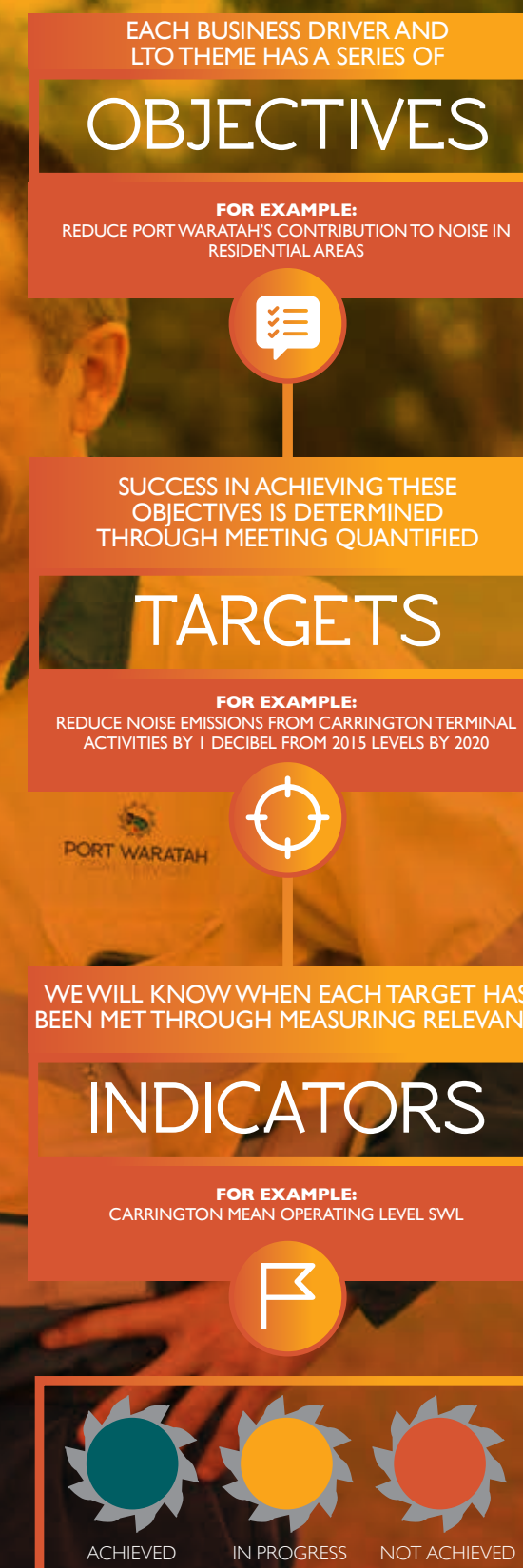
Our goal is to create shared value for our stakeholders and have a positive impact by working in partnership with them. We perform our activities in a manner that seeks to prevent pollution, promote sustainability and minimise negative impacts on the environment and the local communities.

Our social contributions involve offering local employment and development opportunities, procuring goods and services from local businesses, and providing funding to community groups and charities. Our Community Investment and Partnership Programme contributes up to \$750,000 each year in the local community. We have procedures outlined in our Stakeholder Engagement Strategy and Environmental Management System to handle enquires and complaints. We respond in a timely manner to feedback and requests for more information. Our Community Enquiry Line enables feedback and complaints to us 24/7. We also respond to enquiries on our website and social media, within 24 hours or next business day in accordance with our policy.

In the past few years we have undertaken extensive and inclusive stakeholder engagement, which has been key to helping us understand the issues, interests, concerns, and expectations of our key stakeholders. It has helped us to identify our material sustainability issues, and resulted in the development of our Licence To Operate Framework (LTO). The LTO contains our approach to social impacts and how we can leverage our resources and knowledge to contribute to a sustainable and vibrant Newcastle while minimising negative impacts on the community and our environment. It has four key themes aligned with current business practice – Environment, Governance, Relationships and Reputation, and Social Impacts and Contributions. Its broader principles, theory and context have been integrated within our systems and procedures.

Sustainable Development Goals

In September 2015, 193 countries ratified the new 2030 Agenda for Sustainable Development, which includes the 17 Sustainable Development Goals (SDGs) and their underlying sub-targets. Port Waratah supports the SDGs and is committed to contributing towards the achievement of the goals that are aligned with the priorities of our business strategy. In the future we intend to explore how our operations are aligned with specific SDGs.



METHODOLOGY

Within each of the drivers for success and LTO themes there is a series of objectives through which we monitor targets and indicators, with the results providing the data for our Sustainable Development Report.

The colour coded bucket wheel icons are a visual representation of performance throughout the report complimented by more detailed data in the text and graphics. The key describes our conservative approach to the measurement of performance. Whilst, yellow indicates in progress, in many cases much improvement has been made during the year.



The health and safety of our people is a core commitment

The Health and Safety vision captured in our five drivers for success says that “our performance must reflect that we hold the health and safety of our people as an overriding value”. This is also reflected in our values: caring, safety and family are part of what we stand for. Our management approach is underpinned by robust systems certified to OHSAS 18001. In light of this, we are disappointed our safety performance in 2016 fell short – eight people were injured, mostly during the performance of everyday tasks. As a result, our Lost Time Injury Frequency Rate and All Injury Frequency Rate increased from those of 2015. We also reported two occupational illnesses. Occupational illness are conditions that result from exposure in the workplace, for example, industrial hearing loss or repetitive strain injuries.

Despite the number of injuries during 2016, a range of different improvement initiatives were undertaken that were designed to assist employees to work safely.

These included:

- hazard awareness training
- review and update of our Take 5 risk assessment process
- review of our safety meeting structure and content
- review of critical risk management
- focus on musculoskeletal programmes

Looking to 2017, our challenge will be to restore our safety record by building on the hazardous awareness training through pre-task assessments, addressing safety conditions in the field and improving critical risk management. Additionally, we will enhance employee safety engagement and look for ways to refresh and reinvigorate our thinking so we can realise our goal of all our people working free of illness and injury. Our occupational hygiene and health programmes will also continue next year, with a particular focus on mental health.

Our commitment to health and safety is grounded by programmes that encourage our employees to look after themselves. Our health screening programme includes the provision of skin and bowel cancer screening which is offered to all employees on a biennial basis. In 2016 all employees were offered free skin cancer checks on site during work hours. Employees have embraced the programme with outcomes including the successful identification, early detection and removal of skin cancers for a number of employees.

“I am really thankful for our skin cancer screening programme. It was so easy to book a screening session, which ended up identifying squamous cell carcinomas on my face that needed removal. Not sure if I would have made the effort if it was not done at work.”

Anonymous Employee



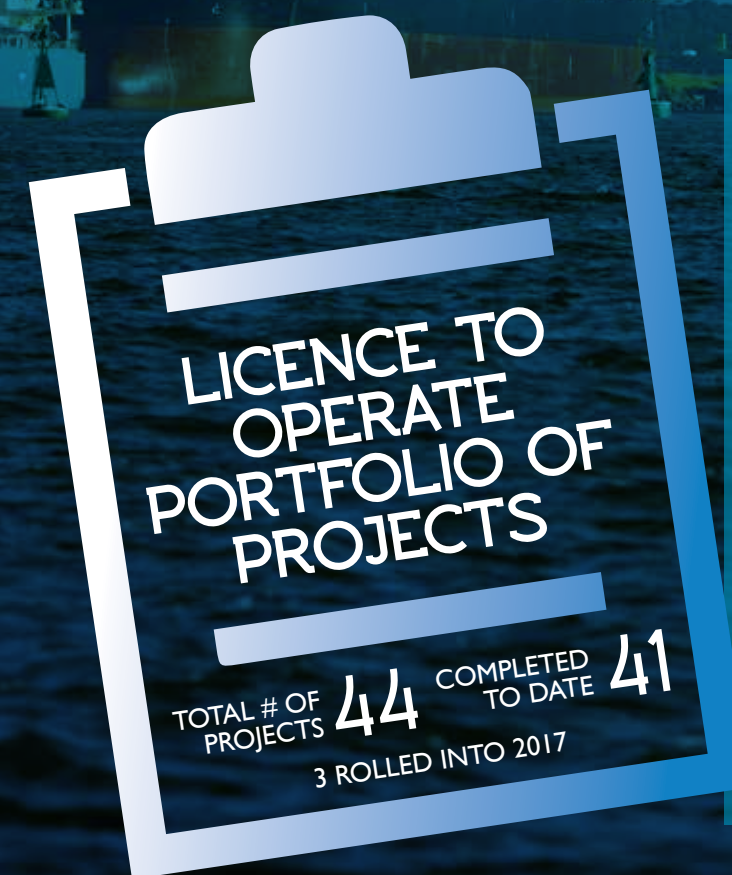
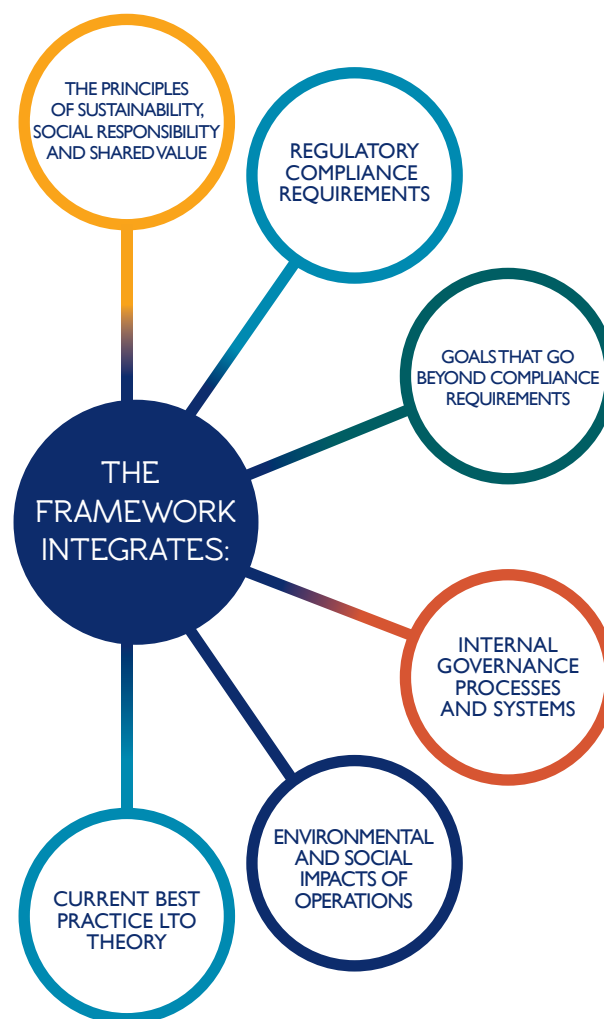


