Coal Services Pty Limited

ACN: 099 078 234

Annual Financial Report

for the year ended

30 June 2017

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For the year ended 30 June 2017 Page

Directors' Report

For the year ended 30 June 2017

Your Directors present their report together with the consolidated financial report of Coal Services Pty Limited ('the Company') and the entities it controlled ('the Group') at the end of, or during, the year ended 30 June 2017.

DIRECTORS

The names of the Directors of the Company in office and their period of service, if not for the full financial year and up to the date of this report were:

D J Moult (Chairman)
L A Flemming (Managing Director)
P M Jordan
M S Genovese
The Hon. J P Hannaford
G S Sullivan
A W Honeysett

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year consisted of:

a) workers compensation insurance, pursuant to the Coal Industry Act 2001, for the New South Wales coal industry through its controlled entity, Coal Mines Insurance Pty Ltd;
b) mines rescue services, pursuant to the Coal Industry Act 2001, principally for the New South Wales coal industry through its controlled entity, Mines Rescue Pty Limited;
c) occupational environmental monitoring services, including dust monitoring, for the New South Wales coal mining industry; and
d) workplace health and rehabilitation services for the New South Wales coal mining industry, under the registered trademark 'CS Health'.

CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of the Group's affairs during the reporting period.

REVIEW OF OPERATIONS

		Segment Revenues		Segment Results	
		2017	**2016**	**2017**	**2016**
	Consolidated revenues and results by segment	**$'000**	**$'000**	**$'000**	**$'000**
i)	Workers compensation insurance	124,257	126,219	(48,173)	(7,906)
ii)	Investment activities of Coal Services	30,588	25,143	27,771	22,408
iii)	Mines rescue, training, regulation and compliance services	20,485	19,981	(838)	(504)
	Health and rehabilitation services	7,052	6,389	(2,457)	(3,014)
	Other	1,382	2,416	(3,140)	1,143
	Less: intersegment eliminations	(4,155)	(3,685)		
	Group total	179,609	176,463	(26,837)	12,127
	Other comprehensive income				
	Defined benefit fund gains			2,910	1,199
	Total comprehensive (loss)/income			(23,927)	13,326

Comments on the operating results

i) **Workers compensation insurance**

The underwriting operations result is a loss of $36.6m (2016: $2.1m) before other operating expenses of $11.5m (2016: $5.8m). The indemnity provided to Coal Mines Insurance Pty Ltd by Coal Services Pty Limited increased by $48.1m (2016: $7.9m) in line with the terms of the deed indemnity.

ii) **Investment activities**

The investment profit includes unrealised gains/(losses) of $10.1m (2016: ($14.3m)).

REVIEW OF OPERATIONS continued

Comments on the operating results continued

iii) **Mines rescue services**
Operating revenue of $20.5m (2016: $20m) comprises mines rescue levies from mine owners of $8.7m (2016: $8.6m), training services revenue of $4.7m (2016: $4m) regulatory and equipment calibration services revenue of $6.8m (2016: $7.4m) and virtual reality technologies revenue of $0.3m (2016: $0m).

DIVIDENDS
It is neither the Company's policy nor the expectation of shareholders of the Company to pay dividends.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS
The Company aims to ensure the continuity of the business through sound financial management, maintaining statutory services including dust monitoring, prevention, health monitoring and improved claims handling which should allow for consistent premium levels for the foreseeable future.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE
There have been no matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the Company.

AUDITORS
KPMG continues in office in accordance with section 327B of the *Corporations Act 2001* .

ENVIRONMENTAL REGULATION AND PERFORMANCE
The Group conducts regular environmental audits at each of its facilities in order to ensure control of chemicals used and discharge of water or other contaminants. There are no legislative breaches and all audit recommendations are complete.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS
During the period, the Group paid premiums to insure the Directors and officers of the holding company and its subsidiaries. The insurance policy provides coverage in respect of losses resulting from a wrongful act which a Director or officer becomes legally obliged to pay on account of any claim made against them during the policy period. It does not provide cover for losses in certain circumstances, including fraud, dishonesty, illegal acts, claims, litigation, or demands occurring outside specified dates.

