

**Port of Newcastle Investments (Holdings) Trust and
controlled entities ("Port of Newcastle Group")**

ABN 84 685 817 245

Financial Statements - 31 December 2022

**Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Trustees' report
31 December 2022**

The trustee's present their report, together with the financial statements of Port of Newcastle Investments (Holdings) Pty Limited as trustee for Port of Newcastle Investments (Holdings) Trust and controlled entities (referred to hereafter as the Group or 'PON Group') for the financial year ended 31 December 2022.

Distributions

Distributions of \$7,200,000 were declared in 2022 (\$7,600,000 declared in 2021).

Review of operations

The profit for the Group after providing for income tax amounted to \$282,325,000 (31 December 2021: \$143,000).

Whilst the Group has negative net current assets as at 31 December 2022 the Group is a going concern in the reporting year ahead, based on forecasts and available cash resources. The Group has access to undrawn senior bank debt facilities of \$27m as set out in note 17 which could be drawn if required to enable the payment of current liabilities. This financial report has accordingly been prepared on a going concern basis.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the trustees believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Indemnity and insurance of officers

The Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a trustee or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executives of the Group against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the Group

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

Rounding of amounts

The Group has applied ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Accordingly amounts in the financial statements have been rounded to the nearest thousand dollars.

This report is made in accordance with a resolution of trustees.



20 April 2023

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")

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General information

These general purpose financial statements are the consolidated financial statements of the Group consisting of Port of Newcastle Investments Holdings Trust and its controlled entities ("The Port of Newcastle Group").

The financial statements are presented in the Australian currency.

Its registered office and principal place of business is:

Port of Newcastle Investments (Holdings) Trust
Level 4, 251 Wharf Rd
Newcastle, NSW, 2300

The financial statements were authorised for issue by the Directors of the Trustee on 20 April 2023. The Directors of the Trustee have the power to amend and reissue the financial statements.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	2022 \$'000	2021 \$'000
Revenue			
Trade revenue	4	120,780	129,409
Property revenue	4	40,907	39,645
Other income	4	3,494	3,621
		165,181	172,675
Expenses			
Employee benefit expense	5	(23,913)	(26,068)
Repairs and maintenance		(6,078)	(5,373)
Services and consultants		(5,165)	(3,630)
Property and utilities		(16,150)	(13,891)
Contractual operating expenses		(8,625)	(9,190)
Other operating expenses	8	(8,432)	(9,284)
Transition costs	7	(3,937)	(7,934)
		92,881	97,305
Profit/(loss) before interest, tax, depreciation, amortisation and revaluations			
Depreciation and amortisation expense	12	(34,047)	(32,762)
Interest income	4	476	78
Finance costs	6	(65,774)	(57,261)
Fair value gain/(loss) on investment properties	14	279,826	(15,212)
Fair value gain/(loss) on revaluation of property, plant & equipment		-	515
Foreign currency gain/(loss)		(307)	56
Impairment loss on assets		(596)	-
		272,459	(7,281)
Profit/(loss) before income tax benefit			
Income tax benefit	9	9,866	7,424
		282,325	143
Profit after income tax benefit for the year			
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation gain/(loss) of plant and equipment, net of tax		(253,540)	(71,035)
Defined benefit superannuation gain/(loss), net of tax		1,275	1,426
Effective gain/(loss) of changes in fair value of cash flow hedges, net of tax		14,172	1,045
Effective gain/(loss) of changes in fair value of fair value hedges, net of tax		(1,111)	(654)
		(239,204)	(69,218)
Total comprehensive income for the year			
		43,121	(69,075)
Profit/(loss) from continuing operations attributable to:			
Corporate Trust Group		(37,317)	(22,736)
Property Trust Group		319,642	22,879
Profit/(loss) for the year		282,325	143
Total comprehensive income/(loss) for the year attributable to:			
Corporate Trust Group		(201,509)	(75,831)
Property Trust Group		244,630	6,756
Total comprehensive income/(loss) for the year		43,121	(69,075)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Consolidated statement of financial position
As at 31 December 2022

	Note	2022 \$'000	2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	10	40,291	33,578
Trade and other receivables	11	12,596	10,598
Inventories		248	250
Prepayments		4,214	3,273
Derivative financial instruments	26	9,562	4,506
Total current assets		66,911	52,205
Non-current assets			
Derivative financial instruments	26	9,764	5,115
Investment properties	14	680,000	400,020
Property, plant and equipment	12	1,881,183	2,201,899
Right-of-use assets	25	2,907	3,412
Intangible assets	13	2,182	1,935
Total non-current assets		2,576,036	2,612,381
Total assets		2,642,947	2,664,586
Liabilities			
Current liabilities			
Trade and other payables	16	26,057	28,057
Borrowings	17	358,196	-
Lease liabilities	25	3,218	574
Derivative financial instruments	26	9,104	3,581
Current tax liabilities	9	27,002	22,366
Employee benefits	19	2,440	2,321
Deferred revenue	18	636	666
Total current liabilities		426,653	57,565
Non-current liabilities			
Borrowings	17	867,673	1,226,154
Lease liabilities	25	17,638	3,107
Derivative financial instruments	26	19,365	21,124
Net deferred tax liability	15	343,998	423,502
Employee benefits	19	541	464
Post employment benefits	19	528	2,042
Total non-current liabilities		1,249,743	1,676,393
Total liabilities		1,676,396	1,733,958
Net assets		966,551	930,628

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Consolidated statement of financial position
As at 31 December 2022

	Note	2022 \$'000	2021 \$'000
Equity			
Equity attributable to Corporate Trust Group			
Unit capital	20	118,087	118,087
Reserves	21	184,855	349,046
Retained earnings/(accumulated losses)	22	(158,269)	(120,952)
Total equity attributable to Corporate Trust Group		<u>144,673</u>	<u>346,181</u>
Equity attributable to Property Trust Group			
Unit capital	20	550,103	550,103
Reserves	21	117,919	192,930
Retained earnings/(accumulated losses)	22	153,856	(158,586)
Total equity attributable to Property Trust Group		<u>821,878</u>	<u>584,447</u>
Total equity		<u><u>966,551</u></u>	<u><u>930,628</u></u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Consolidated statement of changes in equity
For the year ended 31 December 2022

Attributable to the Corporate Group Trust:

	Note	Unit capital \$'000	Accumulated losses \$'000	Asset revaluation reserve \$'000	Superannuation reserve \$'000	Total \$'000
Balance at 1 January 2021	20	118,087	(98,216)	402,668	(527)	422,012
Total comprehensive profit/(loss) for the period	22	-	(22,736)	-	-	(22,736)
Defined benefit superannuation gain/(loss) (net of tax)	21	-	-	-	1,426	1,426
Revaluation of plant & equipment (net of tax)	21	-	-	(54,521)	-	(54,521)
Balance at 31 December 2021		118,087	(120,952)	348,147	899	346,181
Balance at 1 January 2022	20	118,087	(120,952)	348,147	899	346,181
Total comprehensive profit/(loss) for the period	22	-	(37,317)	-	-	(37,317)
Defined benefit superannuation gain/(loss) (net of tax)	21	-	-	-	1,275	1,275
Revaluation of plant & equipment (net of tax)	21	-	-	(165,466)	-	(165,466)
Balance at 31 December 2022		118,087	(158,269)	182,681	2,174	144,673

Attributable to the Property Group Trust:

	Note	Unit capital \$'000	Accumulated losses \$'000	Asset revaluation reserve \$'000	Cash flow hedges \$'000	Fair value hedges \$'000	Total \$'000
Balance at 1 January 2021	20	550,103	(173,865)	224,386	(15,333)	-	585,291
Total comprehensive profit/(loss) for the period	22	-	22,879	-	-	-	22,879
Distributions to unit holders	22	-	(7,600)	-	-	-	(7,600)
Effective portion of changes in FV of cash flow hedges	21	-	-	-	1,045	-	1,045
Effective portion of changes in FV of fair value hedges		-	-	-	-	(654)	(654)
Revaluation of plant & equipment	21	-	-	(16,514)	-	-	(16,514)
Balance at 31 December 2021		550,103	(158,586)	207,872	(14,288)	(654)	584,447
Balance at 1 January 2022	20	550,103	(158,586)	207,872	(14,288)	(654)	584,447
Total comprehensive profit/(loss) for the period	22	-	319,642	-	-	-	319,642
Distributions to unit holders	22	-	(7,200)	-	-	-	(7,200)
Effective portion of changes in FV of cash flow hedges	21	-	-	-	14,172	-	14,172
Effective portion of changes in FV of fair value hedges	21	-	-	-	-	(1,111)	(1,111)
Revaluation of plant & equipment	21	-	-	(88,072)	-	-	(88,072)
Balance at 31 December 2022		550,103	153,856	119,800	(116)	(1,765)	821,878

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Consolidated statement of cash flows
For the year ended 31 December 2022

	Note	2022 \$'000	2021 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		180,223	187,086
Payments to suppliers and employees (inclusive of GST)		(85,978)	(78,008)
Finance costs		(41,422)	(49,762)
Other operating cash expenses		(447)	(47)
Income taxes (paid)/benefit		315	(117)
GST paid		(8,809)	(10,235)
Interest received		543	77
Net cash from operating activities	23	44,425	48,994
Cash flows from investing activities			
Payments for acquisition of property, plant & equipment		(33,634)	(18,666)
Proceeds from sale of property, plant and equipment		-	38
Net cash used in investing activities		(33,634)	(18,628)
Cash flows from financing activities			
Proceeds from bank debt		358,357	620,000
Proceeds from lease financing		16,640	-
Repayment of bank debt		(364,796)	(1,041,174)
Proceeds from US144A senior secured notes		-	413,625
Payment of debt issuance costs		(5,726)	(15,145)
Principal elements of lease payments		(1,353)	(565)
Distributions to unit holders		(7,200)	(11,600)
Net cash used in financing activities		(4,078)	(34,859)
Net increase/(decrease) in cash and cash equivalents		6,713	(4,493)
Cash and cash equivalents at the beginning of the financial year		33,578	38,071
Cash and cash equivalents at the end of the financial year	10	40,291	33,578

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

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Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 1. Port of Newcastle Group

(a) Principal activities

These consolidated financial statements are of the Port of Newcastle Group which comprises the Port of Newcastle Investments (Holdings) Trust (the "Corporate Trust") and its subsidiaries, Port of Newcastle Investments (Property Holdings) Trust (the "Property Trust") and its subsidiaries (referred to the "Port of Newcastle Group," the "PON Group" or "the Group"). The full listing of controlled or deemed to be controlled entities is outlined in note 32 of these financial statements.