Dialogue with our stakeholders was key to the development of our LTO

Our Licence To Operate Framework (LTO) is an important part of our business strategy and one of our key drivers for success. The framework is complemented by an annual portfolio of specific projects and tasks designed to achieve the identified objectives and outcomes. This year was the first in which we began implementing these projects, with 41 of the 44 we identified for this year completed. Changes in scope prevented the completion of the remaining three which will be rolled into the 2017 LTO portfolio of projects.

The projects were completed by teams across the business and encompassed key areas such as sustainability, environmental improvement and social responsibility. Some successful projects completed during 2016 included:

- improvements to the existing oil separation systems onsite to improve and maintain site water quality;
- the review of maintenance activities for the water management systems to ensure their adequacy in managing onsite water resources;
- enhancing the framework of systems to manage potential noise generated by our plant and equipment;
- the review and adoption of internal environmental criteria where they may be absent or to achieve better than compliance outcomes;
- embedding LTO principles in guiding documentation and operations management practices;
- a comprehensive review of our Stakeholder Engagement and Community Investment Strategy; and
- a strategic review and revision of the Sustainable Development Report



CATEGORY	# OF PROJECTS
AIR QUALITY	5
COMMUNITY	2
ECONOMIC	1
ENVIRONMENTAL FOOTPRINT	8
LICENCING & REGULATION	6
NOISE	4
PEOPLE	2
POLICY DEVELOPMENT	2
RELATIONSHIPS & REPUTATION	2
RESOURCES & CAPACITY	1
SYSTEMS	7
WATER	4

STAKEHOLDER COLLABORATION

Developing the LTO portfolio of projects was a collaborative process. To identify key focus areas, we conducted employee workshops, held employee discussion forums via The Channel (our internal intranet), and consulted with our community at our Community Terminal Meetings. Employee response was extremely positive, and many became involved in identifying activities and projects for a range of LTO themes programmed to achieve our LTO objectives. Heath Pung, a Kooragang Operations Supervisor – Daywork, attended a water LTO workshop in 2015 and said the process was “well put together” and “the context and purpose were set-out from the start”.

NUMBER OF LTO EMPLOYEE WORKSHOPS



64
NUMBER OF PARTICIPANTS

7 air quality, water, noise, environmental footprint, governance, social impacts and contributions, regulation and reputation

IDEAS/PROJECTS IDENTIFIED BY THE WORKSHOPS ACROSS THE CATEGORIES

113

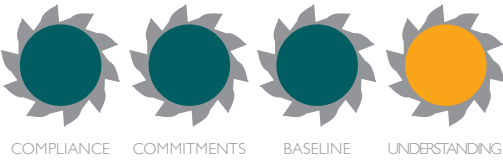
Our goal is to continuously improve our performance

We are committed to a continuous improvement programme and have a range of strategies to manage environmental issues, including investing in our terminals to maintain and improve their environmental performance.

Within our Licence To Operate Framework (LTO) we have programmes to manage and monitor air quality, noise, water, and our environmental footprint (waste and recycling, energy usage and biodiversity). Each theme has a series of objectives and we measure our success in achieving these objectives through quantifiable targets.

Our environmental improvement programme focuses on the main areas of operational risk: air quality and dust emissions; potential noise impacts; and the management of site water systems to avoid pollution incidents. In 2016 we completed a surveillance audit of the Environmental Management System in accordance with the ISO 14001:2004 Standard. There were no enforcement actions in 2016.





We are committed to reducing emissions from our operations

Dust is the key concern of our community, and it's an issue we take very seriously.

The nature of stockpiling and handling coal can present a dust source if not managed appropriately. We work around the clock to minimise our impact and have a framework of strategies and controls that proactively manage dust and prevent dust generation. Our primary objective is to manage moisture levels to prevent dust emissions.

How we manage air quality

A range of contributing factors and risks makes air quality management complex. We have several management strategies including wetting down hardstands, utilising mobile water carts, manually hosing/spraying coal, and delaying, restricting or stopping coal movement.

We have developed an Intelligent Dust Management System (IDMS), which is our primary dust mitigation control. The IDMS automatically activates stockpile sprays and utilises local real-time and predicted weather information,

as well as inputs from real-time onsite dust monitoring stations and a coal moisture programme. The frequency of spray cycles is adjusted depending on environmental conditions and associated dust risk.

Where possible, we enclose and install sprays in rail receipt stations, transfer houses and conveyors. We have also designed our equipment for soft flow transfers and minimal drop heights to reduce the risk of dust creation.

Improvements in 2016

Dust management improvements during the year included the sealing and revegetation of disturbed areas, a review of veneering products available for use, and a procedural review of stockpile spray operation and improvements in the management of the system relevant to maintenance activities. Together with other NSW coal terminals, we have been a part of the EPA's Environmental Improvement Programme. See page 40 to learn more. In 2017 we will continue to participate in industry discussions about air quality in the rail corridor.

NEWCASTLE LOCAL AIR QUALITY MONITORING NETWORK (NLAQMN)

Newcastle Local Air Quality Monitoring Network (NLAQMN) was introduced in late 2015 by the Environment Protection Authority (EPA) in conjunction with the NSW Health and the Office of Environment and Heritage (OEH). It is an industry-funded initiative monitoring near real-time information on air quality within the Newcastle air shed. The NLAQMN complements the Upper Hunter Air Quality Monitoring Network, which was implemented in 2011.

The NLAQMN consists of six monitoring stations to provide information on particulate matter emissions including PM_{2.5}, PM₁₀, nitrogen and sulphur oxides. The stations are selected by the EPA. The data collected provides a greater level of emission insight and addresses growing community concerns of industry impacts on the city's ambient air quality. It also helps improve our engagement with local communities, and builds trust that industry is meeting its environmental and social obligations.

Port Waratah supports and provides funding to the NLAQMN. We regularly review the data collected and communicate outcomes throughout our business.

	Stockton - PM ₁₀	Carrington - PM ₁₀	Mayfield - PM ₁₀	Newcastle - PM ₁₀	Wallsend - PM ₁₀	Beresfield - PM ₁₀
2016 Annual Average (µg/m³)	35.1	23.6	22.6	21.6	16.6	19.1
NEPM Annual Standard (µg/m³)	25	25	25	25	25	25

LICENCE TO OPERATE



Regulatory compliance

In 2016 we met all air quality regulatory criteria and commitments to management as per our approvals and licences. During the year, all ambient air quality monitoring requirements were removed from our Environment Protection Licences due to the successful establishment of the NLAQMN. Regardless however, we will continue our ambient air quality monitoring programme to ensure we continue to maintain our understanding of ambient dust within the local area.