LEAD AUDITOR'S INDEPENDENCE STATEMENT
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

ROUNDING OF AMOUNTS
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

D J Moult	L A Flemming
Chairman	Managing Director
16 October 2017	16 October 2017

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Coal Services Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Coal Services Pty Limited for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
16 October 2017

Statement of Consolidated Financial Position at 30 June 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	9	11,402	7,710
Receivables	10	30,943	15,681
Financial assets held at fair value through profit and loss	7	496,533	479,445
Inventories	11	182	120
Prepayments		583	709
Total current assets		539,643	503,665
Non-current assets			
Receivables	10	177	17,072
Property, plant and equipment	15	46,476	52,154
Investment properties	8	39,700	55,900
Total non-current assets		86,353	125,126
Total assets		625,996	628,791
Current liabilities			
Payables	12	15,805	9,419
Unearned revenue	13	-	-
Provision for outstanding claims	6	85,663	69,327
Provisions	14	11,699	11,911
Total current liabilities		113,167	90,657
Non-current liabilities			
Defined benefit superannuation scheme	25	1,794	4,559
Provision for oustanding claims	6	319,803	314,627
Provisions	14	4,821	5,652
Total non-current liabilities		326,418	324,838
Total liabilities		439,585	415,495
Net assets		186,411	213,296
Equity			
Contributed equity	22	-	-
Reserves	23a	-	2,958
Retained profits	23b	186,411	210,338
Total equity		186,411	213,296

This statement of consolidated financial position should be read in conjunction with the accompanying notes.

Statement of Consolidated Comprehensive Income for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Workers compensation premium revenue	3	98,928	100,021
Outwards reinsurance premium expense	4	(2,474)	(1,950)
Net earned premiums		96,454	98,071
Claims expenses		(115,184)	(82,806)
District court expenses		(951)	(1,026)
Reinsurance and other recoveries received		1,406	1,261
Net claims incurred	4	(114,729)	(82,571)
Other scheme expenses	4	113	(1,391)
Mines safety levy cost recovery	3	25,329	25,938
Mines safety levy expense	4	(25,329)	(23,923)
Underwriting result		(18,162)	16,124
Investment income	3	30,588	25,143
Other income	3	24,764	25,361
Total investment and other income		55,352	50,504
Expenses from operating activities	4	(64,027)	(54,501)
Net (loss)/profit from ordinary activities		(26,837)	12,127
Defined benefit superannuation liability actuarial gains	25e	2,910	1,199
Other comprehensive income		2,910	1,199
Total comprehensive (loss)/income for the year		(23,927)	13,326

This statement of consolidated comprehensive income should be read in conjunction with the accompanying notes.

Statement of Consolidated Changes in Equity
for the year ended 30 June 2017

	2017 $'000	2016 $'000
Balance at beginning of year		
Share capital	-	-
Reserves	2,958	2,958
Retained earnings	210,338	197,012
	213,296	199,970
Reserves		
Impairment of properties	(2,958)	-
Retained Earnings		
Net (loss)/profit from ordinary activities	(26,837)	12,127
Other comprehensive income	2,910	1,199
	(23,927)	13,326
Balance at end of year		
Share capital	-	-
Reserves	-	2,958
Retained earnings	186,411	210,338
	186,411	213,296

This statement of consolidated changes in equity should be read in conjunction with the accompanying notes.

Statement of Consolidated Cash Flows for the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Underwriting operations		126,121	126,547
Outwards reinsurance paid		(2,474)	(1,950)
Claims paid		(93,672)	(81,020)
Other underwriting expenses paid		(26,167)	(32,821)
Other operations			
Investment Income		13,183	24,833
Other income received		25,020	25,631
Miners' pension and defined benefit fund payments		(1,171)	(1,752)
Other operating payments		(51,427)	(49,092)
Net cash (out)/in flow from operating activities	32	(10,587)	10,376
Cash flows from investing activities			
Payments for property, plant and equipment		(2,589)	(2,031)
Payments for improvements to investment properties		(917)	(2,013)
Payments for purchase of investments		(114,969)	(189,345)
Proceeds from sale of property, plant and equipment		381	315
Proceeds from sale of investment property		20,599	-
Proceeds from sale of investments		111,774	182,402
Net cash in/(out) flow from investing activities		14,279	(10,672)
Net increase/(decrease) in cash and cash equivalents		3,692	(296)
Cash and cash equivalents at beginning of year		7,710	8,006
Cash and cash equivalents at end of year	9	11,402	7,710

This statement of consolidated cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements at 30 June 2017

1 CORPORATE INFORMATION

Coal Services Pty Limited is a not-for-profit company limited by shares that is incorporated and domiciled in Australia.

The registered office and principal place of business of Coal Services Pty Limited is:

Level 21
44 Market Street
Sydney, NSW, 2000

The principal activities of the group during the year consisted of:

a) workers compensation insurance for the New South Wales coal industry through its controlled entity, Coal Mines Insurance Pty Ltd;
b) mines rescue services principally for the New South Wales coal industry through its controlled entity, Mines Rescue Pty Limited;
c) occupational environmental monitoring services, including dust monitoring, for the New South Wales coal mining industry; and
d) workplace health and rehabilitation services for the New South Wales coal mining industry, under the registered trademark 'CS Health'.