The PON Group acquires, finances, operates, develops and maintains the Port Assets under a 98 year Port Lease, sublease and Channel User License Agreement and Deed (the "PON Business"). The Port of Newcastle services the Hunter Region in the operation of the Newcastle Port. It is the largest coal export port in the world and also facilitates trade of 25 non-coal commodities including bulk fuels, wheat and grains, and alumina.

The PON Group (with the exception of the Port of Newcastle Unit Trust ("Port Manager") which was acquired from the State) was established in 2014 by an investor consortium to acquire the PON Business from the NSW State. On 29 May 2014 the consortium investors entered into a Securityholders Deed together with the acquiring entities - the Corporate Trust and the Property Trust - of the PON Business (the "Deed"). The consortium investors at acquisition were The Infrastructure Fund securityholders (TIF Investments and TIF Investments B) and Gold securityholders (Gold Trust and "China Merchants Union ("CMU)"). In 2018, CMU sold its investment to China Merchants Port Holdings Company ("CMPort"). Each securityholder group holds 50% of the Corporate Trust and the Property Trust. Under the Deed, the securityholders groups agree to ensure equivalence in that the proportion of securityholder interest held by each investor is identical between the Corporate Trust and the Property Trust and neither is permitted to transfer an interest in one without selling a proportionate interest in the other.

The Deed regulates the control, management and funding of each of the entities in the PON Group. The PON Group is managed on a day-to-day basis by the Group Executives in accordance with the PON Group business plan, the budget and the Deed. Under the financing facilities provided by lenders, all PON Group entities guarantee the debts of the initial borrower entity.

(b) Basis of preparation

These general purpose financial statements have been prepared by the Directors to meet the information needs as required under the Securityholder Deed dated 29 May 2014 and are in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ("AASB"). The PON Group is a for-profit entity for the purpose of preparing the financial statements.

As at 31 December 2022, the parent entity and group had a deficiency of current net assets of \$359.8m (2021: \$5.4m). This includes the reclassification of the shareholder loan of \$358.2m to current liabilities as it is due in July 2023. However, the Shareholders are in the process of the extension of the loan to 2034. The Group has access to undrawn senior bank debt facilities of \$27m as set out in note 17 which could be drawn if required to enable the payment of current liabilities. The PON Group has the ability to realise its assets and discharge its liabilities in the normal course of business. On this basis the financial report has been prepared on a going concern basis.

(i) Consolidated accounts and the Securityholder arrangement

Under AASB 3 Business Combinations, the acquisition of the PON Business is a business combination in which the Corporate Trust and the Property Trust agree by contract - the Securityholder Deed - to combine their businesses to form the PON Group. The Corporate Trust has been identified as the parent entity in relation to the preparation of the consolidated financial statements.

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by the Corporate Trust, including those deemed to be controlled by identifying it as the parent of the PON Group, and the results of those controlled entities for the year then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Non-controlling interests in the results and equity are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Non-controlling interests are those interests in the Property Trust Group which are not held directly or indirectly by the Corporate Trust.

(ii) Compliance with IFRS

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 1. Port of Newcastle Group (continued)

The financial statements of the PON Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(iii) Early adoption of standards

The PON Group has not elected to apply any pronouncements before their operative date.

(iv) Historical cost convention

The financial statements have been prepared on a going concern basis using historical cost conventions, except for investment properties (including non-current assets held for sale), derivative financial instruments and certain financial assets and liabilities which are stated at fair value.

(v) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the PON Group's functional currency.

(vi) Rounding of amounts

The PON Group has applied ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Accordingly amounts in the financial statements have been rounded to the nearest thousand dollars.

(vii) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and whose operating results are regularly reviewed by the entity's chief operating decision maker ("CODM") to allocate resources and assess the entity's performance. The PON Group's Chief Executive Officer ("CEO") has been identified as the CODM for the purposes of assessing segmental reporting.

The PON Group has determined that it operates in a single segment. While the operation of the port is split between the Corporate Trust Group and Property Trust Group, there is one Executive Leadership Team and one CEO. Management deems there to be no difference in the risks and returns of the PON Group based on the revenue streams.

All of the PON Group's operations are provided in Australia, therefore no geographic information is disclosed.

Note 2. Summary of significant accounting policies

(a) Revenue and other income

The PON Group derives revenue from the transfer of goods and services over time and at a point in time. Refer to note 4(a) for further details.

(b) Income Tax

(i) Port of Newcastle Investments Pty Limited, Port of Newcastle Unit Trust and Port of Newcastle Operations Pty Ltd

Port of Newcastle Investments Pty Limited ("Acquisition Co") is the head company of a tax consolidated group consisting of itself, Port of Newcastle Unit Trust ("Port Manager") and Port of Newcastle Operations Pty Ltd (trustee for Port Manager) and they have implemented the tax consolidation legislation.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 2. Summary of significant accounting policies (continued)

Acquisition Co and the other entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Acquisition Co also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the entities in the tax consolidated group. The entities have also entered into a tax funding agreement under which the entities in the tax consolidated group fully compensate Acquisition Co for any current tax payable assumed and are compensated for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Acquisition Co under the tax consolidation legislation.

The income tax expense or benefit calculated for the period is the tax payable on the current period's taxable income based on the national income tax rate enacted or substantively enacted adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available within the tax consolidated group to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities and associates where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ii) Port of Newcastle Investments (Financing) Pty Limited

Port of Newcastle Investments (Financing) Pty Limited ("FinCo") is an Australian taxpayer in its own right.

Current tax, deferred tax liabilities and deferred tax assets arising from temporary differences of FinCo are presented in the consolidated financial report.

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate enacted or substantively enacted adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

(iii) Non-taxable entities

Port of Newcastle Investments (Property Holdings) Trust and Port of Newcastle Investments (Property) Trust are not Australian taxpayers on the basis that these trusts qualify as Division 6 trusts and accordingly, neither entity applies the principles prescribed by AASB 112: "Income Taxes".

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments with original maturities of three months or less which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(d) Trade and other receivables

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 2. Summary of significant accounting policies (continued)

Trade receivables are recognised initially as the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost using the effective interest method, less loss allowance.

(e) Foreign currency translation

All foreign currency transactions during the financial period are brought to account using the exchange rate in effect at the date of the transaction.

Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

(f) Financial assets

Financial instruments are recognised initially on the date that the PON Group becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), financial assets 'at fair value through other comprehensive income' (FVTOCI) and financial assets at 'amortised cost'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'amortised cost' using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

The PON Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(g) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment. The cost is the asset's fair value measurement which is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Subsequent to initial recognition, plant and equipment, machinery and vehicles, computer hardware and furniture, fittings & equipment are measured at their historical cost less accumulated depreciation and impairment in accordance with *AASB 116 Property, Plant and Equipment*.

Revaluations of the channel assets are undertaken on an annual basis. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 2. Summary of significant accounting policies (continued)

Revaluations of other plant and equipment are undertaken on a three to five year cycle. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. The last revaluation was undertaken in 2021 by an independent valuer. Any revaluation increase arising on revaluation net of tax, is recognised in other comprehensive income and accumulated within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on revaluation is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis. An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated useful lives of plant and equipment for the current period are as follows:

Category	Life	Method
Breakwaters	98 years	Straight line
Channel assets - seabed, walls & overhangs	98 years	Straight line
Wharves & Jetties	27 years	Straight line
Rail	22 years	Straight line
Roads	20 years	Straight line
Plant and equipment	3-20 years	Straight line
Permanent fixtures	19 years	Straight line
Navigation aids	14 years	Straight line
Computer equipment	3-10 years	Straight line
Motor vehicles	5 years	Straight line
Furniture, fixtures and fittings	5 years	Straight line

(h) Leases

At inception of a contract, the PON Group assesses whether a lease exists - i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration. This involves an assessment of whether:

- the contract involves the use of an identified asset - this may be explicitly or implicitly identified within the agreement. If the supplier has a substantive substitution right then there is no identified asset,
- the PON Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use,
- the PON Group has the right to direct the use of the asset i.e. decision making rights in relation to changing how and for what purpose the asset is used.

At the lease commencement, the PON Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the PON Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the PON Group's incremental borrowing rate is used.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 2. Summary of significant accounting policies (continued)

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured when there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in the PON Group's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The PON Group leases their current office space and Dyke 6 berth under separate operating lease agreements.

Leases are recognised as a right to use asset and corresponding liability at the date at which the leased asset is available for use by the PON Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable,
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at commencement date.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the rate implicit in the lease or where the rate cannot be readily determined, the lessee's incremental borrowing rate, which is the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms.

The PON Group is exposed to future increases in variable lease payments which are not included in the lease liability until they take effect. Then adjustments to lease payments take effect, the lease liability is reassessed and adjusted against the right of use asset.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability
- any lease payments made at or before commencement date

Right of use assets are depreciated over the shorter of the assets useful life and the lease term on a straight line basis. If the PON Group is reasonably certain to exercise a purchase option, the right of use asset is depreciated over the underlying assets useful life.

Payments made with leases of low value assets are recognised on a straight line basis as an expense in profit or loss.

(i) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation and include land and buildings.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value in accordance with AASB 140 Investment Properties. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

The last revaluation of all land and buildings was undertaken in December 2022 by an independent valuer.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal.

Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

(j) Acquisition of assets

All assets acquired including plant and equipment are initially recorded at their cost of acquisition being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
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Note 2. Summary of significant accounting policies (continued)

Expenditure other than research and development is only recognised as an asset when the entity controls future economic benefits as a result of costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably.

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the entity in future periods.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

(k) Impairment of assets

Assets (excluding investment property) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. At each reporting date, the PON Group reviews the carrying amount of its 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.

(l) Borrowings

Borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised.