Understanding

Our community has a poor level of satisfaction with our air quality management, despite our positive air quality performance. We have therefore set ourselves a target to educate and improve community understanding, and will monitor our improvement via our biennial community attitude survey.

"If they could stop the dust that would be nice. I notice they have sprinklers but they're rarely on."

Anonymous, Community Attitude Survey

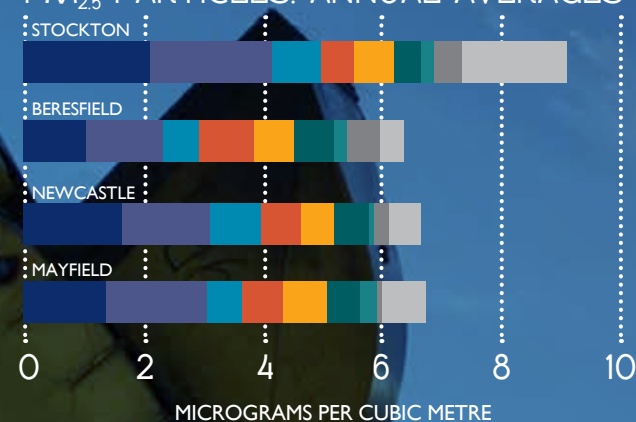
LOWER HUNTER AIR QUALITY STUDIES

The Environment Protection Authority (EPA) released two landmark studies in 2016 into the air quality of the Lower Hunter - the Lower Hunter Dust Deposition Study, and the Lower Hunter Particle Characterisation Study. The two studies revealed deposited dust in the Lower Hunter is below the EPA's maximum dust deposition criterion, and total potential contribution attributable from coal accounts for less than 10% of total deposited dust. According to the EPA studies, levels of air particles in the region overall are good by world standards, but occasionally particle levels will spike due to industrial activities or seasonal weather patterns.

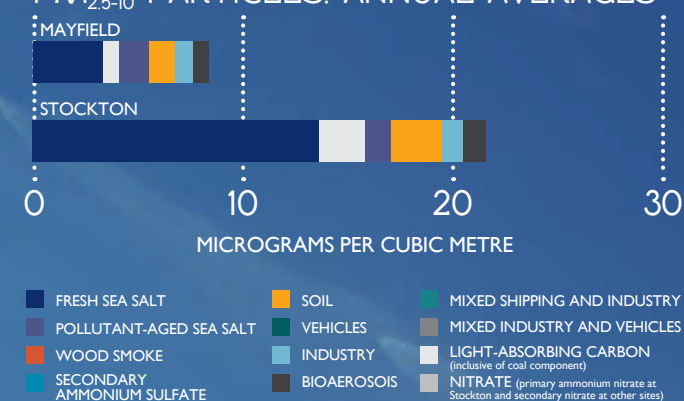
FINDINGS OF THE LOWER HUNTER PARTICLE CHARACTERISATION STUDY

Major sources of PM_{2.5} and PM_{2.5-10} particle pollution were identified

PM_{2.5} PARTICLES: ANNUAL AVERAGES



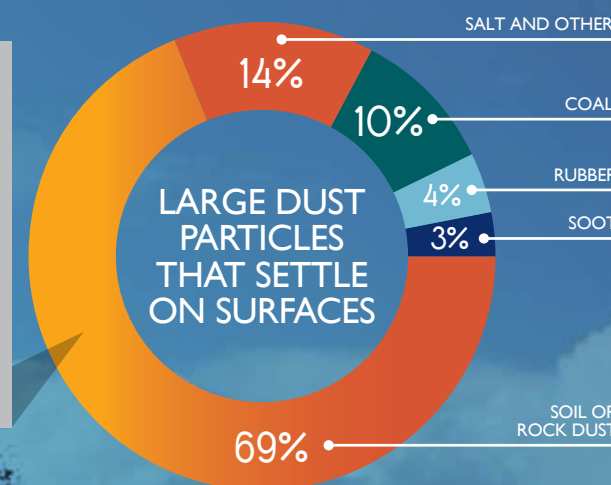
PM_{2.5-10} PARTICLES: ANNUAL AVERAGES



Legend for PM_{2.5} and PM_{2.5-10} studies:

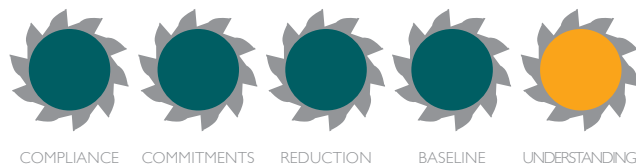
- FRESH SEA SALT
- POLLUTANT-AGED SEA SALT
- WOOD SMOKE
- SECONDARY AMMONIUM SULFATE
- SOIL
- VEHICLES
- INDUSTRY
- BIOAEROSOLS
- MIXED SHIPPING AND INDUSTRY
- MIXED INDUSTRY AND VEHICLES
- LIGHT-ABSORBING CARBON (inclusive of coal component)
- NITRATE (primary ammonium nitrate at Stockton and secondary nitrate at other sites)

FINDINGS OF THE LOWER HUNTER DUST DEPOSITION STUDY



57% REDUCTION IN NPI REPORTED PM₁₀ EMISSIONS SINCE 2012/2013





We work proactively to reduce our noise

A working harbour is a noisy place, with different sources and environmental dynamics. One of the difficulties in understanding the impact of noise on residents is accurately identifying its sources. However, we do recognise noise from our Carrington and Kooragang operations is of concern to our neighbours, and therefore its management is a key focus. Additionally, it is essential to our ongoing Licence To Operate.

How we manage noise

Understanding how sound travels and how it potentially impacts our neighbours is important to managing our noise contribution. The transfer of noise from Port Waratah operations in certain locations is influenced predominantly by weather conditions, particularly by wind direction and speed. Additionally, the local terrain and landscape has a significant impact on the ability for noise to travel to offsite locations.

We continuously monitor the current weather conditions, focusing specifically on conditions that potentially enhance noise to neighbours. We conduct regular noise emissions assessments at onsite and offsite locations throughout the year to aid our understanding of potential impacts and where improvements are possible. Plant design takes the effective management of noise into consideration.

This includes fully enclosed transfer points, enclosed conveyors (where possible), installation of low noise drives and idlers, soft flow chutes and adjustable alarms orientated and set to meet safety requirements whilst minimising potential offsite impact.

Regulatory compliance

We are committed to the progressive improvement of noise performance and resourcing the delivery of noise outcomes to minimise our industrial noise contribution. Our noise performance measurements employ criteria contained in our Development Consents. Where these are absent, we adopt our own internal goals to monitor and measure. During 2016 we complied with all noise criteria as set out in our consent conditions.

Continuous improvement

We have set ourselves an ambitious target of reducing the overall site Sound Power Levels (SWL) from each terminal by one decibel by 2020. We have allocated \$1.3 million in resources in 2017 for the upgrade of plant and equipment, particularly at our Carrington Terminal. The funds will be used for projects including new lower noise drives, portable noise monitoring equipment and the development of long-term improvement programmes.

UNDERSTANDING OUR NOISE PROFILE

The commitment to noise performance improvement is underpinned by our comprehensive understanding of plant and equipment SWLs. As plant and equipment ages, it is important to reassess individual SWLs. To this end, a significant assessment programme was completed in 2016. These noise measurements allow us to prioritise and target improvement works to improve our overall noise levels. These SWLs are also used to model our noise profile against our machine operating log to determine the likely noise contribution of our operations. In practice, the modelled noise profile also supports the prioritisation of plant and equipment works for maximum improvement to potential noise impacts for our neighbours.



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ITEMS OF PLANT HAD
SOUND POWER LEVELS
UPDATED ACROSS
PORT WARATAH



31

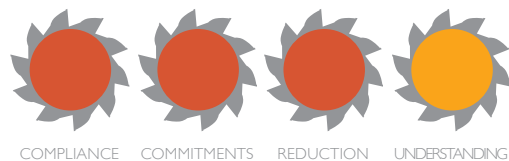
ATTENDED NOISE MONITORING LOCATIONS ARE
MONITORED EACH QUARTER TO ASSESS NOISE
EMISSIONS FROM BOTH TERMINALS – INCLUDING
RESIDENTIAL AND INDUSTRIAL LOCATIONS

CARRINGTON

6 X RESIDENTIAL
6 X INDUSTRIAL

KOORAGANG

9 X RESIDENTIAL
10 X INDUSTRIAL



We work to reduce our impact on the Hunter River

Port Waratah captures and reuses as much water as possible for operational uses, however potable water is required for certain activities or when reuse water is not available.

Water at Port Waratah is primarily used for dust suppression, employee amenities, vessel drinking water supply, irrigation, washdowns and firefighting systems.