The consolidated financial report of Coal Services Pty Limited (the 'Company' or 'parent') for the year ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the 'consolidated entity' or 'Group').

The financial report was authorised for issue by the Directors on 16 October 2017.

2 GENERAL INFORMATION

a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

b) Basis of preparation

This financial report is presented in Australian dollars which is the Company's functional and presentation currency. The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that instrument, amounts in this financial report have been rounded off to the nearest thousand dollars unless otherwise stated.

The financial report is prepared on a historical cost basis except that the following assets and liabilities are stated at their fair value (i) outstanding claims (ii) assets backing insurance liabilities (iii) investment properties (iv) general purpose land and buildings. Special purpose land and buildings used by the business are stated at their 'value in use' which is determined on the depreciated current replacement cost method.

The principal accounting policies adopted in the preparation of the financial report have been applied consistently to all periods presented.

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2 GENERAL INFORMATION continued

b) Basis of preparation continued

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Note 16.

The principal accounting policies adopted in the preparation of the financial report are set out in the respective notes. These policies have been applied consistently to all periods presented and by each consolidated entity.

c) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2017, and have not been applied in preparing these financial statements. The new accounting standards that may have an impact on the accounting policies of the Company are as follows:

i) AASB 9 Financial instruments

AASB 9 Financial instruments, which becomes mandatory for the Company's 30 June 2019 financial statements, will lead to specific disclosure requirements that will differ from the current financial asset categories in AASB 139 of loans and receivables, held to maturity, available for sale and held for trading.

The Company expects that this standard would lead to disclosure changes for the current financial assets with loans and receivables being classified as Solely Payments of Principal and Interest (SPPI). The new standard requires that financial assets would hence be recognised at amortised cost only if they are SSPI. Further, impairment would be affected as historical information adjusted for future expectations like economic outlook would be used to generate expected impairment of financial assets. In this regard, there will always be an expected loss amount. A provision matrix will have to be established based on historical information that incorporates forward looking information.

ii) AASB 15 Revenue from contracts with customers

AASB 15 Revenue from contracts with customers, which becomes mandatory for the Company's 30 June 2019 financial statements, requires that Companies should identify performance obligations and allocate the price over the performance obligations as and when these obligations are fulfilled.

In management's estimation, there are not likely to be material variances between performance obligations due from the Company to its customers at reporting date that would likely lead to significant deferral of revenues.

iii) AASB 16 Leases

AASB 16 Leases, which becomes mandatory for the Company's 30 June 2020 financial statements, requires that future lease payments be moved onto the statement of financial position. This is likely to result in an increased asset as well as liability base.

The Company holds significant leases for rental premises. Management have assessed the impact of IFRS 16 and noted that it is likely to have the following material impacts to the financial statements:

Lease payments will be discounted and recognised as liabilities with a corresponding asset.

Discount unwind from the discounted lease payments is likely to cause an increase in both debits as well as credits through the statement of comprehensive income.

2 GENERAL INFORMATION continued

c) New standards and interpretations not yet adopted continued

iv) AASB 17 Insurance contracts

AASB 17 Insurance Contracts was issued in July 2017 and under the AASB 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. It replaces AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. This standard will become mandatory for the Company's 30 June 2022 financial statements. The potential effects on adoption of the standard are currently being assessed.

The Company does not plan to adopt these standards early.

3 ANALYSIS OF INCOME

	2017 $'000	2016 $'000
Insurance revenue		
Workers compensation premium revenue	98,928	100,021
Mines safety levy cost recovery	25,329	25,938
Total insurance revenue	124,257	125,959
Investment income		
Investment income received		
Equity and property trust distributions	5,064	7,533
Fixed interest trust distributions	2,532	9,902
Interest - fixed interest distributions	3,427	3,698
Rental income	3,563	5,148
Investment property operating and management expenses	(1,403)	(1,448)
	13,183	24,833
Realised gains/(losses) on financial assets held at FVTPL *		
Australian listed shares and equity trusts	671	(831)
Fixed interest investments	-	7,718
Global infrastructure and alternative funds	3,688	191
Overseas equity trust units	282	7,514
	4,641	14,592
Unrealised gains/(losses) on financial assets held at FVTPL *		
Australian listed shares and equity trusts	1,199	(2,412)
Investment property	777	4,087
Global infrastructure and alternative funds	3,590	(199)
Fixed interest trust investments	380	(6,136)
Overseas equity trust units	4,113	(9,622)
	10,059	(14,282)
Profit on sale of investment properties	2,705	-
Total investment income	30,588	25,143
Other income		
Mines rescue levy	8,703	8,558
Training and services revenue	11,134	10,842
Health and rehabilitation services	3,545	3,545
Interest charged on investment property deferred receivable	919	964
Other	463	1,452
Total other income	24,764	25,361
Total income	179,609	176,463

* Fair value through profit and loss

Revenue recognition
Revenue is net of refunds and goods and services tax.