(m) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Other borrowing costs are expensed in the year in which they are incurred.

(n) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). Receivables and payable are stated inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and 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.

(o) Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to interest rate risk and foreign currency risk, including interest rate swaps and cross currency swaps. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
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Note 2. Summary of significant accounting policies (continued)

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Note 3. Critical accounting estimates and judgments

Management are required to make judgement, estimates and assumptions about reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgement. Actual results may differ from these estimates.

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 and future periods if the revision affects both current and future periods.

Judgement made by management that have significant effects on the consolidated financial statements and estimates with a significant risk of material adjustment in the next period are disclosed where applicable, in the relevant notes to the consolidated financial statements.

(i) Valuation of property, plant and equipment

Management have made estimates in relation to forecasted cash flows which directly impact the channel valuation and therefore have a significant impact on the financial statements. The carrying amount of the channel (seabed, walls and overhangs) at 31 December 2022 is \$1,644,264 (2021: \$1,991,000). Refer to note 27.

Management have made estimates and assumptions which impact the valuation of other property, plant and equipment and therefore have an impact on the financial statements. The significant assumptions include assumptions about the useful life, depreciation profile, residual value, asset condition and market value of assets. The carrying amount of other property, plant and equipment at 31 December 2022 is \$144,547 (2021: \$147,149). Refer to note 27.

(ii) Valuation of investment properties

Management have engaged an expert to assist with deriving the estimates and assumptions which impact the investment property valuation and therefore have an impact on the financial statements. The significant assumptions include assumptions made about the PON Group's future developments and projects and the expected future cash flows from current and future tenants. The carrying amount of the properties at 31 December 2022 is \$680,000 (2021: \$400,020). Refer to note 27.

The quantitative information about the significant unobservable inputs used in level 3 fair value measurements used in the 2022 Valuation were:

- Core Market Capitalisation Rate - 5.5%
- Terminal Capitalisation Rate - 6.0%
- Discount Rate - 7.0%
- 10 Year IRR - 7.0%
- Take up period on vacant land of 60 months
- The adopted rate on expansion land
- Renewal probability on existing lease of 50%

The valuation metrics were supported by market transactions within NSW, Australia and those that can be realised in a primary market given it is a Port.

It was clarified the valuation approach from the previous valuation where the land is now treated as a homogenous infrastructure pool with a single combined capitalisation rate rather than individual parcels with varying capitalisation rates.

(iii) Climate change risks

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 3. Critical accounting estimates and judgments (continued)

Management recognise the risk of climate change for the Port. Works commenced in 2020 to undertake a detailed assessment of those risks as they relate to physical and transitional risks, in line with the Taskforce on Climate Related Disclosures (TCFD) recommendations. In recognition of those risks, the Group have embarked on a diversification strategy to ensure ongoing prosperity for the Group, and in turn the region. Climate change risks have also been factored into the fair value determination of assets, and adjusted to reflect climate impacts on rental income, occupancy rates as well as insurance cost assumptions. Additionally, the business has adopted an ESG strategy and has developed a strategic development plan that both identifies and considers the implications of climate change and provides measures to address some of the risks. Refer to our published "Sustainability Report" available online for further information.

(iv) Derivatives

Management have made estimates in relation to the value of derivative assets and liabilities, which have a significant impact on the financial statements. The significant assumptions include assumptions made about observable market inputs such as interest rate forward curves, spot rates and the achievement of KPI's included in the sustainability linked derivatives. The carrying amount of derivatives assets at 31 December 2022 is \$19,326 (2021: \$9,621). The carrying amount of derivatives liabilities at 31 December 2022 is \$28,469 (2021: \$24,705).

(v) Expected credit loss

For trade receivables, the PON Group applies a simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(vi) Post-employment benefits

Management have made estimates in relation to the present value of the post-employment benefits liability, which have a significant impact on the financial statements. The significant assumptions included in the liability are the expected rate of return on fund assets, future salary and benefits levels and CPI. The carrying amount of post-employment benefits liability at 31 December 2022 is \$528 (2021: \$2,042).

(vii) ATO judgements and estimates

Management have made an estimate in relation to uncertain tax positions as a result of the ongoing ATO audit with the Corporate Trust Group. Significant assumptions and judgements have been applied by management and their tax expert in determining the tax provision required in accordance with IFRIC 23.

The PON Group is currently in dispute with the Australian Taxation Office (ATO) in relation to its income tax affairs in each income year since the port lease commenced in 2014. The dispute with the ATO predominantly covers the level of interest payments made on the Property to Operations Loan (POLA) between Port of Newcastle Investments Pty Ltd and Port of Newcastle Investments (Property) Trust and the level of interest payments on the High Yield Notes (HYNs) between Port of Newcastle Investments Pty Ltd and the Securityholders.

The PON Group is currently negotiating with the ATO a settlement outcome to the tax dispute and it is expected that agreement in principle with the ATO will be reached by 31 March 2023 and will cover past income years as well as future income years. It is expected that the dispute in relation to past income years can be resolved for a total payment of \$18,513 (including interest and penalties) for the 31 December 2014 to 31 December 2019 income years. In addition to this payment, additional income tax adjustments giving rise to an increase in the tax liability (or reduction in deferred tax assets that are recognised in respect of carried forward tax losses) for the 31 December 2020 to 31 December 2022 income years by an amount equal to \$8,490. This figure is an estimate based on the most likely outcome of the settlement. This has been recognised as a liability on the balance sheet as at 31 December 2022.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 3. Critical accounting estimates and judgments (continued)

If a negotiated settlement outcome is achieved, it is expected that the PON Group will need to make changes to its intercompany arrangements and arrangements with the Securityholders in future income years. Specifically, these changes are likely to include a reduction to the interest rate of the POLA. The Securityholders will also likely be required to reallocate a portion of their initial equity contribution from the Property side to the Operations side of the Port of Newcastle structure, however, the overall amount of equity contributed will remain the same. The outcomes of the settlement negotiations are likely to lead to increased tax payments by PON Group in future income years.

Note 4. Revenue and other income

	2022	2021
	\$'000	\$'000
Navigation charges	84,721	90,996
Wharfage	23,379	25,211
Other trade revenue	12,680	13,202
Property income	40,907	39,645
	<u>161,687</u>	<u>169,054</u>

(a) Revenue recognition

The PON Group recognises revenue from contracts with customers at an amount that reflects the consideration to which it expects to be entitled to receive in exchange for promised goods or services provided to customers. Revenue is recognised when (or as) the PON Group transfers control of goods or services to a customer for an amount to which it expects to be entitled. Depending on whether certain criteria are met, revenue is recognised over time (in a manner that best reflects the Company's performance) or at a point in time (when control of the goods or services is transferred to the customer). Interest revenue is recognised when accrued.

The below table shows the PON Group's compliance with AASB 15 and related policy:

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 4. Revenue and other income (continued)

Revenue Category	AASB 15	Comment
Navigation charges	Over time	Navigation service fees are charged for the general use by a vessel of the Port. The performance obligation is satisfied over the access period (being the period commencing from the earliest time at which the vessel enters the Port of Newcastle waters and expires when the vessel departs the Port of Newcastle Waters).
Wharfage	Over time	Wharfage revenue is recognised over time when a vessel commences its access to the wharf for the loading and discharging of its cargo to when the vessel has finalised cargo operations and exited the terminals.
Other trade revenue	Over time	Other trade revenue includes site occupation, bulk terminal and security charges which is recognised over time when these performance obligations are performed.
Property income	Not applicable	Lease income from operating leases where the PON Group is a lessor is recognised as income on a straight line basis over the life of the lease. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as lease income.
Fair value gain/(loss) on investment properties	Not applicable	Subsequent to initial recognition, investment properties are measured at fair value in accordance with AASB 140 Investment Property. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

(b) Interest income

	2022	2021
	\$'000	\$'000
Interest income	476	78

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss as part of other income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(c) Other income

	2022	2021
	\$'000	\$'000
Recoveries	1,855	1,617
Miscellaneous	1,639	2,004
Other income	<u>3,494</u>	<u>3,621</u>

Other income includes amounts recovered from tenants for land tax, council rates and utilities in line with lease agreements.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 5. Employee benefit expense

	2022	2021
	\$'000	\$'000
Salaries and wages	17,659	17,439
Superannuation	2,053	2,283
Leave and allowances	2,636	1,780
Training and development	825	948
Recruitment	712	198
Success fees	-	3,404
Other	28	16
	<u>23,913</u>	<u>26,068</u>
Employee benefit expenses	<u>23,913</u>	<u>26,068</u>

Success fees includes accruals for one-off success fee payments granted by the Board to certain key management personnel for the successful resolution of the pricing dispute, resolution of the PCD and resolution of the ATO audit. Each payment is at the discretion of the Board and is measured individually.

Note 6. Finance costs

	2022	2021
	\$'000	\$'000
Interest on loan from Securityholders	16,953	19,931
Interest on lease liability	589	125
Interest expense	40,541	27,995
Bank charges	2	514
Net hedging costs	4,269	4,428
Amortisation of debt issuance costs	3,420	4,268
	<u>65,774</u>	<u>57,261</u>
Finance costs	<u>65,774</u>	<u>57,261</u>

Note 7. Transition costs

	2022	2021
	\$'000	\$'000
Pricing dispute	(755)	5,420
ATO audit	1,682	914
Port commitment deed resolution	2,135	1,325
Other transition costs	875	275
	<u>3,937</u>	<u>7,934</u>
Transition costs	<u>3,937</u>	<u>7,934</u>

Note 8. Other operating expenses

	2022	2021
	\$'000	\$'000
Administrative expenses	2,407	1,297
Security monitoring services	1,827	1,555
Terminal handling fee	1,808	2,109
Fuel costs	1,158	473
Newcastle multi-deepwater terminal costs	-	923
Strategic initiatives	252	2,096
Other expenses	980	831
	<u>8,432</u>	<u>9,284</u>
Other operating expenses	<u>8,432</u>	<u>9,284</u>

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 9. Income tax expense/(benefit)

	2022	2021
	\$'000	\$'000
Deferred income tax benefit	(13,980)	(9,175)
Tax provision - settlement fees	4,321	2,431
Adjustment related to prior period	(207)	(680)
	<u>(9,866)</u>	<u>(7,424)</u>
Aggregate income tax benefit		
<i>Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable:</i>		
Profit/(loss) before income tax benefit	272,459	(7,281)
Tax at the statutory tax rate of 30%	81,738	(2,184)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Tax provision - settlement fees	4,321	2,431
Adjusting for pre-tax profit relating to non-tax paying entities (note 2(b))	(95,743)	(6,845)
Effect on non-deductible amounts - other	25	(146)
Adjustment related to prior period	(207)	(680)
	<u>(9,866)</u>	<u>(7,424)</u>
Income tax benefit		
	2022	2021
	\$'000	\$'000
Current tax liabilities		
ATO provisions	27,002	22,681
Other tax payables/(receivables)	-	(315)
Current tax liabilities	<u>27,002</u>	<u>22,366</u>

Note 10. Cash and cash equivalents

	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	40,291	33,578

Note 11. Trade and other receivables

	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Trade debtors	6,839	9,364
Accrued income	5,592	1,049
Other receivables	165	185
	<u>12,596</u>	<u>10,598</u>
Trade and other receivables		

(a) Classification as trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current.