How we manage water

To meet the water needs of all users on our sites, each Terminal has a complex water management system comprised of drains, sumps, launders, pipes, storage tanks, ponds and recirculation infrastructure.

Managing this system is a careful balance between capturing water for operational uses such as dust suppression and wash downs and storage capacity to capture rain or storm events for compliance with statutory requirements.

Port Waratah's commitment to water improvements has seen significant progress during 2016. A total of \$11.5 million was committed to a number of water projects at the Carrington and Kooragang terminals to maximise water storage and improve discharge water quality. At Kooragang the focus was on detention pond maintenance, improving pumping capacities and the implementation of an additional water storage K4A at the Wharf. The focus at Carrington was on the development of a long-term water capacity strategy progressively increasing water storages over a number of years. Water Management projects will continue to be a material component of our overall sustaining capital portfolio at \$4.5 million in 2017.

We actively engage with the EPA to determine additional projects to improve our environmental performance. In 2016 we had three Pollution Reduction Programmes (PRPs) for the Carrington Terminal's water management system. These PRPs will increase water storage during storm events and provide overall improvements to discharge water quality. We will continue to work on these programmes in 2017.

Regulatory compliance

Water discharge is governed by criteria set out in the Environment Protection Licence (EPL) for each terminal.

During 2016, we also commissioned and installed a new Sewage Treatment Plant at Carrington Terminal. The commissioning and system stabilisation phase has been challenging. We extensively monitored beyond the requirements of our EPL during this time, but on 31 occasions this year we did not meet water quality criteria for nitrogen and/or total suspended solids. Each of these minor non-compliances were reported to the EPA and modifications were made to the system to improve performance. We continue to work with plant operators and the supplier to make necessary modifications.

Continuous improvement

As we look to further improve mitigation of impacts on water quality in the Hunter River, we have also set ourselves a target to improve the management of unlicensed discharges. Such failures include pipe failures, leaks and other issues. We intend to embed this in our LTO business performance measures in 2017. Stakeholders will continue to see the progressive implementation of a range of projects and new infrastructure over future years to improve our water performance.

WATER MANAGEMENT PROJECTS COMPLETED IN 2016



\$4.4M

K4A POND
CONSTRUCTION
KOORAGANG

\$1.1M

SEWAGE TREATMENT
PLANT UPGRADE
CARRINGTON

\$1.3M

SETTLING LAGOON I
UPGRADE KOORAGANG

\$4.4M

DETENTION PONDS
A/B UPGRADE (INCL.
STORMWATER PUMPS)
KOORAGANG

\$220K

GATE G3 DRAINAGE
AND WHEEL WASH
KOORAGANG

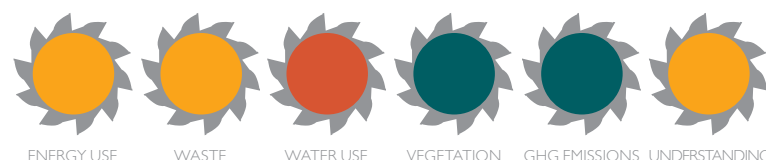
\$120K

DETENTION
POND C UPGRADE
KOORAGANG

K4A POND

Work began on the construction of K4A pond in 2016 to enhance the Kooragang wharf water management system and improve the water storage capacity associated with the Kooragang K4 wharf and the surrounding catchment. The K4A pond will be integrated into the existing K4 water storage and will almost triple storage capacity. Commissioning of K4A is set for completion in 2017. The total project delivery cost is approximately \$4.4 million and takes the total capacity of the interconnected K4 ponds from 3.4 ML to 9.9 ML.





We work to create a positive environmental footprint

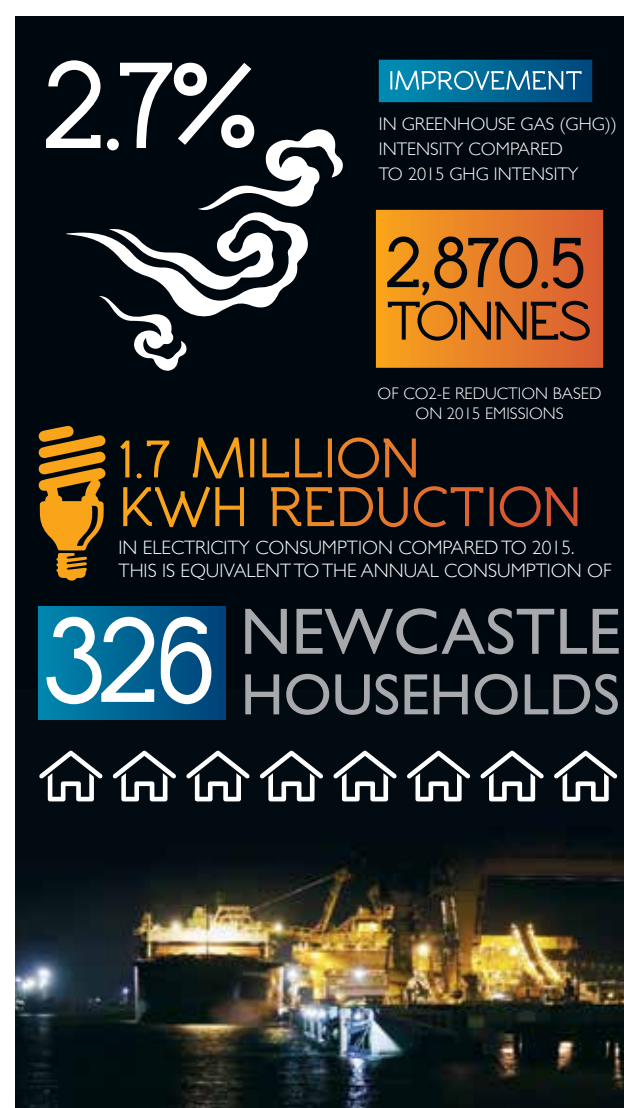
Our activities create our environmental footprint. Our targets are aimed at increasing energy efficiency, minimising water consumption, reducing waste to landfill, and protecting biodiversity.

Energy efficiency and emissions

The primary use of energy at Port Waratah is through the electricity driving our plant and equipment. We employ several strategies to improve our energy efficiency and in turn reduce our greenhouse gas emissions. These range from the development and implementation of new technology to increasing the efficiency of our large yard equipment to encouraging a reduction in personal employee usage.

We commit to an annual energy-efficiency target. In 2016 this was to improve our efficiency by 2%. Unfortunately, we just missed our target, but did achieve an improvement of 1.6%. Just 0.674 kilowatt hours of electricity was consumed per tonne of coal handled, making 2016 our most efficient year to date.

Port Waratah reports its greenhouse gas emissions and energy consumption under the National Greenhouse and Energy Reporting Scheme (NGERS) national reporting framework. The data reported under NGERS is used by the federal government to inform policy, inform the public, and to help meet international reporting obligations. To learn more you can visit the Clean Energy Regulator's website www.cleanenergyregulator.gov.au/NGER



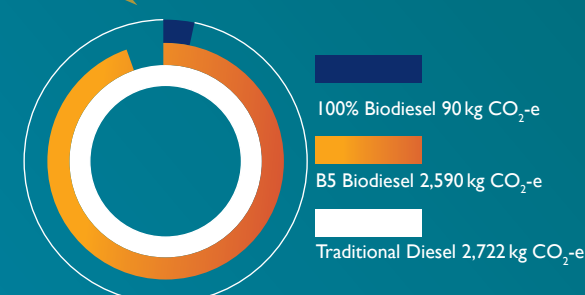
CONVERSION TO B5 BIODIESEL

In mid-2016 we began using B5 biodiesel for refuelling plant and equipment onsite. The B5 Biodiesel Blend we use is a mix of 5% biodiesel and 95% extra low sulphur diesel, which assists us to reduce our greenhouse gas, carbon monoxide, and particulate matter emissions. It was selected because it meets all requirements of the Australian Diesel Standard, with no modifications required for diesel engines, and is interchangeable with traditional diesels. Compared to traditional diesels, the use of B5 Biodiesel has seen:

- a reduction of 3.5% in Total Life Cycle emissions (those generated from the extraction of raw materials, refinement, distribution and end-use);
- a reduction of 4.8% in reportable greenhouse gas emissions, or 2,670 kg of CO₂ equivalent based on volumes consumed; and
- no increase in per litre cost

EMISSIONS COMPARISON:

1,000 L of 100% Biodiesel v B5 Biodiesel v Traditional Diesel



Waste

Our objective is to improve resource efficiency through improved waste management practices with an active focus on recycling.

Our waste management systems are largely focused on the segregation of waste materials in key areas across the terminals, particularly in the workshop and stores locations. The success of waste segregation is largely dependent on the simplicity of the system and education of our employees and contractors.