Workers compensation premium revenue
Premium revenue comprises amounts charged to policyholders. Premium is earned from the date of attachment of risk over the period of the contract. Insurance contract terms align with the financial year and all premium is fully recognised at year end.

Investment income
Interest income is recognised on a time proportion basis using the effective interest method.

Equity and property trust distributions are recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. Trust distributions are recognised on an entitlement basis to the distributable income of its investee trusts.

Mines Rescue Levy
The *Coal Industry Act 2001* requires coal mine owners to contribute to the operating costs of Mines Rescue Pty Limited. The mines rescue levy is a predetermined amount recognised in full during the financial year to which it applies.

Training and services revenue
Training revenue is derived from the provision of safety training on a commercial basis. Services revenue is derived from the provision of regulation services and calibration of technical and safety equipment, and from the provision of occupational health and rehabilitation services. Revenue is recognised in the accounting period in which the services are rendered.

4 ANALYSIS OF EXPENDITURE

	Note	2017 $'000	2016 $'000
Insurance expenses			
Gross claims paid (including indirect settlement costs)		93,672	81,020
Movement in gross provision for claims outstanding		34,832	(23,858)
Movement in discounting		(12,953)	25,644
Gross claims incurred		115,551	82,806
District court expenses		951	1,026
Reinsurance and other recoveries received		(1,405)	(1,237)
Movement in reinsurance and other recovery provision		(368)	(24)
Net claims incurred	5	114,729	82,571
Outward reinsurance expense		2,474	1,950
Mine safety levy expense		25,329	23,923
Other scheme expenses		(113)	1,391
Total insurance expenses		142,419	109,835
Operating expenses			
Employee benefits expense		38,509	37,065
Depreciation and amortisation expenses		1,713	2,815
Impairment of property, plant and equipment		3,250	-
Net (profit)/loss on sale of assets		(36)	185
Impairment/(recovery) of receivables	10	889	(2,970)
Investment management expenses		2,756	2,735
Miners' pension expenses		11	982
Mines rescue materials expenses		2,383	2,635
Consultants and contractors		5,178	2,701
Medical related expenses		985	623
Travel and motor vehicle		1,772	1,224
Occupancy		2,604	2,310
General overheads		4,013	4,196
Total operating expenses		64,027	54,501
Total expenses		206,446	164,336

Expense recognition

Expenses are recognised as incurred.

Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance risk.

5 NET INCURRED CLAIMS

	2017 $'000	2016 $'000
Prior years claims		
Gross claims paid (including indirect settlement costs)	85,822	73,347
Movement in gross provision for claims outstanding	(32,766)	(84,182)
Movement in discounting	(4,328)	32,232
Gross claims incurred	48,728	21,397
Reinsurance and other recoveries received	(1,378)	(1,225)
Movement in reinsurance and other recoverables	504	770
Net prior years claims incurred	47,854	20,942
Current year claims		
Gross claims paid (including indirect settlement costs)	7,850	7,673
Movement in gross provision for claims outstanding	67,598	60,324
Movement in discounting	(8,625)	(6,588)
Gross claims incurred	66,823	61,409
District court expenses	951	1,026
Reinsurance and other recoveries received	(27)	(12)
Movement in reinsurance and other recoverables	(872)	(794)
Net current year claims incurred	66,875	61,629
Total claims		
Gross claims paid (including indirect settlement costs)	93,672	81,020
Movement in gross provision for claims outstanding	34,832	(23,858)
Movement in discounting	(12,953)	25,644
Gross claims incurred	115,551	82,806
District court expenses	951	1,026
Reinsurance and other recoveries received	(1,405)	(1,237)
Movement in reinsurance and other recoverables	(368)	(24)
Net total claims incurred	114,729	82,571

Claims development

Current period claims relate to risks borne in the financial year. Prior period claims relate to a reassessment of the risks borne in all previous financial years.

6 PROVISION FOR OUTSTANDING CLAIMS

	2017 $'000	2016 $'000
a) Expected future claim payments		
Central estimate	403,120	372,738
Risk margin	51,761	48,083
Indirect claims settlement costs	28,218	27,956
	483,099	448,777
Discount to present value	(77,633)	(64,823)
Provision for outstanding claims	405,466	383,954
Carrying value		
Current	85,663	69,327
Non-current	319,803	314,627
Provision for outstanding claims	405,466	383,954
Inflation rate — normal (economic)		
Succeeding year	3.00%	3.00%
Second and third year	3.00%	3.00%
Subsequent years	3.00%	3.00%
Inflation rate — superimposed		
Full weekly	3.00%	2.50%
Medical	5.50%	5.50%
Other	1.50%	1.50%
Asbestos	3.00%	3.00%
Lung	2.00%	2.00%
Discount rate		
Succeeding year	1.62%	1.63%
Subsequent year	1.72%-5.50%	1.49%-5.00%
b) Weighted average expected term to settlement from the balance date	5.47 years	6.17 years
c) Prudential margin		
Confidence in sufficiency of the reserve	75%	75%
Proportion of discounted central estimate	12%	12%