(b) Fair value of trade and other receivables

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 11. Trade and other receivables (continued)

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For non-current receivables, the fair values are also not significantly different to their carrying amounts.

(c) Impairment and risk exposure

The PON Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. During the year the PON Group recognised \$nil in impairment losses on receivables.

Note 12. Property, plant and equipment

	Channel \$'000	Wharves & Jetties \$'000	Permanent fixtures & Breakwaters \$'000	Roadways & Railways \$'000	Other \$'000	Leased plant & equipment \$'000	Work in progress \$'000	Total \$'000
Year ended 31 December 2021								
Opening net book amount	2,129,100	65,980	32,507	19,094	14,572	4,037	40,195	2,305,485
Revaluation surplus/(deficit)	(115,062)	11,348	2,904	1,193	5,136	874	-	(93,607)
Additions	-	32	677	-	1,725	-	19,753	22,187
Disposals	-	-	-	-	(192)	-	-	(192)
Depreciation charge	(23,038)	(3,082)	(1,094)	(1,152)	(3,067)	(541)	-	(31,974)
Closing net book amount	1,991,000	74,278	34,994	19,135	18,174	4,370	59,948	2,201,899
As at 31 December 2021								
Cost or fair value	2,142,208	88,498	39,370	24,522	29,433	8,009	59,948	2,391,988
Accumulated depreciation	(151,208)	(14,220)	(4,376)	(5,387)	(11,259)	(3,639)	-	(190,089)
Net book amount	1,991,000	74,278	34,994	19,135	18,174	4,370	59,948	2,201,899

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 12. Property, plant and equipment (continued)

	Channel \$'000	Wharves & Jetties \$'000	Permanent fixtures & Breakwaters \$'000	Roadways & Railways \$'000	Other \$'000	Leased plant & equipment \$'000	Work in progress \$'000	Total \$'000
Year ended 31 December 2022								
Opening net book amount	1,991,000	74,278	34,994	19,135	18,174	4,370	59,948	2,201,899
Revaluation surplus/(deficit)	(324,453)	-	-	-	-	-	-	(324,453)
Additions	-	823	1,289	2,155	2,470	19,494	10,898	37,129
Impairment loss	-	-	-	-	-	-	(596)	(596)
Depreciation charge	(22,283)	(3,294)	(1,175)	(1,220)	(3,566)	(1,258)	-	(32,796)
Closing net book amount	1,644,264	71,807	35,108	20,070	17,078	22,606	70,250	1,881,183
As at 31 December 2022								
Cost or fair value	1,817,755	89,320	40,660	26,674	31,900	27,502	70,250	2,104,061
Accumulated depreciation	(173,491)	(17,513)	(5,552)	(6,604)	(14,822)	(4,896)	-	(222,878)
Net book amount	1,644,264	71,807	35,108	20,070	17,078	22,606	70,250	1,881,183

Channel assets include the channel seabed and channel walls and overhangs.

Revaluations of the channel seabed, channel walls and overhangs are undertaken on an annual basis. Revaluations of other plant and equipment are undertaken on a three to five-year cycle. The last revaluation of other plant and equipment was undertaken in 2021.

Note 13. Intangible assets

	Computer software \$'000	Intellectual property \$'000	Total \$'000
Balance at 1 January 2021	1,398	590	1,988
Additions	358	186	544
Disposals	(4)	-	(4)
Amortisation expense	(447)	(146)	(593)
Balance at 31 December 2021	1,305	630	1,935
Additions	540	479	1,019
Amortisation expense	(476)	(296)	(772)
Balance at 31 December 2022	1,369	813	2,182

(a) Recognition and measurement

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service. IT development costs, where applicable, include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the PON Group has an intention and ability to use the asset.

(b) Amortisation and useful lives

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 13. Intangible assets (continued)

Software has a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of 10 years. Intellectual Property has a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of 5 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(c) Impairment of intangible assets

Intangible assets with an indefinite useful life are assessed for impairment annually. Intangible assets with finite lives are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to the recoverable amount and the reduction is recognised as an impairment loss.

Note 14. Investment properties

	2022	2021
	\$'000	\$'000
<i>Non-current assets</i>		
Fair value at start of the year	400,020	415,000
Revaluation (decrement) recognised in profit and loss	279,826	(15,212)
Additions	154	232
	<u>680,000</u>	<u>400,020</u>

The following amounts have been recognised in profit or loss for investment properties:

	2022	2021
	\$'000	\$'000
Property income	40,907	39,645
Direct operating expenses (including repairs and maintenance) generating rental income	(15,651)	(14,408)
Direct operating expenses (including repairs and maintenance) that did not generate rental income	(2,955)	(2,648)
	<u>22,301</u>	<u>22,589</u>

Refer to note 27 for further information on fair value measurement.

Note 15. Net deferred tax liability

	2022	2021
	\$'000	\$'000
Deferred tax assets		
Tax losses	18,411	9,414
Other	933	914
Derivatives - effective portion of cash flow hedges	50	6,124
Derivatives - effective portion of fair value hedges	756	280
	<u>20,150</u>	<u>16,732</u>

Movement in deferred tax assets consists of:

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Note 15. Net deferred tax liability (continued)

Opening balance	16,732	13,256
(Charged)/credited to profit or loss – tax losses	8,997	3,566
(Charged)/credited to profit or loss – other	19	79
(Charged)/credited to comprehensive income – cash flow hedges	(6,354)	(449)
(Charged)/credited to comprehensive income – fair value hedges	756	280
	<u>20,150</u>	<u>16,732</u>
Deferred tax assets		
Deferred tax liabilities		
Channel - Seabed	359,379	435,163
Other	4,769	5,071
Deferred tax liabilities	<u>364,148</u>	<u>440,234</u>
Set-off of deferred tax assets pursuant to set-off provisions	(20,150)	(16,732)
Net deferred tax liabilities	<u>343,998</u>	<u>423,502</u>

Movement in deferred tax liabilities consists of:

Opening balance	440,234	469,571
(Charged)/credited to profit or loss – other	(302)	(912)
(Charged)/credited to profit or loss – depreciation (Channel Seabed)	(4,870)	(5,059)
(Charged)/credited to comprehensive income – PPE (Channel Seabed)	(70,914)	(25,210)
(Charged)/credited to comprehensive income – PPE (other)	-	1,844
Deferred tax liabilities	<u>364,148</u>	<u>440,234</u>

These consolidated financial statements include both taxable and non-taxable entities, refer to note 2(b). A deferred tax liability has been recognised on the seabed asset as the full carrying amount is expected to be recovered through use. The tax base that is consistent with the expected manner of recovery through use is nil resulting in a temporary difference. The channel walls and overhangs assets are recorded in a non-taxable entity and so no deferred tax liability is recognised.

Note 16. Trade and other payables

	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	3,661	2,830
GST payable	320	621
Customer advances	1,041	1,114
Interest payable	5,513	4,387
Accrued expenses	14,706	19,105
Other payables	816	-
Trade and other payables	<u>26,057</u>	<u>28,057</u>

Trade and other payables are unsecured, non-interest bearing and are normally paid within 30 days of recognition.

Note 17. Borrowings

(a) Total borrowings

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 17. Borrowings (continued)

	2022 Current \$'000	2022 Non-current \$'000	2021 Current \$'000	2021 Non-current \$'000
Secured				
External loans	-	480,387	-	486,826
Senior 144a fixed note	-	403,154	-	411,477
Capitalised debt issuance costs	-	(15,868)	-	(15,087)
Secured borrowings	-	867,673	-	883,216
Unsecured				
Loan from Securityholders	358,196	-	-	342,938
Total borrowings	358,196	867,673	-	1,226,154

The Group obtained a new senior debt facility on 23 November 2022 of \$420 million. This facility was used to repay borrowings of \$334.8 million that were due to mature in July 2023.

The Group obtained a US144A senior secured note on 24 November 2021 of USD \$300 million.

US144A senior secured note is denominated in USD, the face value of the drawn facility balances are as follows:

Facility	Base Currency	Maturity	2022 \$'000	2021 \$'000
US144A senior secured note	USD \$	24 November 2031	300,000	300,000

The PON Group have a total credit card facility of \$280,000, of which \$64,500 was unused as at 31 December 2022 (2021: \$63,500).

(b) Senior bank debt facilities

As at 31 December 2022

	Maturity	Facility Limit \$'m	Drawn \$'m	Undrawn \$'m
Tranche C (SLL)	7 May 2026	146	146	-
Tranche E	23 May 2026	36	36	-
Tranche E (SLL)	23 May 2026	117	117	-
Tranche F	23 November 2027	182	182	-
Capital expenditure facility	23 May 2026	50	-	50
Working capital facility*	23 May 2026	30	3	27
Total		561	484	77

As at 31 December 2021

	Maturity	Facility limit \$'m	Drawn \$'m	Undrawn \$'m
Tranche B	23 July 2023	146	146	-
Tranche B (SLL)	23 July 2023	12	12	-
Tranche C (SLL)	7 May 2026	155	155	-
Tranche D	23 July 2023	34	34	-
Tranche D (SLL)	23 July 2023	139	139	-
Capital expenditure facility	23 July 2023	50	-	50
Working capital facility*	23 July 2023	21	2	19
Total		557	488	69

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 17. Borrowings (continued)

*The drawn portion of the Working capital facility represents a commitment under two bank guarantees. Refer to note 28 for further information.