Our annual target is to reduce waste by 5%, and increase the proportion of waste diverted from landfill by 2.5% each year. In 2016 we unfortunately increased our total waste generated, however despite this, we have increased our overall recycling/diversion from landfill rate by 4.4%.



Water consumption

Our objective is to continuously improve water efficiency and reduce our potable water consumption. Our preferred source is process water collected onsite. During periods of low or no rainfall however we need to access potable water resources from the Hunter Water system. We pay for this potable water and reuse it via a recirculation water management system. The weather and seasonal variations impact on our process water availability and consumption, therefore the two are interrelated.

In 2016 we had an increase of 310 ML in potable water consumption, mainly due to prolonged periods of above average temperature and below average rainfall.



HOW WEATHER IMPACTS ON WATER USE

Rainfall at Port Waratah is captured and reused for operational purposes. Potable water is only used to supplement supply for operational purposes when there is insufficient rainfall. In light of this, our potable water usage is significantly affected by weather conditions and annual rainfall, which can be highly variable year to year.

Rainfall patterns are largely influenced by temperature and relative humidity, but also by larger scale multiple year phenomena such as the El Niño Southern Oscillation cycle (ENSO). ENSO varies over periods of two to seven years, alternating between El Niño, neutral and La Niña phases, depending on Pacific Ocean surface temperatures measured at the Equator. The El Niño phase results in an increased probability of lower rainfall and warmer temperatures in eastern Australia. In combination, this may lead to reduced rainfall able to be harvested in our water management system, and an increase in operational demand for water for dust management. When our water requirements exceed the volumes we have available within our water management system, Port Waratah supplements this demand through the purchase of potable water. Subsequently this has an impact on our potable water efficiency.



Land use and biodiversity

Our terminals are located in areas of rich industrial history, and adjacent to areas of important natural environments. North of the Kooragang Terminal is the Ramsar-listed Kooragang Nature Reserve, and Hunter Wetlands National Park, home to endangered migratory birds and other wildlife.

Our Biodiversity Management Plan (BMP) outlines general land management practices including weed, pest and erosion control, landscaping, and wildlife management. The BMP is a significant tool employed to manage day-to-day biodiversity activity and operations.

We recently developed a new Land Use Strategy, which considers the various land use activities existing across our operational and non-operational managed sites. It provides a framework for identifying opportunities and constraints

related to operations, the environment and public amenity. It aims to improve land use efficiency for operational activities, improve visual amenity and recognise and enhance the ecological diversity inside and surrounding our operations. Key themes addressed in the Land Use Strategy include:

- mitigation of conflicting land use activities;
- enhancement of areas of existing vegetation;
- identifying opportunities to develop new vegetated areas;
- mitigation of impacts to sensitive environments and areas of high conservation value;
- improvement of visual amenity from public areas; and
- consolidation of underutilised assets.

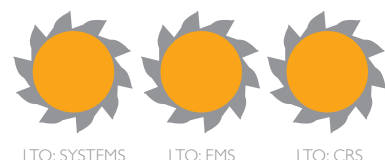
GREEN AND GOLDEN BELL FROG

Port Waratah has three land-based biodiversity offset sites at Tomago (238 ha), Ellalong (409ha) and Brundee (204 ha) for offsets associated with the T4 project approval. Each offset site offers unique opportunities to conserve, improve and maintain biodiversity values due to the different land types, geographic location and ecological communities they support.

We manage and maintain these sites to ensure their ecological value is retained. An ecological survey has confirmed a range of threatened species and ecological communities exist within these offset sites. These threatened species include the Australasian Bittern (*Botaurus poiciloptilus*), Regent Honey Eater (*Anthochaera phrygia*), Swift Parrot (*Lathamus discolor*) (Left) and the Green and Golden Bell Frog (*Litoria aurea*) (Below).

Since 2010 we have collaborated with the University of Newcastle to conduct a research programme on the Green and Golden Bell Frog population at Kooragang Island. The programme involves rigorous survey of the population during the breeding season between November to February each year. This research continued during 2016 and aims to provide insight into the population dynamics as well as factors that may contribute to the persistence of the species across the habitats on the island.





LTO: SYSTEMS LTO: EMS LTO: CRS

Our interdependent culture achieves beyond regulatory compliance

As a non-listed public company, Port Waratah is overseen by a Board of Directors representing a range of shareholders. This Board determines and monitors our strategic direction, reviewing and supporting us to meet our legal and social responsibilities. The Board's Audit and Risk Committee and our Health, Safety and Environment Committee specifically focus on compliance and governance to manage our operational risks and challenges. We have a comprehensive internal audit programme, that aims to ensure that our governance processes achieve their objectives. Our policies and management systems lay the foundations for our culture and how we engage with each other and our stakeholders.

Our governance system involves all levels of our organisation, and we all have a role in reviewing, identifying and managing sustainability risks and opportunities. Position descriptions

for each employee are aligned with our business strategy, and include commitments to all our business drivers. Targets are embedded in all employee annual performance reviews and in our business-performance incentive programme. All new Port Waratah employees undertake an induction programme that includes training on our values and business drivers.

"This is my second year of work experience and I've found that the induction is a good exercise to go through each year to understand what's important for Port Waratah."

Bronte Linich, University of Newcastle Scholarship student at Port Waratah

We are an equal opportunity employer. We have an equal pay for equal work approach, anti-discrimination policies, and a variety of benefits such as paid parental leave.

Progress in 2016

We set ourselves the target to embed our Licence To Operate Framework (LTO) into all our policies and management systems by 2018. We are delighted to report that in 2016 we achieved 100% completion of this goal. Significantly, we integrated LTO into our Environmental Management System and our Community Relations Strategy. Despite this success however, we still have some work to do before the LTO is fully embedded into all our procedures, and this will continue to be a focus in 2017. Our progress will be reviewed monthly and reported to our Management Team and Executive Committee.

Over the past two years we have run two-day 'It's Who We Are' training programmes for all our employees. The programme includes a tailored session that reinforces

the role of LTO in terms of the business and what it means for each employee during their day-to-day activities. We will continue with our employee engagement programme for LTO in 2017, and will introduce online video training packages to enhance employee LTO knowledge and skills.

Regulation and licensing

We proactively manage our regulatory compliance requirements and reporting. Our monitoring includes impact of our operations on the natural environment and society. Most of our regulatory reporting is related to environmental, and workplace health and safety requirements as dictated by State and Federal Governments. We are subject to external financial, health and safety and environmental audits. Our Environmental Management System is accredited to ISO14001 and our Health and Safety Management System to Australian Standard OHSAS 18001. There were no enforcement actions in 2016.

DIVERSITY AND INCLUSION

Our Diversity and Inclusion Strategy aims to improve our knowledge base and understanding, increase our commitment and involvement, and leverage our existing policies and awareness. Launched in April, it was developed based on feedback from employees and our community. In 2015, we conducted a Diversity Study in which we interviewed a cross-section of employees about their perceptions of diversity and inclusiveness. During our Community Attitude Survey in early in 2016, 43.2% of respondents indicated diversity was an extremely important issue.

We also formed a Diversity and Inclusion Working Group that meets bi-monthly. The management team and the working group participated in knowledge and understanding sessions facilitated by an external provider to inspire our thoughts on the issues at hand. In 2017 we will implement further active opportunities for employee involvement in diversity and inclusion initiatives and will measure and monitor progress.

How do you define diversity?

"A little bit of everything. Flexible working hours. Care about employees."

"Means equal opportunity, regardless of gender or race."

"It's about difference for all sorts of reasons."

LOW EMPLOYEE TURNOVER

7.46%

2016

4.2%

2015

14.6%

2014

41%

EMPLOYED FOR 10 YEARS MORE

EMPLOYEE SURVEY

PORT WARATAH PROVIDES
EQUAL OPPORTUNITY

63%

2015

56%

2007

GENDER



**DID YOU KNOW
THAT 15% OF THE
POPULATION
OF NEWCASTLE WERE
BORN OVERSEAS AND 9%
SPEAK A LANGUAGE
OTHER THAN
ENGLISH AT HOME?**



We are an active and valued member of our region

We are proud to be an active member of the Newcastle region and work in partnership with our stakeholders to help achieve the communal objective of a 'smart, sustainable and liveable' city.

Stakeholder engagement

Our key stakeholders are our employees, our community and our environment. It is important we engage with them all in a variety of ways to ensure we understand the important issues. Our stakeholder engagement is underpinned by a strategy that provides the overarching context of our approach and ensures our effective management of social and community issues.