6 PROVISION FOR OUTSTANDING CLAIMS continued

d) Claims development table

Accident year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claims cost:	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At end of accident year	60,603	71,166	67,439	62,136	64,103	74,192	68,733	62,080	56,816	**63,397**	
One year later	61,901	68,501	62,752	59,537	69,889	79,618	73,025	60,916	**65,218**	-	
Two years later	64,980	68,708	56,551	61,073	73,582	80,192	71,180	**71,371**	-	-	
Three years later	59,162	67,037	59,247	59,347	75,413	79,061	**81,055**	-	-	-	
Four years later	55,570	68,767	61,920	63,104	75,045	**84,024**	-	-	-	-	
Five years later	57,690	68,662	61,341	63,508	**79,976**	-	-	-	-	-	
Six years later	58,043	67,280	61,274	**68,541**	-	-	-	-	-	-	
Seven years later	58,864	70,481	**64,034**	-	-	-	-	-	-	-	
Eight years later	58,071	**72,492**	-	-	-	-	-	-	-	-	
Nine years later	**61,260**	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims cost	61,260	72,492	64,034	68,541	79,976	84,024	81,055	71,371	65,218	63,397	711,368
Cumulative payments	- 49,307	- 58,795	- 47,143	- 52,373	- 57,212	- 53,507	- 42,950	- 32,818	- 20,128	- 7,823	- 422,056
Outstanding claims - undiscounted	11,953	13,697	16,891	16,168	22,764	30,517	38,105	38,553	45,090	55,574	289,312
Outstanding claims - 2007 and prior - undiscounted*											116,266
Discount											- 64,781
Net discounted outstanding claims - central estimate											340,797
Payments accrued for accidents prior to 30 June 2017											- 2,458
Discounted claims handling expenses											23,684
Discounted risk margin											43,443
Net discounted provision for claims outstanding											405,466

* Includes Pre-1985, asbestos, lung disease and catastrophic claims

6 PROVISION FOR OUTSTANDING CLAIMS continued

e) Sensitivity analysis - insurance contracts

The following sensitivity analysis quantifies changes in the key assumptions used in the calculation of the provision for outstanding claims. This will impact the profit/(loss) and equity of the Company as follows:

	2017	2016	2017 $'000	2016 $'000
Active claims tail continuance rate	+2%	+2%	(30,076)	(27,384)
	-2%	-2%	16,545	14,778
Common law and redemption utilisation rate	+10%	+10%	(14,163)	(12,854)
	-10%	-10%	14,163	12,854
Expense rate	+1%	+1%	(3,789)	(3,572)
	-1%	-1%	3,789	3,572
Discount rate	+1%	+1%	19,304	20,311
	-1%	-1%	(21,973)	(23,325)
Inflation rate – normal	+1%	+1%	(21,890)	(23,043)
	-1%	-1%	19,647	20,500
Inflation rate – superimposed	+1%	+1%	(10,653)	(10,827)
	-1%	-1%	9,330	9,552

f) Movement in outstanding claims liability

	2017 $'000	2016 $'000
Gross central estimate at beginning of year	347,599	346,004
Gross risk margin at the beginning of year	41,712	41,521
Expected future recoveries (including risk margin)	(5,357)	(5,333)
Net outstanding claims at beginning of year	383,954	382,192
Gross claims paid during the year	(85,822)	(73,347)
Associated expense allowance	(6,006)	(5,502)
Discount unwinding	4,983	6,113
Movement due to experience and valuation assumption	60,813	13,781
Movement due to economic assumptions	(7,087)	12,571
Claims incurred in the year	52,655	47,979
Movement in risk margin	2,344	191
Movement in expected future recoveries (including risk margin)	(368)	(24)
Movement for the year	21,512	1,762
Gross central estimate at end of year	367,135	347,599
Gross risk margin at end of year	44,056	41,712
Expected future recoveries (including risk margin)	(5,725)	(5,357)
Net outstanding claims at the end of year	405,466	383,954

g) Workers compensation insurance claims

A claims expense and a provision for outstanding claims are recognised in respect of the workers compensation insurance business. The provision covers claims which have been reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER), and the anticipated direct and indirect costs of settling those claims. The outstanding claims liability is estimated by independent actuaries.