(c) Secured liabilities and assets pledged as security

Under the terms of the senior bank debt borrowing facilities, the PON Group is required to comply with the following financial covenants:

- Interest Cover Ratio: at each quarterly calculation date at least 1.20x
- Gearing Ratio: at each quarterly calculation date no greater than 70%

The PON Group has complied with these covenants throughout the reporting period. The ratios at reporting dates were:

	Interest Cover Ratio	Gearing Ratio
31 December 2022	2.21	39.90%
31 December 2021	3.77	41.40%

The PON Group has a Board approved Treasury Management Policy which provides guidelines and principles by which the PON Group manages its capital structure and financial risks. The PON Group regularly assesses its funding requirements and obligations to maintain an optimal capital structure to manage the cost, tenor, and diversity of funding and continue to support the strategic operating plan for shareholders. The PON Group considers its borrowings as part of the PON Group's capital structure and regularly monitors compliance with certain interest cover and gearing covenants contained in its major borrowing facilities.

(d) Fair value

For borrowings, the fair values are not materially different from their carrying amounts since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

(e) Risk exposure

Details of the PON Group's exposure to risks arising from current and non-current borrowings are set out in note 26.

(f) Related party borrowings

Port of Newcastle Investments Pty Limited has an interest-bearing loan from Securityholders. The maturity date of the Securityholders loan is July 2023. Board approval has been given from PON, and approvals are underway with Securityholders. It is expected that they will roll forward the existing notes which will extend the maturity date to December 2034.

From 1 July 2021, the interest rate on the loan was the sum of:

- the blended weighted average of the interest rates or coupons applicable at that time under any applicable Facility Agreement and/or all other senior debt instruments on issue by Port of Newcastle Investments (Financing) Pty Limited expressed as a percentage per annum and calculated having regard to the net effect of all applicable hedging instruments and agreements in effect at such time and;
- 0.500% per annum.

Prior to 1 July 2021, the interest rate was fixed at 8.00% per annum.

From 1 January 2021, 90% of the interest on the related party borrowings was capitalised to the outstanding liability.

(g) Reconciliation to liabilities arising from financing activities

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 17. Borrowings (continued)

	1 January 2021 \$'000	Cash flows \$'000	Capitalised interest \$'000	Fair value adjustments \$'000	Amortisation \$'000	31 December 2021 \$'000
Borrowings	1,231,077	(27,129)	17,938	-	4,268	1,226,154
Total liabilities from financing activities	1,231,077	(27,129)	17,938	-	4,268	1,226,154
	1 January 2022 \$'000	Cash flows \$'000	Capitalised interest \$'000	Fair value adjustments \$'000	Amortisation \$'000	31 December 2022 \$'000
Borrowings	1,226,154	(10,640)	15,258	(8,629)	3,726	1,225,869
Total liabilities from financing activities	1,226,154	(10,640)	15,258	(8,629)	3,726	1,225,869

Note 18. Deferred revenue

	2022 \$'000	2021 \$'000
<i>Current liabilities</i>		
Deferred grant income	636	666

Note 19. Employee benefits

	2022 \$'000	2021 \$'000
Current liabilities		
Annual leave	1,398	1,482
Long service leave	1,042	839
Current liabilities	2,440	2,321
Non-current liabilities		
Long service leave	541	464
Non-current liabilities		
Defined benefit obligations		
- Accrued liability	5,945	7,600
- Fair value of assets	(5,417)	(5,558)
	528	2,042

(a) Defined Benefit Plan

The Post-employment benefits net liability relates to The Pooled Fund (the 'Fund'). The Pooled Fund holds in trust the investments of the closed NSW public sector Superannuation schemes:

- State Authorities Superannuation Schemes (SASS)
- State Superannuation Schemes (SSS)
- Police Superannuation Schemes (PSS)
- State Authorities Non-contributory Superannuation Schemes (SANCS)

(b) Regulatory framework

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 19. Employee benefits (continued)

These schemes are all defined benefit schemes - at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

All schemes are closed to new members.

The schemes in the Pooled Fund are established and governed by the following NSW legislation: Superannuation Act 1916, State Authorities Superannuation Act 1987, Police Regulation (Superannuation) Act 1906, State Authorities Non-Contributory Superannuation Act 1987, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector Superannuation schemes under the Commonwealth Superannuation Industry (Supervision) Act 1993 (SIS). The SIS Legislation treats exempt public sector Superannuation funds as complying funds for concessional taxation and Superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations of the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2021. The next actuarial investigation will be performed as at 30 June 2024.

(c) Other entities responsibilities for the governance of the fund

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

(d) Risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to defined benefits are:

- Investment risk: the risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall;
- Longevity risk: the risk that pensioners live longer than assumed, increasing future pensions;
- Pension indexation risk: the risk that pensions will increase at a rate greater than assumed, increasing future pensions;
- Salary growth risk: the risk that wages or salaries (on which future benefit amount for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; and
- Legislative risk: the risk that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit Fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

(e) Significant events

There were no fund amendments, curtailments or settlements during the year.

(f) Reconciliation of the Defined Benefit Obligation

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 19. Employee benefits (continued)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligations at 1 January 2022	3,943	100	3,557	7,600
Current service cost	-	7	-	7
Interest cost	130	3	119	252
Contributions, by participants	5	-	4	9
Actuarial (gains)/losses arising from changes in financial assumptions	(873)	(20)	(941)	(1,834)
Actuarial (gains)/losses arising from liability experience	182	21	65	268
Benefits paid	(134)	-	(75)	(209)
Taxes, premiums and expenses paid	(104)	(28)	(16)	(148)
Present value of defined benefit obligations at 31 December 2022	3,149	83	2,713	5,945
	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Present value of defined benefit obligations at 1 January 2021	5,298	293	4,119	9,710
Current service cost	-	8	-	8
Interest cost	118	6	97	221
Contributions, by participants	10	-	-	10
Actuarial (gains)/losses arising from changes in demographic assumptions	216	2	(58)	160
Actuarial (gains)/losses arising from changes in financial assumptions	(345)	(9)	(368)	(722)
Actuarial (gains)/losses arising from liability experience	(343)	(80)	130	(293)
Benefits paid	(1,036)	(125)	(366)	(1,527)
Taxes, premiums and expenses paid	25	5	3	33
Present value of defined benefit obligations at 31 December 2021	3,943	100	3,557	7,600

(g) Fair value of fund assets

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

(h) Economic assumptions

	2022 %	2021 %
Expected rate of return on Fund assets backing current pension liabilities	7.0%	6.5%
Expected rate of return on Fund assets backing other liabilities	6.2%	5.7%
Expected salary increase (excluding promotional salary increase) long term	3.2%	2.7%
Expected rate of CPI increase - long term	2.5%	2.0%

(i) Profit and loss impact

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Note 19. Employee benefits (continued)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Year-ended 31 December 2022				
Current service cost	-	7	-	7
Net interest	30	(15)	50	65
Profit and loss component of the Defined Benefit Cost	30	(8)	50	72

Year-ended 31 December 2021				
Current service cost	-	8	-	8
Net interest	46	(6)	48	88
Profit and loss component of the Defined Benefit Cost	46	2	48	96

(j) Other comprehensive Income impact

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Year-ended 31 December 2022				
Actuarial (gains)/losses on liabilities	(692)	1	(876)	(1,567)
Actual return on Fund assets less Interest income	161	32	99	292
Total remeasurement in Other Comprehensive Income	(531)	33	(777)	(1,275)

Year-ended 31 December 2021				
Actuarial (gains)/losses on liabilities	(472)	(87)	(295)	(854)
Actual return on Fund assets less Interest income	(318)	(50)	(201)	(569)
Total remeasurement in Other Comprehensive Income	(790)	(137)	(496)	(1,423)

(k) Reconciliation of the Net Defined Benefit Liability/(Asset)

Net Defined Benefit Liability at 1 January 2022	993	(420)	1,469	2,042
Current service cost	-	7	-	7
Net interest on the net defined benefit liability/(asset)	30	(15)	50	65
Actual return on fund assets less interest income	161	32	99	292
Actuarial (gains)/losses arising from changes in financial assumptions	(873)	(20)	(941)	(1,834)
Actuarial (gains)/losses arising from liability experience	182	21	65	268
Employer contributions	(225)	(87)	-	(312)
Net Defined Benefit Liability at 31 December 2022	268	(482)	742	528

Net Defined Benefit Liability at 1 January 2021	1,961	(200)	1,917	3,678
Current service cost	-	8	-	8
Net interest on the net defined benefit liability/(asset)	46	(6)	48	88
Actual return on fund assets less interest income	(318)	(50)	(202)	(570)
Actuarial (gains)/losses arising from changes in demographic assumptions	216	2	(58)	160
Actuarial (gains)/losses arising from changes in financial assumptions	(345)	(9)	(367)	(721)
Actuarial (gains)/losses arising from liability experience	(343)	(80)	131	(292)
Employer contributions	(224)	(85)	-	(309)
Net Defined Benefit Liability at 31 December 2021	993	(420)	1,469	2,042

(l) Reconciliation of the Fair Value of Fund Assets

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Note 19. Employee benefits (continued)

	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Fair value of fund assets at 1 January 2022	2,946	505	2,079	5,530
Interest income	100	18	69	187
Actual return on fund assets less interest income	(161)	(32)	(99)	(292)
Employer contributions	223	84	-	307
Contributions by participants	5	-	4	9
Benefits paid	(134)	-	(75)	(209)
Taxes, premiums and expenses paid	(104)	(28)	(16)	(148)
Fair value of fund assets at 31 December 2022	2,875	547	1,962	5,384
Fair value of fund assets at 1 January 2021	3,333	480	2,193	6,006
Interest income	73	11	50	134
Actual return on fund assets less interest income	318	50	201	569
Employer contributions	223	84	-	307
Contributions by participants	10	-	-	10
Benefits paid	(1,036)	(125)	(368)	(1,529)
Taxes, premiums and expenses paid	25	5	3	33
Fair value of fund assets at 31 December 2021	2,946	505	2,079	5,530