We understand that the expectations of how we operate, in particular those of our community, sometimes differs to our corporate or regulatory requirements. For that reason, we actively seek to understand their expectations through biennial telephone surveys, quarterly community terminal meetings, and by building strong relationships with different sectors of the community. We also welcome face-to-face meetings, and operate a 24-hour community enquiry telephone line, and an online enquiry form. In 2016 we had 22 enquiries, all of which after investigation and consultation with the enquirer, were deemed not to be attributable to Port Waratah.

We distribute information about our activities via a variety of channels including our website, digital and print local media,

media releases, social media, word of mouth (through friends, family and colleagues) and radio broadcasts. We publish a monthly newsletter for employees, and a quarterly community newsletter is distributed to 10,000 homes and local businesses and is published on our website.

In 2016 there was a noticeable increase in preference for online information and social media with posts to social media channels including Facebook, Instagram and Twitter becoming more important as sources of information about our business. Our Annual Report and annual Sustainable Development Report are publicly available on our website.

We are an active member of the Hunter Business Chamber and HunterNet, both of which promote business in our region, however we are not signatories to any specific initiatives.

Government relations

We work constructively with local, State and Federal Governments. We are regulated through a range of development consent and licensing conditions with the NSW Department of Planning and Environment, as well as the NSW Environment Protection Authority. We have contact with Workcover NSW, and Newcastle City Council. We do not support any political viewpoint or party and do not make political donations of any kind. From time-to-time we will make our views known on specific issues that impact our organisation or stakeholders.

Port Waratah regularly hosts site tours of our Kooragang Terminal for interested members of public, industry delegations and customers

173
TOURS

1647
VISITORS

4 EDITIONS

Community newsletter delivered to over

10,000 HOMES IN PORTSIDE SUBURBS



3 Noise - Piling
3 Train Related
1 Other
7 Dust - General
8 Noise - General

COMMUNITY ATTITUDE SURVEY

Every two years we have contracted an independent third party to conduct a Community Attitude Survey. The survey addresses attitudes and perceptions in relation to our community contributions, environmental performance, operational impacts, and the methods we use to communicate and engage with our communities. The feedback is incorporated into our business planning. In April, the survey was conducted via telephone with 500 residents of Newcastle, 400 of them from neighbouring portside suburbs.

"If Port Waratah did not exist, Newcastle would not exist. There would be no economy and no employment. The coal industry underpins the economy of Newcastle and underpins the Australian economy."

Anonymous, Community Attitude Survey, 2016

54.8%

■ NO
■ YES
■ DON'T KNOW

Any concerns about Port Waratah's activities?

44.6%

For the 44.6% who did have concerns, the top 3 were:

0.6%

We compared the environmental performance results for this survey against previous years and found:

More concern about dust and the environment generally

Similar concern about noise and traffic

Less concern about greenhouse gas and specifically health related air quality impacts

ENVIRONMENTAL IMPACTS 30.5%

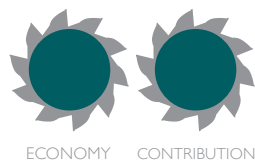
78% DUST
13.9% NOISE

WHERE WOULD YOU LIKE TO SEE COMMUNITY INVESTMENT GO?

SPORTING TEAMS/EVENTS

INFRASTRUCTURE

LOCAL COMMUNITY GROUPS



We contribute to a smart, sustainable and vibrant Newcastle

We aim to build genuine, reliable relationships with our community based on respect, and to create community partnerships that address areas of need. By supporting our community, we believe we can generate positive social impacts and create shared value.

We contribute to the local economy by buying and employing locally, and supporting sustainability and resilience of the community through our Community Investment and Partnership Programme.

Sustainable procurement

We are committed to sustainable procurement practices. We promote purchasing practices that conserve resources, save energy, minimise waste, protect the environment and human health, and maintain safety and quality.

Supporting the local economy

We are committed to supporting local suppliers and service providers that operate their businesses within the Hunter and Central Coast regions because it supports local employment in our community. To the full extent permitted by law, we give preference to local businesses when all other commercial considerations are equal. We actively seek out competitive local supplies, suppliers and contractors taking known reliability, reputation and previous experience into account.

Port Waratah's expenditure in the local community is strong year on year, once again achieving more than our target to maintain 75% of spend invested locally. Our total expenditure in 2016 was \$108.7million, of which \$4 in every \$5 was spent locally.

2016 SUMMARY OF SPEND (% OF SPEND)

1% OVERSEAS

6% AUSTRALIA

13% NSW

80% HUNTER & CENTRAL COAST

MATERIALS/PURCHASES

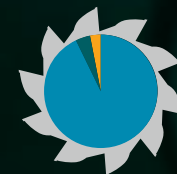
\$17.0 Million



\$8.9M	HUNTER & CENTRAL COAST
\$4.9M	NEW SOUTH WALES
\$2.2M	AUSTRALIA
\$1.0M	OVERSEAS

CONTRACTORS/CONSULTANTS

\$77.8 Million



\$72.2M	HUNTER & CENTRAL COAST
\$3.6M	NEW SOUTH WALES
\$1.9M	AUSTRALIA
\$0.1M	OVERSEAS

PROFESSIONAL SERVICES

\$13.9 Million



\$6.0M	HUNTER & CENTRAL COAST
\$5.8M	NEW SOUTH WALES
\$2.0M	AUSTRALIA
\$0.1M	OVERSEAS

This Summary excludes Electricity and Major Capital Expenditure Projects. Due to rounding, numbers may not add up precisely to the totals and percentages provided.

Community Investment and Partnership Programme

Port Waratah's Community Investment and Partnership Programme aims to create shared value for our stakeholders and have a positive impact by working in partnership to make Newcastle a smart, liveable and sustainable city.

We support a range of initiatives and programmes that:

- deliver value back to the Newcastle community, particularly portside suburbs;
- address a specific need or opportunity within the community to contribute to the overall sustainability of the region;
- deliver benefit to many people (not just individuals); and
- build capacity, skills and/or knowledge with individuals and organisations.

Involvement in our local community is something we are passionate about, and this year we provided \$737,062 of funding to 137 projects, initiatives and events, with around 70% of projects directly benefiting the Newcastle community and our neighbouring portside suburbs. In addition, for every injury-free month we donate \$2,000 to a local charity. It has also been a long-standing tradition that each year through our Programme we will match dollar-for-dollar funds donated by employees to the Westpac Rescue Helicopter and the Newcastle Bikers for Kids Toy Run.

Review of our Community and Investment Partnership Programme

This year we commenced a project to evaluate the effectiveness of our community investment strategy. The purpose of the review was to help identify areas for improvement, to shape our future efforts, and ensure that we deliver on our goal of shared value. We invited our community partners to participate in a survey, plus a small diverse group of partners to participate in a more in-depth focus group discussion. We asked questions about objectives, application process, collaboration with Port Waratah, reporting, impacts of funding, how they define success of the partnership, contribution to organisational and community sustainability, and their view on our goal of shared

value. While most feedback was positive, some opportunities for improvement were identified. Based on our learnings, we have also changed the categories we use to classify projects. This provides clarity about the priorities of the Programme and guides our investment decisions. The six themes are diversity, economic, education, environment, general community, and health. We thank our community partners who participated in the review for providing us with valuable insights.

Employee participation

Working in partnership with our community is about more than just providing funding. Most of our employees live locally and are passionate about positively contributing to the Newcastle region because it's our community too. Employees get involved in community initiatives via our Carrington and Kooragang Terminal Sponsorship & Donation Committees. This year employees from both terminals continued their strong grassroots-focused interaction with portside suburb schools and community groups. Activities they got involved in included:

- two market stall events in Carrington and Stockton;
- Throsby Creek community clean-up;
- Stockton Public School working bee;
- a movie fundraising community event for Lifeline to actively support a Carrington employee who lost his son to suicide; and
- Science, Technology, Engineering & Mathematics (STEM) schools engagement including tours of Port Waratah.

Capacity building

We seek to leverage our skills, knowledge and resources to build capacity in the community and organisations we work with. Our efforts vary from our professionals sitting on management reference groups, to donating equipment such as computers. We also support students (university scholarships including work experience, trainees and apprentices) to help develop the next generation of employees and leaders.



32%	GENERAL COMMUNITY	31%	EDUCATION
4%	DIVERSITY	4%	ENVIRONMENT
9%	ECONOMIC	20%	HEALTH
45%	NEWCASTLE REGION	2%	CARRINGTON
4%	STOCKTON /FERN BAY	40%	HUNTER REGION
1%	THROSBY VILLAGES	8%	MAYFIELD



ANNUAL VARIETY NSW BASH

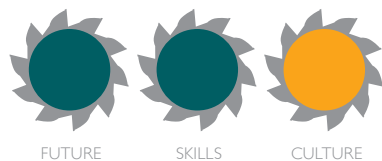
"The people who work here at Port Waratah, we just don't move coal. We're also involved in our local community... We represent Port Waratah because we work here, but we represent Port Waratah in the community doing what we do."