The provision for outstanding claims is measured as the present value of the expected future payments. These payments are estimated as the ultimate cost of settling claims. The expected future payments are discounted to present value at the balance date using a risk free rate. The claims expense includes the cost of discounting, being the portion of the increase in the provision for outstanding claims arising from the passage of time as the claim payments discounted in prior periods come closer to settlement.

7 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2017 $'000	2016 $'000
Australian cash holdings	19,418	14,757
Australian bond trust units	267,880	277,319
Australian listed shares	59,425	62,621
Global fixed income and absolute return funds	48,469	27,645
Overseas equity trust units	41,636	31,945
Global infrastructure funds	19,822	27,987
Hedge funds	39,883	37,171
	496,533	479,445

Accounting for financial assets held at fair value through profit and loss

The Group's investments portfolio, excluding investment properties, is designated at fair value through profit and loss. Investments are recognised at fair value on the date the Group becomes party to the contractual agreement. Transaction costs on financial assets held at fair value through profit and loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through the profit or loss are measured at fair value, with changes in their fair value recognised in the statement of comprehensive income.

Fair value in an active market
The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

Fair value in an inactive or unquoted market

- The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.
- Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used in a market rate at the statement of financial position date applicable for an instrument with similar terms and conditions.
- Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds.

8 INVESTMENT PROPERTIES

	2017 $'000	2016 $'000
At fair value		
Opening balance	55,900	49,800
Capitalised subsequent expenditure	917	2,013
Net gain from fair value adjustments	777	4,087
Disposals	(17,894)	-
Closing balance	39,700	55,900
Amounts recognised in profit and loss for investment properties		
Rental income	3,563	5,148
Direct operating expenses	(1,403)	(1,448)
Profit on sale of investment properties	2,705	-
	4,865	3,700
Assumption ranges used in property valuations:		
Discount rate	8.00-10.25%	8.25-10.25%
Terminal yield	7.00-10.25%	7.50-10.25%
Capitalisation rate	6.75-10.00%	7.25-10.00%
Weighted rental growth rate	3.04-3.57%	3.04-3.65%

Accounting for investment properties

Investment properties are held for long-term rental yields and are not occupied by the Group. Investment properties are carried at fair value, which is based on active market prices, adjusted for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. The Group obtains independent valuations by a member of the Australian Property Institute annually. At the end of each reporting period, the Directors update their assessment, taking into account the most recent independent valuations. The Directors determine a property's value within a range of reasonable fair value estimates. Changes in fair values are presented in the statement of comprehensive income. Valuations are categorised as level 3. Refer to Note 16 for an explanation of fair values.

Sale of Hornsby property

On 18 December 2014, Coal Services Pty Limited entered into a put and call agreement to dispose of its investment property located at 20 George Street, Hornsby. The investment property was derecognised at the date of the put and call agreement and a receivable for the future discounted cash flows was recognised. The purchaser has a call option to acquire the property for $18.2m before 30 September 2017. At balance date the purchaser has paid $1.9 million in deposits and will be required to pay the balance of $16.3m on settlement. Coal Services has a put option to enforce completion between 1 October 2017 and 31 October 2017.

	2017 $'000	2016 $'000
Interest income on receivable	919	964
Carrying value of receivable	15,825	16,426

Notes to the Consolidated Financial Statements at 30 June 2017

9 CASH AND CASH EQUIVALENTS

	2017 $'000	2016 $'000
Cash at bank and on hand	11,402	7,710
Credit facility		
Credit Suisse AG revolving credit facility	30,000	30,000

The facility has not been drawn upon.

For cash flow statement presentation purposes, cash and cash equivalents include cash on hand and deposits held at call with financial institutions. Other short term and highly liquid investments have been classified as Australian Cash Funds under 'Financial Assets Held at Fair Value through Profit and Loss'. All cash flows for Coal Mines Insurance Pty Ltd are managed through Coal Services Pty Limited's bank account, and cash inflows and outflows occur through the inter-company account.

10 RECEIVABLES

	2017 $'000	2016 $'000
Current		
Trade receivables	4,876	4,532
Less: provision for doubtful debts	(1,927)	(1,038)
	2,949	3,494
Other receivables	9,625	9,705
Receivable from Coal Mining Industry Corporation for long service leave	2,544	2,482
Deferred settlement on sale of investment property (see note 8)	15,825	-
	30,943	15,681
Non-current		
Receivable from Coal Mining Industry Corporation for long service leave	177	245
Lease incentives	-	401
Deferred settlement on sale of investment property (see note 8)	-	16,426
	177	17,072
Movement in the provision for impairment of receivables:		
Balance at beginning of year	1,038	4,327
Provision for impairment recognised during the year	950	534
Receivables written off during the year as uncollectible	-	(319)
Doubtful debt recoveries	(61)	(3,504)
Balance at end of year	1,927	1,038

All trade receivables are recognised at the amounts receivable, as they are due for settlement within 30 days. Collectability is reviewed on an on-going basis. Debts which are known to be uncollectable are written off. A provision for impaired debts is raised when some doubt as to collection exists based on available evidence.