Note 20. Unit capital

	2022 Units '000	2021 Units '000
Fully paid units - Corporate Trust Group	118,087	118,087
Fully paid units - Property Trust Group	550,103	550,103
Total units	668,190	668,190
	2022 \$'000	2021 \$'000
Fully paid units - Corporate Trust Group - \$1 per unit	118,087	118,087
Fully paid units - Property Trust Group - \$1 per unit	550,103	550,103
Total units	668,190	668,190

(a) Unit capital

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

Note 21. Reserves

(a) Movements in reserves for Corporate Trust Group were as follows:

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Note 21. Reserves (continued)

	2022	2021
	\$'000	\$'000
Asset revaluation reserve		
Opening balance	348,147	402,668
Fair value adjustment – gross	(236,380)	(77,887)
Deferred tax	70,914	23,366
Closing balance	182,681	348,147
Superannuation reserve		
Opening balance	899	(527)
Fair value adjustment – gross	1,821	2,038
Deferred tax	(546)	(612)
Closing balance	2,174	899

(b) Movements in reserves for Property Trust Group were as follows:

	2022	2021
	\$'000	\$'000
Asset revaluation reserve		
Opening balance	207,872	224,386
Fair value adjustment – gross	(88,072)	(16,514)
Closing balance	119,800	207,872
Cash flow hedge reserve		
Opening balance	(14,288)	(15,333)
Effective portion of changes in fair value of cash flow hedges	20,246	1,493
Tax on changes in fair value of cash flow hedges	(6,074)	(448)
Closing balance	(116)	(14,288)
Fair value hedge reserve*		
Opening balance	(654)	-
Effective portion of changes in fair value of fair value hedges	(1,587)	(934)
Tax on changes in fair value of fair value hedges	476	280
	(1,765)	(654)

The asset revaluation reserve is exempt from tax as it belongs to a non-taxable entity. Refer to note 2(b)(iii) for further information.

*This reserve recognises the excluded currency basis spread from the designated hedging instrument in the fair value hedges.

Note 22. Retained earnings

(a) Movements in retained earnings for Corporate Trust Group were as follows:

	2022	2021
	\$'000	\$'000
Opening balance	(120,952)	(98,216)
Net profit/(loss) for the year	(37,317)	(22,736)
Closing balance	(158,269)	(120,952)

(b) Movements in retained earnings for Property Trust Group were as follows:

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Note 22. Retained earnings (continued)

	2022	2021
	\$'000	\$'000
Opening balance	(158,586)	(173,865)
Net profit for the year	319,642	22,879
Distributions	(7,200)	(7,600)
	<u>153,856</u>	<u>(158,586)</u>

Note 23. Cash flow information

Reconciliation of result for the year to cashflows from operating activities:

	2022	2021
	\$'000	\$'000
Profit after income tax benefit for the year	282,325	143
Adjustments for:		
Depreciation and amortisation	34,047	32,754
Net fair value (gain)/loss on investment properties	(279,826)	15,212
Net fair value (gain)/loss on property, plant and equipment	-	(515)
Amortisation of capitalised debt issuance cost	3,420	4,268
Net impact of cash flow hedges	4,269	4,428
Lease liability interest	589	125
Income tax (benefit)	(9,551)	(7,541)
Break costs interest rate swaps	-	(13,266)
Capitalisation of eligible labour costs	(2,094)	(1,903)
Impairment of property, plant and equipment	596	-
Other	19	145
Change in operating assets and liabilities:		
Movement in other assets	(851)	(848)
Movement in payables	(1,749)	5,705
Movement in provisions	(1,514)	(1,636)
Movement in other provisions	196	(4)
Movement in receivables	(900)	144
Movement in shareholder loan	15,449	11,783
	<u>44,425</u>	<u>48,994</u>

Note 24. Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	2022	2021
	\$'000	\$'000
Cash and liquid investments	40,291	33,578
Gross debt – variable interest rates	(1,225,869)	(4,268)
Leases	(20,858)	(3,682)
	<u>(1,206,436)</u>	<u>25,628</u>

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Note 24. Net debt reconciliation (continued)

	Liabilities from financing activities			Other assets	
	Borrowings \$'000	Leases \$'000	Sub-total \$'000	Cash \$'000	Net debt \$'000
As at 31 December 2021	(1,226,154)	(3,682)	(1,229,836)	33,578	(1,196,258)
Cash flows	10,640	1,309	11,949	6,713	18,662
New Leases	-	(17,892)	(17,892)	-	(17,892)
Non-cash capitalised Interest/AASB16 Interest	(15,257)	(593)	(15,850)	-	(15,850)
Foreign exchange adjustments	8,629	-	8,629	-	8,629
Non-cash debt issuance costs	(3,727)	-	(3,727)	-	(3,727)
As at 31 December 2022	(1,225,869)	(20,858)	(1,246,727)	40,291	(1,206,436)

Note 25. Leases

(a) PON Group as a lessee

(i) Right-of-use assets

	Land \$'000	Buildings \$'000	Total \$'000
Year ended 31 December 2021			
Balance at beginning of year	179	3,740	3,919
Depreciation charge	(45)	(462)	(507)
Balance at end of year	134	3,278	3,412
Year ended 31 December 2022			
Balance at beginning of year	134	3,278	3,412
Adjustment	4	-	4
Depreciation charge	(46)	(463)	(509)
Balance at end of year	92	2,815	2,907

(ii) Lease liabilities

	Leased Plant & equipment \$'000	Buildings \$'000	Land \$'000	Total Lease Liabilities \$'000
Year ended 31 December 2021				
Balance at beginning of year	-	3,929	199	4,128
Interest expense (included in finance costs)	-	122	7	129
Principal elements of lease payments	-	(522)	(54)	(576)
Balance at end of year	-	3,529	152	3,681
Year ended 31 December 2022				
Balance at beginning of year	-	3,529	152	3,681
Additions	17,892	-	-	17,892
Interest expense (included in finance costs)	475	109	5	589
Principal elements of lease payments	(711)	(541)	(56)	(1,308)
Other adjustments	-	-	2	2
Balance at end of year	17,656	3,097	103	20,856

During the year PON entered into a Finance Lease for 2 Mobile Harbour Cranes. The term is over 7 years, with lease payments paid quarterly in arrears, with a final balloon payment of 30% of the Total Purchase Payment Amount in respect of the equipment payable at the end. The effective interest rate is fixed at 8.38% per annum.

(iii) Statement of Profit or Loss and Other Comprehensive Income

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Note 25. Leases (continued)

The amounts recognised in the statement of profit or loss and other comprehensive income relating to leases are shown below:

	2022	2021
	\$'000	\$'000
Depreciation of right-of-use assets	509	507
Interest expense (included in finance cost)	589	125
Total	<u>1,098</u>	<u>632</u>

The amounts recognised in the statement of profit or loss and other comprehensive income relating to leases of low value assets (included in other operating expenses) are shown below:

	2022	2021
	\$'000	\$'000
Low value assets	243	243

The total cash outflow for leases in 2022 was \$840,000 (2021: \$820,000).

(b) PON Group as a lessor

The PON Group has entered into operating leases on its investment property portfolio consisting of certain land and buildings, refer to note 14. These leases have terms of between 3 to 15 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis. Rental income recognised by the PON Group during the year is \$40,907,000 (2021: \$39,645,000).

Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2022 and 2021 are as follows:

	2022	2021
	\$'000	\$'000
Less than one year	30,965	30,364
One to two years	29,987	30,090
Two to three years	31,112	29,114
Three to four years	30,861	27,929
Four to five years	30,872	27,693
More than five years	354,033	362,535
Total	<u><u>507,830</u></u>	<u><u>507,725</u></u>

Note 26. Financial risk management

The PON Group's principal financial instruments are outlined below. These financial instruments arise directly from the PON Group's activities or are required to finance the PON Group's activities. The PON Group does use derivative instruments to manage exposures to risk (including foreign currency risk and interest rate risk), however does not use derivatives for speculative purposes.

The PON Group's main risks arising from financial instruments are outlined below, together with the PON Group's objectives, policies and processes for measuring and managing risk. Further quantitative and qualitative disclosures are included throughout this consolidated financial statement.

The directors of the Group have overall responsibility for the establishment and oversight of risk management and reviews agreed policies for managing each of these risks.

The Group provides written principles for overall risk management as well as written policies covering specific areas including liquidity risk, interest rate risk, permitted instruments and counterparty credit risk. Compliance with policies is reviewed by the Audit Committee on a periodic basis.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 26. Financial risk management (continued)

	2022	2021
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	40,291	33,578
Trade and other receivables	12,596	10,598
Derivative financial instruments	19,326	9,621
Total financial assets	72,213	53,797
Financial liabilities		
Trade and other payables	26,057	28,057
Borrowings	1,225,869	1,226,154
Derivative financial instruments	28,469	24,705
Total financial liabilities	1,280,395	1,278,916

(a) Market Risk

(i) Foreign exchange risk

The Group is primarily exposed to foreign currency risk from interest bearing liabilities denominated in foreign currency (USD). As at 31 December 2022, these interest bearing liabilities are 100% hedged through cross currency swaps until the maturity of the bond.

The Group's policy is to maintain that 100% of the foreign currency exposure to borrowings are hedged to the expected date of settlement.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars was as follows:

	31 December	31 December
	2022	2021
	AUD	AUD
	\$'000	\$'000
Sensitivity analysis on foreign exchange risk exposure		
Cash and cash equivalents	-	1,768
Senior secured bonds	(405,885)	(412,572)
Cross currency swaps	405,885	412,572
Exposure	-	1,768

The aggregate net foreign exchange gains/losses recognised in profit or loss were:

	2022	2021
	\$'000	\$'000
Net foreign exchange gain/(loss)	(307)	56

As at the end of the reporting years, the PON Group had the following cross currency swaps outstanding.