Darren Smith, a Port Waratah Operator with 20 years' experience

Like many Port Waratah employees, Darren knows the importance of giving back to the community. Since 2010, he and Port Waratah have contributed over \$30,000 to children's charity Variety, by taking part in its annual Variety Bash car rally. In 2016, more than 250 people took part in the Variety NSW Bash, travelling through 13 regional towns, and raising more than \$850,000 for children living with disadvantage or disability. Port Waratah donated \$6,200 to this year's Bash through 'Team Port Waratah', which comprised Darren Smith, fellow Operator Darren Stevens, and their friends. The money raised from the Variety Bash has given less fortunate children around the Hunter the opportunity to participate in new experiences.

"The smile on their faces tell a story," Darren says. "It's unbelievable."





Our systems support efficient and effective leadership and excellent operational delivery

We invest in the talent and potential of our team. Our comprehensive training and development programme means there is always opportunity to learn new skills or seek new experiences. We run regular training sessions, offer support to develop professional skills, and encourage internal secondments and rotations between teams.

Team training

Over the last few years we have reported on our 'It's Who We Are' wide-scale team cultural programme. The programme aims to introduce our business strategy and to enhance team-building skills. In 2016 we achieved our goal to have every employee in the business complete the training within a two-year cycle.

We now move into the second phase, 'It's How We Lead', which is a leadership development programme that aims to introduce consistent leadership expectations, capabilities and mindsets. In 2016 we also continued our 'What's Next?' employee engagement programme, which resulted in several improvement projects being undertaken and embedded across the business. This included a revision of our Golden Rules of safety and a review of our employee recognition mechanisms.

Diversity and inclusion

Port Waratah began its journey towards a more diverse and inclusive workplace in 2016 by undertaking a diversity study and developing a strategy, see more on page 29. In meeting our obligations under the Workplace Gender Equality Act 2012, we lodged our Workplace Profile with the Workplace Gender Equality Agency (WGEA) in May, a copy of which can be found on our website.

In 2016 four of our employees took part in the WIMnet NSW Mentoring Programme. Established in 2015, it is the first and only face-to-face mentoring programme for women working in the NSW resources sector. The programme matches mentees and mentors with the help of Registered Psychologists, and conducts career guidance training and workshops. The programme was highly valued by all participants and we will continue our support of it next year.

Efficiency and productivity

In line with our approach of continuous improvement, we seek opportunities to increase our efficiency and productivity to meet the challenges of our industry's environment. As people leave and roles become vacant, we challenge the business as to whether that role needs re-filling or whether we can adjust by working differently.

KEY TRAINING PROGRAMMES

98 DIFFERENT
FACE-TO-FACE
AND E-LEARNING
TRAINING COURSES
OFFERED

COURSES
COMPLETED
5,357

MANAGING
OUR HAZARDS
238 ATTENDEES

IT'S WHO
WE ARE
265 ATTENDEES

In 2016 we continued to explore opportunities for efficiency and to challenge ourselves to look at new ways of working. At the end of the year, we had a total of 335 employees in a range of operational, trade, professional and management roles. This decrease included seven resignations and non-replacements, and five roles through redundancy.

Our employee turnover rate for 2016 was 7.46%. In 2016, 56% of employees are covered by the Enterprise Agreement 2015. We continue to consult with employees on all matters in line with this agreement and all Port Waratah company policies. There were no instances of protected industrial action during 2016.

WHO WE WERE IN 2016



LIVING & WORKING LOCALLY WHERE OUR EMPLOYEES LIVE

EMPLOYEE HOME SUBURBS	%
Newcastle	34%
Lake Macquarie	42.6%
Port Stephens	14.6%
Maitland	5.8%
Other	3%
TOTAL	100

LONG SERVICE DINNER

At the heart of our business is our people. One way we recognise our employees' dedication and loyalty to our business is through our 20 Years' Service Recognition Programme. In November we had the pleasure of hosting a 20 Years Service celebration for a record number of long-serving employees. We invited 33 employees and their partners to a celebratory dinner hosted by our CEO, Hennie du Plooy. The event was held at the iconic Newcastle Customs House Hotel where we had a great view of vessel movements through the harbour.





COAL LOADED

Our services meet or exceed customer expectations

We are a local business providing services to the local coal industry. In 2016 that meant we received, stockpiled, blended and loaded approximately 109.5 million tonnes of coal onto 1225 vessels from our Carrington and Kooragang Terminals.

Market conditions

The Hunter Valley coal industry continued to face a challenging market environment during 2016. However, it did experience some relief in the second half of the year with an uplift in global coal prices. In recognition of the challenges faced by our customers, we endeavoured to improve our operational and cost performance. This was intended to contribute to reducing the overall costs incurred in the logistics chain. We continued our approval process work during 2016 for the approved Terminal 4 facility. The current environment is significantly different from that in which our original application for Terminal 4 was lodged in 2010. The need for extra coal export capacity is not immediate. However, the planning certainty afforded by the approval of Terminal 4 in 2015 will allow us, and the Hunter Valley export coal industry, to deliver further terminal capacity if and when required.

Productivity

During the year, we handled 109.5 million tonnes of coal through our Carrington (15.1Mt) and Kooragang (94.4 Mt) terminals. This represents increased tonnage of 0.6% on 2015 figures. Thermal coal exports decreased by 2.3%, with shipments for the year totalling 94.5 million tonnes. Coking coal exports increased by 23%, with shipments for the year totalling 15.0 million tonnes.

Favourable operational performance measures for the Kooragang Terminal were achieved throughout 2016. Terminal records were achieved for daily, weekly and monthly rail receipt. Records were also achieved in the daily and weekly shiploading area. Another operational highlight was a 14.3% improvement on our record performance for Mean Time Between Failure

at Kooragang Terminal. Favourable operational performance measures for the Carrington Terminal were also achieved, notably an improvement in Mean Time To Repair of 47% compared to 2015.

On the downside, actual throughput fell short of budgeted volumes due to reduced customer demand. For customers, that meant having the full terminals' capacity available, which provided flexibility to accelerate operations in response to demand when required. In November, a fire was identified on an outbound conveyor at Kooragang Terminal. Port Waratah's initial response was instigated, with the team successfully containing the fire until emergency services arrived and extinguished the blaze. Significantly and importantly, there were no injuries.

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

Infrastructure improvements

Significant project work was completed in 2016 with the replacement of the Carrington Terminal shiploaders. Construction of two new shiploaders was successfully completed in China during the year, and both became operational in November.

Contract management system

Our Contract Management System ensures that we meet the high expectations of stakeholders in our operational, safety, environmental and social performance. All Port Waratah contractors on our sites must be fully accredited and inducted.



CARRINGTON SHIPLOADER REPLACEMENT PROJECT

After loading more than 300 million tonnes of coal over the past 40 years, three hard-working shiploaders at the Carrington Coal Terminal were decommissioned and replaced by two new ones. The new shiploaders have been built to modern safety, environmental and technological standards.

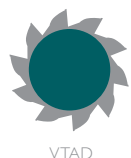
Around midday on 24 July, the Happy Buccaneer, a big lift vessel, entered Newcastle Harbour with the two new shiploaders on board. It provided local residents with an 'up-close-and-personal' view of this major feat of complex engineering and logistics. The new shiploaders became operational in late 2016 and up until the end of the year had loaded around 3.2 million tonnes of coal. We consider them to be a key piece of infrastructure.

"It's been great to witness so many people out and about on the harbour viewing the arrival of the new shiploaders"

Terry Tynan, General Manager, Development for Port Waratah

The first of the old shiploaders was decommissioned and departed Carrington in August 2016. The two remaining ones have also been removed in early 2017. As part of the build contract for the new shiploaders, the old shiploaders will be responsibly disposed of by project manager Sandvik.





We proactively and positively collaborate to maximise coal chain performance

During the year, the coal chain exported a record high tonnage of 161Mt, which was 96% of Port of Newcastle's total trade. We contributed 109.5Mt, which is second only to our 2014 figures. We also set new daily, weekly and monthly throughput records for both train unloading and vessel loading throughout the year. We loaded 1,225 vessels, sourced from 35 different mines and destined for 21 different countries. Almost half of our throughput was exported to Japan, which continues to be a long-term partner of the Hunter Valley Coal Chain. Other notable destinations were Taiwan, China and South Korea.

Challenging market conditions

This record throughput is impressive given the Hunter Valley Coal Industry began 2016 with the same challenging market conditions of the previous year. Changes in global coal markets in the second half of the year provided the industry with unexpected price increases. However, uncertainty remains and recent softening of prices confirms that they are unlikely to be sustained at these high levels. Some industry consolidation occurred with ownership changes at several mines.