	USD	USD	USD	USD
	Foreign		Foreign	
	exchange		exchange	
	rate	2022	rate	2021
	rate	\$'000	rate	\$'000
Cross currency swaps	0.6775	300,000	0.7256	300,000

(ii) Interest rate risk

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 26. Financial risk management (continued)

The PON Group's main interest rate risk arises from long term borrowings with variable interest rates, which expose the PON Group to cash flow interest rate risk. The PON Group policy is to maintain that at least 50% of its borrowings are hedged.

As at the end of the reporting years, the PON Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	Weighted average interest rate	2022		Weighted average interest rate	2021
	%	\$000's		%	\$000's
Borrowings - variable rate	5.23%	892,958		2.15%	899,397
Interest rate swaps (notional principal amount)	(0.88%)	669,000		1.84%	469,000
Net exposure to cash flow interest rate risk	-	223,958		-	430,397
% of total borrowings	-	25%		-	48%

(iii) Sensitivity (impact on post-tax profit)

Profit or loss is sensitive to an increase/decrease in the fair value of interest rate derivatives. The impact on post-tax profit/(loss) of movements in interest rates is summarised in the table below.

	2022	2021
	\$'000	\$'000
Interest rates - increase by 50 basis points (50 bps)	784	1,506
Interest rates - decrease by 50 basis points (50 bps)	(784)	(1,506)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the PON Group.

Credit risk arises from the financial assets of the PON Group, including cash and trade and other receivables held by the PON Group.

The PON Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The PON Group did not identify a significant increase in credit risk amid the COVID-19 pandemic.

Other financial assets include loans to related parties. These assets are considered to have low credit risk as they have low risk of default.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its payment obligations when they fall due.

The PON Group continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holdings of high-quality liquid assets.

The PON Group has a Syndicated Loan facility with external lenders. The loan has a borrowing limit of \$560 million (2021: \$557 million), of which \$77 million (2021: \$69 million) was unused as at 31 December 2022.

During the year, there were no defaults or breaches on any loans payable. Assets have been pledged as collateral in terms of a Syndicated Facility Agreement. The PON Group's exposure to liquidity risk is managed on an ongoing basis. Refer to note 17 for an update on refinancing activities at 31 December 2022.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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31 December 2022

Note 26. Financial risk management (continued)

There is a \$30 million working capital facility in place with a maturity date of 23 May 2026. The facility hasn't been drawn at the date of this report aside from the \$2.6 million which relates to the bank guarantee detailed in note 17.

The PON Group have a total credit card facility of \$280,000, of which \$64,500 was unused as at 31 December 2022 (2021: \$63,500).

The following table illustrates the maturities for financial liabilities:

	Within 1 year \$'000	Between 1-2 years \$'000	Between 2-5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
As at 31 December 2022						
Non-derivatives						
Trade payables	26,057	-	-	-	26,057	26,057
Borrowings	457,618	78,106	678,567	567,630	1,781,921	1,225,869
Lease liabilities	3,462	6,310	10,224	7,993	27,989	129
Total non-derivatives	487,137	84,416	688,791	575,623	1,835,967	1,252,055
Derivatives	(1,739)	6,555	25,409	10,431	40,655	9,143
Total	485,398	90,971	714,200	586,054	1,876,622	1,261,198

	Within 1 year \$'000	Between 1-2 years \$'000	Between 2-5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
As at 31 December 2021						
Non-derivatives						
Trade payables	28,057	-	-	-	28,057	28,057
Borrowings	51,561	809,912	243,365	534,347	1,639,185	1,226,154
Lease liabilities	595	615	1,740	1,171	4,121	3,682
Total non-derivatives	80,213	810,527	245,105	535,518	1,671,363	1,257,893
Derivatives	(967)	235	19,415	34,192	52,875	15,084
Total	79,246	810,762	264,520	569,710	1,724,238	1,272,977

(i) Derivatives

The PON Group uses derivatives to hedge its exposure to foreign currency and interest rate risks.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 26. Financial risk management (continued)

	2022	2021
	\$'000	\$'000
Current assets		
Interest rate swaps	9,562	4,020
Cross currency swaps	-	486
	<u>9,562</u>	<u>4,506</u>
Non current assets		
Interest rate swaps	3,243	5,115
Cross currency swaps	6,521	-
	<u>9,764</u>	<u>5,115</u>
	2022	2021
	\$'000	\$'000
Current liabilities		
Interest rate swaps	1,705	136
Cross currency swaps	7,399	3,445
	<u>9,104</u>	<u>3,581</u>
Non current liabilities		
Interest rate swaps	-	-
Cross currency swaps	19,365	21,124
	<u>19,365</u>	<u>21,124</u>

(ii) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. Derivatives are presented as current liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The PON Group's accounting policy for its cash flow hedges and fair value hedges is set out in note 2(o). Further information about the derivatives used by the PON Group is provided above.

(iii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 27.

(iv) Hedging reserves

There was a reclassification in both the current and prior year from the cash flow hedge reserve to profit or loss relating to interest rate swaps with a maturity date of July 2023 that were paid out on 30 June 2021. There were no other reclassifications from the cash flow hedge reserve to profit or loss during the period.

The following table summarises the impact of hedging instruments designated in hedging relationships on the consolidated balance sheet:

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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31 December 2022

Note 26. Financial risk management (continued)

		Notional amount		Carrying amount assets/(liabilities)		Change in fair value used for measuring ineffectiveness for the year	
		2022	2021	2022	2021	2022	2021
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash flow hedges							
<i>Interest rate risk</i> - Interest rate swaps	AUD	744,000	469,000	12,805	3,127	9,678	25,450
<i>Foreign exchange risk</i> - Cross currency swaps	USD	160,000	160,000	3,836	(16,404)	20,240	(16,404)
Fair value hedges							
<i>Interest rate risk</i> - Interest rate swaps	AUD	220,022	220,022	(1,705)	5,872	(7,578)	5,872
<i>Foreign exchange risk</i> - Cross currency swaps	USD	140,000	140,000	(24,080)	(7,680)	(16,401)	(7,680)

The following table summarises the impact of hedged items designated in cash flow hedging relationships on the consolidated balance sheet and the effect of the hedge relationships on other comprehensive income:

	Cash flow hedge reserve		Change in fair value used for measuring ineffectiveness for the year		Hedging gain/(loss) recognised in comprehensive income	
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash flow hedges						
<i>Interest rate risk</i> - Interest rate swaps	7,082	(3,992)	(11,074)	(11,341)	11,074	11,341
<i>Foreign exchange risk</i> - Cross currency swaps	(7,199)	(10,296)	(3,097)	10,296	3,097	(10,296)
	(117)	(14,288)	(14,171)	(1,045)	14,171	1,045

The following table summarises the impact of hedged items designated in fair value hedging relationships on the consolidated balance sheet and the effect of the hedge relationships on other comprehensive income:

	Fair value hedges		Change in fair value used for measuring ineffectiveness for the year		Hedging gain/(loss) recognised in comprehensive income	
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fair value hedges						
<i>Foreign exchange risk</i> - Cross currency swaps	(1,765)	(654)	1,111	654	(1,111)	(654)

(v) Amounts recognised in profit or loss

The following amounts were recognised in profit or loss in relation to derivatives:

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 26. Financial risk management (continued)

	2022 \$'000	2021 \$'000
Hedge ineffectiveness	(1,873)	487
Hedge reserve amortisation	6,142	3,941
	<u>4,269</u>	<u>4,428</u>

Hedge effectiveness is determined at the inception of the hedge relationship, and through annual prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The PON Group enters into interest rate swaps and cross currency swaps that have similar critical items as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount.

Hedge ineffectiveness for interest rate swaps may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan and differences in critical terms between the interest rate swaps and the loans, as well as inherent fair value differences in the impact of discounting on the fair value of interest rate swaps vs. the fair value of the underlying fixed rate debt.

Hedge ineffectiveness for cross-currency swaps designated as cash flow hedges may occur due to the credit/debit value adjustment applied to the cross-currency swaps which is not matched by the underlying loan and differences in terms between the cross-currency swaps and the loans.

Hedge ineffectiveness for cross-currency swaps designated as fair value hedges may occur due to the credit/debit value adjustment applied to the cross-currency swaps which is not matched by the underlying loan and differences in terms between the cross-currency swaps and the loans, as well as inherent fair value differences in the impact of discounting on the fair value of cross-currency swaps vs. the fair value of the underlying fixed rate debt.

The hedge ineffectiveness recognised in 2022 and 2021 can be shown in the table shown above.

Note 27. Fair value measurement

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

Due to the short-term nature of the current receivables and payables, their carrying amount is considered to be the same as their fair value.

The borrowings fair values are not materially different from their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

The table below shows the assigned level for each asset and liability held at fair value by the PON Group:

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Note 27. Fair value measurement (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 December 2022				
Financial liabilities at fair value				
Derivative financial liabilities	-	28,469	-	28,469
Non-financial assets at fair value				
Channel - Seabed	-	-	1,644,264	1,644,264
Channel – Walls & overhang	-	-	446,335	446,335
Investment property	-	-	680,000	680,000
Property, plant and equipment	-	-	144,547	144,547
	-	-	2,915,146	2,915,146
Financial assets at fair value				
Derivative financial assets	-	19,326	-	19,326
31 December 2021				
Financial liabilities at fair value				
Derivative financial liabilities	-	24,705	-	24,705
Non-financial assets at fair value				
Channel - Seabed	-	-	1,991,000	1,991,000
Channel – Walls & overhang	-	-	540,456	540,456
Investment property	-	-	400,020	400,020
Property, plant and equipment	-	-	147,149	147,149
	-	-	3,078,625	3,078,625
Financial assets at fair value				
Derivative financial assets	-	9,621	-	9,621

There were no transfers between levels for recurring fair value measurements during the year.

(a) Valuation techniques used to determine fair values

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis
- the fair value of foreign exchange contracts is determined using forward exchange rates at the reporting date

(b) Fair value measurements using significant unobservable inputs (level 3)

Refer to note 12 for channel assets. Management have made estimates in relation to forecasted cash flows which directly impact the channel assets i.e. seabed, walls and overhangs valuation and therefore have a significant impact on the financial statements. The significant assumptions include:

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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Note 27. Fair value measurement (continued)

- forecasted cash flows which relies on the forecast volumes of coal exports, forecast pricing and forecast operating and capital expenditure
- a discount rate of 11.3% (2021: 11.5%)
- the carrying amount of the channel (seabed, walls and overhangs) at 31 December 2022 is \$1,644,000 (2021: \$1,991,000)

(c) Sensitivity analysis of key unobservable inputs in level 3 of the fair value hierarchy

(i) Channel assets

Sensitivity analysis was undertaken as follows:

Level 3 input	Fair value output \$'000	Input used by PON Group \$'000
Coal volume assumptions +10%	1,971,563	1,644,264
Coal volume assumptions -10%	1,328,061	1,644,264
Discount rate +1%	1,264,266	1,644,264
Discount rate -1%	2,129,664	1,644,264

(ii) Investment property

Sensitivity analysis was undertaken as follows:

Level 3 input	Fair value output \$'000	Input used by PON Group \$'000
Capitalisation rate +25bps	643,569	680,000
Capitalisation rate -25bps	719,677	680,000
Discount rate +25bps	665,965	680,000
Discount rate -25bps	694,385	680,000
Renewal probability of 0% on existing lease	670,000	680,000
Renewal probability of 25% on existing lease	675,000	680,000
Let up period of 7.5 years on vacant land in the container precinct	660,000	680,000
Let up period of 10 years on vacant land in the container precinct	642,000	680,000

(iii) Classes of property, plant and equipment at fair value

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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31 December 2022

Note 27. Fair value measurement (continued)

Class	Fair value output \$'000	Valuation technique	Unobservable inputs	Range of inputs	Relationship of unobservable inputs to Fair Value
Leased plant & equipment	3,798		Normal useful life:	5-80 years	Significant changes in the normal useful life, depreciation profile or residual value would result in significant changes to the fair value measurement
Wharves & jetties	71,808				
Permanent fixtures	14,598				
Breakwaters	20,511	Cost approach	Depreciation profile:	Straight line or diminishing value	
Roadways	11,891				
Railways	8,179			0-10%	
Plant & equipment - other	2,670		Residual value:		
Plant & equipment - vessels	11,092	Market value	Market value:	Varies from asset to asset	Significant changes in the market value and asset condition would result in significant changes to fair value measurement
			Asset condition:	Varies from asset to asset	

Note 28. Contingencies

(a) Environmental obligations

The PON Group has provided a Bank Guarantee for \$2.2 million to Port of Newcastle Unit Trust regarding certain environmental obligations under the lease agreement for the port (2021: \$2.2 million).

(b) Supply contract

The Group has provided a Bank Guarantee for \$0.5 million to NAB (the finance lessor) in relation to additional components to be delivered, installed and commission in relation to the Mobile Harbour Cranes. This bank guarantee is backed by a corresponding guarantee from the supplier.

(c) Commonwealth Grant Funding

Following the May 2022 Federal Election, the Government considered all commitments of the previous government through the October 2022-23 Budget process. The Government's \$100m commitment in the Budget delivered on 25 October 2022 is aligned with a number of other initiatives, including the Government's net zero agenda. The \$100m commitment will help the broader Hunter region transition from thermal coal exports towards new industries based on clean energy like green hydrogen.

The Department of Infrastructure, Transport, Regional Development, Communications and the Arts is currently working through assessment of individual commitments from the Budget, including the \$100m committed to support the Port and the Hunter region become hydrogen-ready. A number of factors need to be considered in order for this funding to be released, including:

- demonstrating value for money and sufficient public benefit for investment;
- the exploration of options for co-investment, including with the New South Wales Government and the Port of Newcastle; and
- consideration of interaction with other relevant processes and initiatives across governments.

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
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Note 28. Contingencies (continued)

The Group has spent \$2.2m to date which we expect to be reimbursed under the final agreement.

Note 29. Key management personnel

	2022	2021
Short-term employee benefits	4,660	6,865
Post-employment benefits	246	473
Long-term benefits	148	129
Termination benefits	142	-
	<u>5,196</u>	<u>7,467</u>

Total key management personnel benefits

Short-term employee benefits includes accruals for one-off success fee payments granted by the Board to certain key management personnel for the successful resolution of the pricing dispute, resolution of the PCD and resolution of the ATO audit. Each payment is at the discretion of the Board and is measured individually.

Note 30. Auditor's remuneration

PricewaterhouseCoopers Australia

	2022	2021
	\$	\$
<i>Audit services -</i>		
Audit of the financial statements	<u>536</u>	<u>506</u>
<i>Other services -</i>		
Other assurance services	46	-
Tax services	<u>1,122</u>	<u>381</u>
	<u>1,168</u>	<u>381</u>
	<u>1,704</u>	<u>887</u>

Note 31. Commitments

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2022	2021
	\$'000	\$'000
Property, plant and equipment	11,955	19,769

(b) Non-cancellable operating leases

The PON Group leases its corporate office and berth side storage under non-cancellable operating leases expiring within 3 to 6 years. These leases have varying terms, escalation clauses and renewal rights. On renewal, terms are renegotiated.

From 1 January 2018, the PON Group has recognised right-of-use assets for these leases, except for short-term and low-value leases (2022: \$2.9 million, 2021: \$3.4 million).

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
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31 December 2022

Note 31. Commitments (continued)

	2022 \$'000	2021 \$'000
Within one year	616	595
Later than one year but not later than five years	2,304	2,355
Later than five years	609	1,171
	<u>3,529</u>	<u>4,121</u>

Note 32. Related parties

(a) Interests in other entities - controlled entities

Port of Newcastle Investments (Holdings) Trust's (the parent entity) principal subsidiaries at 31 December 2022 are set out below. These entities are all incorporated or registered in Australia and this is also their principal place of business.

	Ownership interest held by the PON Group 2022	Ownership interest held by the PON Group 2021
Port of Newcastle Investments (Property Holdings) Trust	100% of units	100% of units
Port of Newcastle Investments (Property) Trust ("Port Lessee")	100% of units	100% of units
Port of Newcastle Investments (Financing) Pty Limited ("FinCo")	100%	100%
Port of Newcastle Investments Pty Limited ("Acquisition Co")	100%	100%
Port of Newcastle Unit Trust ("Port Manager")	100% of units	100% of units

(b) The PON Group's related parties

The main related parties of the PON Group include the following entities:

Company	Relationship	Country of registration
Omater Investment Limited	50% beneficiary of Port of Newcastle Investments (Property Holdings) Trust	British Virgin Islands
Gardior Investments Pty Ltd (as trustee for TIF Investments Trust)	50% beneficiary of Port of Newcastle Investments (Property Holdings) Trust	Australia
Goldframe Investments Limited	50% beneficiary of Port of Newcastle Investments (Holdings) Trust	British Virgin Islands
Gardior Investments B Pty Ltd (as trustee for TIF Investments Trust B)	50% beneficiary of Port of Newcastle Investments (Holdings) Trust	Australia

(c) Other related parties

Port of Newcastle Investments (Property Holdings) Pty Ltd "Investment Manager"	Shared senior management
Port of Newcastle Investment (Property) Pty Ltd	Shared senior management
Port of Newcastle Operations Pty Ltd	Shared senior management
Port of Newcastle Investments (Holdings) Pty Ltd	Shared senior management
Perpetual Corporate Trust Limited	Trustee for Port of Newcastle Investments (Property) Trust

(d) Transactions with related parties

The following transactions occurred with related parties:

Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Notes to the consolidated financial statements
31 December 2022

Note 32. Related parties (continued)

	2022	2021
	\$'000	\$'000
Securityholders		
Distributions paid to Securityholders	7,200	7,600

(i) Managed Investment Trust (MIT)

The Port of Newcastle Investments (Property Holdings) Trust Deed was amended in 2019 to allow the Property Holdings Trust to become an unregistered Managed Investment Trust (MIT). Under the arrangement, Perpetual and Port of Newcastle Investments (Property Holdings) entered into an 'Investment Management Agreement' appointing Property Holdings as Investment Manager of the Property Holdings Trust. Property Holdings also entered into a management services agreement with the Port of Newcastle Unit Trust (Port Manager) under which Port Manager provides services to the Investment Manager to enable the Investment Manager to meet its obligations under the Investment Management Agreement.

The following fees are paid in relation to this arrangement:

- Trustee fees paid to Perpetual: \$83,048 (2021: \$82,948)
- Management fees paid to Port Manager \$83,048 (2021: \$82,948)
- Investment management fees paid to Property Holdings \$83,048 (2021: \$82,948)

The above amounts are paid by the Securityholders and are not an expense of the PON Group.

(e) Loans to/from related parties

	2022	2021
	\$'000	\$'000
Loans from Securityholders		
Beginning of the year	342,938	331,482
Interest charged	16,953	19,931
Interest paid	(1,695)	(8,475)
End of year	<u>358,196</u>	<u>342,938</u>

**Port of Newcastle Investments (Holdings) Trust and controlled entities ("Port of Newcastle Group")
Trustees' declaration
31 December 2022**

The Directors of the Trustee declare that:

- the attached financial statements and notes comply with the Accounting Standards and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors of the Trustee.

On behalf of the trustees



20 April 2023



Independent auditor's report

To the securityholders of Port of Newcastle Investments (Holdings) Trust

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Port of Newcastle Investments (Holdings) Trust (the Trust) and its controlled entities (together the Port of Newcastle Group) as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

What we have audited

The Port of Newcastle Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the trustees' declaration.

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

Independence

We are independent of the Port of Newcastle Group in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

Other matter

The financial report has been prepared by the Directors of the Trustee to meet the information needs of the securityholders. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the securityholders of the Port of Newcastle Group.



Other information

The Director's of the Trustee are responsible for the other information. The other information comprises the information included in the financial statements for the year ended 31 December 2022, 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 accordingly 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 on the other information that we obtained prior to the date of this auditor's report, 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 management and the Director's of the Trustee for the financial report

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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

The Director's of the Trustee are responsible for overseeing the Port of Newcastle Group's financial reporting process.

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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.



Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Port of Newcastle Group For the year ended 31 December 2022 included on Port of Newcastle Group's website. The directors of the Trustee are responsible for the integrity of Port of Newcastle Group's website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Angela Higgins

Angela Higgins
Partner

Newcastle
20 April 2023