Focus on handling charges

We have kept our focus on minimising handling charges, and we maintained our historically-low coal handling charge throughout the year. We were also able to integrate two new shiploaders into our Carrington terminal with minimal disruption to coal handling and our customers. An improvement project to embed and streamline Port Waratah's customer interface continued in 2016. A customer satisfaction survey was initiated in 2016 and we look forward to the results next year.

Coal chain initiatives

We actively participated in several coal chain initiatives and engaged proactively with other coal chain participants in the interests of maximising the performance of the coal chain. A coal chain focus in recent years has been on closing the gap between terminal capacity and coal chain capability to deliver coal to the Terminals. One key area in which Port Waratah assists in achieving this, is by minimising the number of days between vessel arrival and loading. This has a direct impact upon demurrage (a cost associated with the time from arrival to completion) costs for our customers. During 2016, average vessel turnaround time reduced to 4.6 days and we aim to further reduce this in 2017.

WAGON MONITORING ASSURANCE

The Hunter Valley Coal Chain is serviced by a rail corridor, and the potential air quality impacts are a concern for some of our community stakeholders. To better understand the issue, Port Waratah, along with all NSW coal export terminals, undertook an Environmental Improvement Programme (EIP) with the Environment Protection Authority (EPA) to monitor and report on the condition of loaded trains as they arrived at the terminals for unloading. The purpose of this EIP was to promote the improvement of wagon-loading practices and minimise the potential for the spillage of coal into the rail corridor on the trains journey from the load point to the coal terminal.

The programme commenced in March 2016 and continued until the end of September. It included assessing loaded coal trains against criteria relating to the likelihood that coal may have been spilt within the rail corridor. For the duration of the programme, we observed more than 7,000 trains arriving at the Terminals, and made more than 100,000 assessments on individual wagons of those trains.

IN 2016 **PORT WARATAH** **LOADED** **109.5** **MILLION TONNES OF COAL**

94.4 **MILLION TONNES** **15.1** **MILLION TONNES**
FROM KOORAGANG FROM CARRINGTON

AN INCREASE ON 2015
OF 0.63

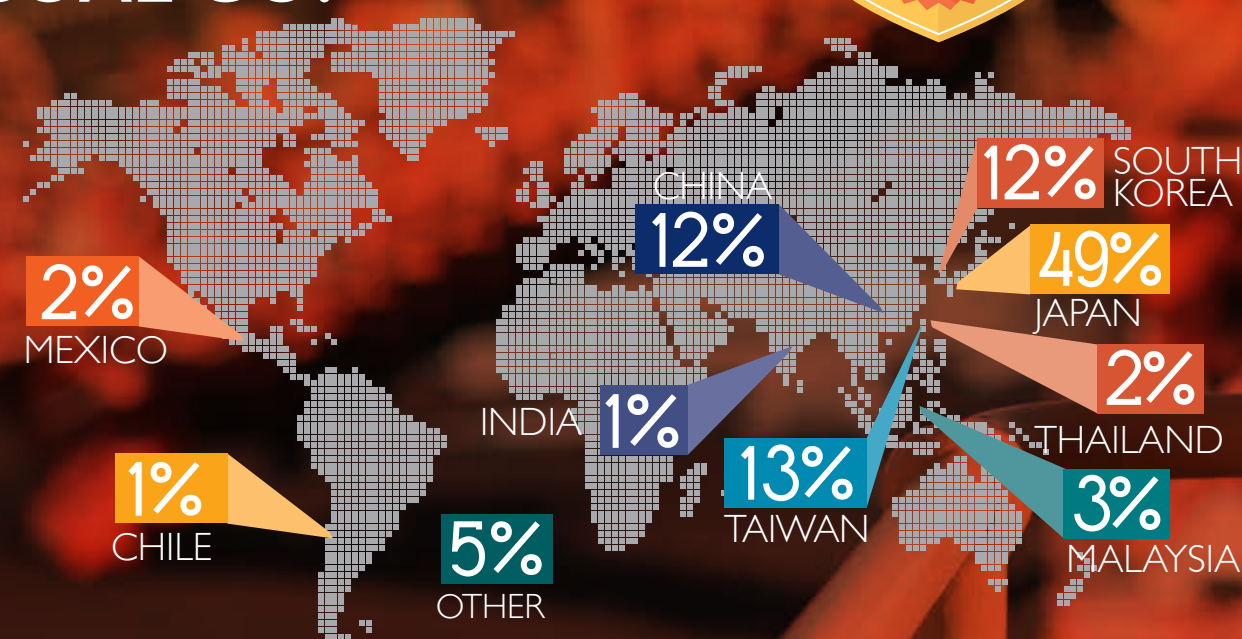
1,225 **VESSELS LOADED**
(an increase on last year)

DAILY SHIPLOADING RECORD

4.6 **DAYS AVERAGE TURNAROUND**
(decrease from 4.8 in 2015)

502,447t
(broken on 26 May, 2016)

WHERE DID THE COAL GO? **AVERAGE VESSEL QUEUE** **15**



Our data is underpinned by our accredited systems

Port Waratah has an internationally accredited Environmental Management System (EMS) and Occupational Health and Safety Management System (OHSMS). The systems provide our framework for managing environmental and occupational health and safety aspects of the business.

Both our EMS and OHSMS are accredited to recognised best practice standards ISO 14001 and OHSAS 18001 respectively. Our EMS has maintained certification since 2009, and the OHSMS since 2014. Certification remains valid for three years before the entire system is audited to ensure ongoing compliance. However, we participate in surveillance audits every year to ensure that our EMS and OHSMS are effective, fully implemented and continually improved. Internal audits, reporting of incidents, and training, also assess the performance of the management systems. Our management team approves objectives and targets, which are tracked monthly.

Each work group at Port Waratah is represented by an elected Health and Safety Representative (HSR). The HSR's are joined by Port Waratah's nominated representatives, as well as OHS and Environmental team members on a monthly basis for the Port Waratah Health, Safety and Environment (HSE) Committee Meeting. The HSE Committee works to continually improve systems and policies, and promote a healthy, safe and environmentally conscious workplace through open, honest and transparent consultation.

Although our data is underpinned by our accredited systems and subject to external audits, at present our Sustainable Development Report is not externally assured. We recognise that external assurance about the quality of and information presented in our reports, plays an important role.

DURING 2016 WE PARTICIPATED IN THE FOLLOWING ASSURANCE ACTIVITIES:



OUR COMMUNITY PARTNERS

PORT WARATAH COAL SERVICES KOORAGANG

PORT WARATAH COAL SERVICES CARRINGTON

- 2016 KO Classic
- 2016 Newcastle Regional Show
- ANZAC Dawn Service
- Awabakal
- Basketball Association of Newcastle
- Breast Cancer Support Network
- Callaghan College Waratah Technology Campus
- Carrington Public School
- Chuck Duck & Rooster Cluck
- Conservation Volunteers Australia
- Dixon Park Surf Life Saving Club
- Fern Bay Public School
- French Film Festival
- GLOW
- Harry's House
- Hillcrest Tennis Club
- HRMI
- Hunter Melanoma Foundation
- Hunter Research Foundation
- Hunter Simba FC
- Jenny's Place
- John Hunter Children's Hospital
- Kotara South Public School
- Lifeline
- Light Up Newcastle
- Many Rivers Microfinance
- Mark Hughes Foundation
- Mattara Festival
- Matthew Talbot Homeless Service
- Mayfield East Public School
- Mayfield West Public School
- Merewether High School
- Merewether Surf Life Saving Club
- Mission To Seafarers
- Newcastle All Blacks
- Newcastle Community Arts Centre
- Newcastle High School
- Newcastle Italian Film Festival
- Newcastle Music Festival
- Newcastle Pirates Winter Swimming Club
- Newcastle Rowing Club
- Newcastle Surf Life Saving Club
- Procure
- RDA Hunter
- Run Newcastle
- Salvation Army
- Samaritans
- Shortland Public School
- Society of Artists
- Soul Café
- St Columban's Primary School
- St Dominic's Centre
- Stockton Public School
- Stockton Surf Life Saving Club
- Stockton Tennis Club
- St Peter's Primary School
- The Song Room
- Throsby Big Brunch
- Tighes Hill Public School
- University of Newcastle
- Upstage Youth Theatre
- Variety
- Waratah West Public School
- Watt Space Gallery
- Westpac Rescue Helicopter Service



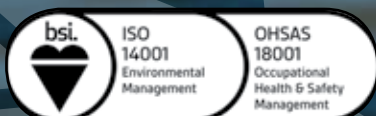
PORT WARATAH COAL SERVICES

24-hr Community Enquiries Line (02) 4907 2280

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