11 INVENTORY

	2017 $'000	2016 $'000
Goods for resale	182	120

Stocks of materials are held for re-sale and used in the operations of Mines Rescue Pty Limited to generate income. They are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs. Consumables are expensed to the statement of profit or loss and other comprehensive income as incurred.

12 PAYABLES

	2017 $'000	2016 $'000
Trade and other creditors	1,541	2,549
Accrued expenses	14,264	6,870
	15,805	9,419

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade payables are assumed to be the same as their fair values, due to their short-term nature.

13 UNEARNED REVENUE

	2017 $'000	2016 $'000
Carrying amount at beginning of the year	-	1,107
Less: recognised in the period	-	(1,107)
Carrying amount at the end of the year	-	-

Unearned revenue relates to a grant received from the Coal Services Health and Safety Trust to fund the development of Virtual Reality facilities to provide better safety and other training capabilities to the coal industry. The grant is to cover the cost of depreciation over its effective life.

14 PROVISIONS

	Note	2017 $'000	2016 $'000
Current			
Employee entitlements	14a	11,050	11,186
Industry obligations			
Miners' pension fund indemnity	14b	409	485
Miners' pension fund indemnity part 3 CPI liability	14c	240	240
		11,699	11,911
Non-current			
Employee entitlements	14a	695	872
Industry obligations			
Miners' pension fund indemnity	14b	4,126	4,540
Miners' pension fund indemnity part 3 CPI liability	14c	-	240
		4,821	5,652

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

14 PROVISIONS continued

a) Employee entitlements

	2017 $'000	2016 $'000
Current		
Long service leave	5,624	5,616
Annual leave	3,063	2,950
Sick leave (Mines Rescue & Occupational Hygiene Services employees)	2,363	2,620
	11,050	11,186
Non-current		
Long service leave	695	872
	695	872
Total		
Long service leave	6,319	6,488
Annual leave	3,063	2,950
Sick leave (Mines Rescue & Occupational Hygiene Services employees)	2,363	2,620
	11,745	12,058

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur. A liability for sick leave is recognised and measured for employees of Mines Rescue Pty Limited and Occupational Hygiene Services at the reporting date at the amounts expected to be paid when the liability is settled. Sick leave payments and transfers to superannuation funds for these employees are governed by their respective enterprise agreements.

Long service leave
The liabilities for long service leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Commonwealth legislation enacted in 1992 established a statutory corporation, Coal Mining Industry (Long Service Leave Funding) Corporation, to assume responsibility for funding of the payment of long service leave entitlements to persons employed in the black coal industry. Mines Rescue Pty Limited and Occupational Hygiene Services employees are considered to be employed in the black coal industry. A levy is raised on wages paid by employers and a reimbursement is made to employers when long service leave payments are made. The obligation for long service leave entitlements rests with the employer as part of the conditions of employment. The centralised method of financing the payment of long service leave is consistent with the entitlement to be paid, long service leave being based on continuous employment within the coal industry rather than service with a single employer.

14 PROVISIONS continued

a) Employee entitlements continued

Long service leave continued

Mines Rescue Pty Limited's and the Occupational Hygiene Services' obligation to employees is inclusive of associated on-costs and is recognised as a liability. The Company's right to reimbursement from the statutory corporation excludes associated on-costs, as they are not recoverable from the statutory corporation. The right to reimbursement is recognised as an asset (see Note 10).

b) Industry obligations: miner's pension fund indemnity

	2017 $'000	2016 $'000
Carrying value		
Current	409	485
Non-current	4,126	4,540
	4,535	5,025
Expected future payments		
Expected future pension payments – undiscounted	5,504	6,680
Discount to present value	(969)	(1,655)
	4,535	5,025
Average inflation and discount rates used to measure the indemnity		
For the succeeding and subsequent years		
Inflation rate	3.50%	3.50%
Discount rate	3.60%	3.60%
Weighted average expected term to settlement from the balance date	8 years	8 years
Profit and loss impact		
Pension payments	501	588
Movement in indemnity provision	(490)	394
	11	982

c) Industry obligations: miners' pension fund indemnity part 3 CPI liability

	2017 $'000	2016 $'000
Carrying value		
Current	240	240
Non-current	-	240
	240	480

Coal Services are obliged to fund the CPI increases on the pension benefits post 1 January 2000 formerly known as the Part 3 liability. These liabilities are expected to be funded as follows:

	2017 $'000	2016 $'000
Expected future payments		
Number of quarters	4	8
Quarterly payment	60	60

14 PROVISIONS continued

d) Movements in current provisions

	2017 $'000	2016 $'000
Employee entitlements		
Carrying amount at beginning of year	11,186	11,248
Charged to the statement of comprehensive income during the year	(453)	(214)
Transferred from/(to) non-current provision	317	152
Carrying amount at end of year	11,050	11,186
Industry obligations: miner's pension fund indemnity		
Carrying amount at beginning of year	485	800
Charged to the statement of comprehensive income during the year	(485)	-
Transferred from/(to) non-current provision	409	(315)
Carrying amount at end of year	409	485
Industry obligations: miners' pension fund indemnity part 3 CPI liability		
Carrying amount at beginning of year	240	1,098
Payments	(240)	-
Charged to the statement of comprehensive income during the year	-	(618)
Transferred from/(to) non-current provision	240	(240)
Carrying amount at end of year	240	240
Total current provision		
Carrying amount at beginning of year	11,911	13,146
Payments	(240)	-
Charged to the statement of comprehensive income during the year	(938)	(832)
Transferred from/(to) non-current provision	966	(403)
Carrying amount at end of year	11,699	11,911

e) Movements in non-current provisions

	2017 $'000	2016 $'000
Employee entitlements		
Carrying amount at beginning of year	872	842
Charged to the statement of comprehensive income during the year	140	182
Transferred from/(to) non-current provision	(317)	(152)
Carrying amount at end of year	695	872
Industry obligations: miners' pension fund indemnity part 3 CPI liability		
Carrying amount at beginning of year	4,540	3,213
Charged to the statement of comprehensive income during the year	(5)	1,012
Transferred from/(to) non-current provision	(409)	315
Carrying amount at end of year	4,126	4,540
Industry obligations: miners' pension fund indemnity part 3 CPI liability		
Carrying amount at beginning of year	240	-
Charged to the statement of comprehensive income during the year	-	-
Transferred from/(to) non-current provision	(240)	240
Carrying amount at end of year	-	240
Total non-current provision		
Carrying amount at beginning of year	5,652	4,055
Charged to the statement of comprehensive income during the year	135	1,194
Transferred from/(to) non-current provision	(966)	403
Carrying amount at end of year	4,821	5,652

15 PROPERTY, PLANT AND EQUIPMENT

a) Carrying value

	2017 $'000	2016 $'000
Land and buildings		
Land and specific use buildings at existing use value	29,720	36,705
Land and general use buildings at fair value	10,880	10,099
Carrying amount	40,600	46,804
Office improvements		
At cost	1,746	1,461
Accumulated depreciation	(1,324)	(1,216)
Carrying amount	422	245
Computer equipment		
At cost	2,807	1,921
Accumulated depreciation	(1,762)	(1,310)
Carrying amount	1,045	611
Motor vehicles		
At cost	3,460	3,469
Accumulated depreciation	(1,570)	(1,598)
Carrying amount	1,890	1,871
Plant and equipment		
At cost	9,557	22,436
Accumulated depreciation	(7,038)	(19,813)
Carrying amount	2,519	2,623
Total property, plant and equipment		
At valuation	40,600	46,804
At cost	17,570	29,287
Accumulated depreciation	(11,694)	(23,937)
Carrying amount	46,476	52,154

Accounting for property, plant and equipment

General purpose land and buildings are carried at fair value based on valuations from an independent member of the Australian Property Institute at least once every three years. At the balance sheet date the Directors determine a property's value within a range of reasonable fair value estimates. Fair value is determined as the amount for which properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Increases in value are recognised in other comprehensive income and accumulated in equity as revaluation surpluses. Decreases in value first offset any prior revaluation surpluses with any excess recognised in profit or loss. Valuations are categorised as level 3.

Specialised use land and buildings are carried at existing use value which is depreciated current replacement cost. Land value is determined having regard to shape, size, zoning, highest and best use after comparison with alternative properties exchanged within the marketplace. Building values are determined as current replacement costs with regard to functionality, size, configuration and current condition. Assessments of value are made annually by the Directors considering various factors. Impairment losses are recognised where the carrying amount of land and buildings exceeds its recoverable amount. Recoverable amounts are the greater of net selling price or the value in use.

All other property, plant and equipment is recognised at historical cost less depreciation. Depreciation is calculated on a straight line basis to write off the net cost of each item of plant and equipment over its expected useful life.

15 PROPERTY, PLANT AND EQUIPMENT continued

b) Movements in property, plant and equipment

	2017 $'000	2016 $'000
Land and buildings		
Carrying amount at beginning of year	46,804	46,555
Revaluations	(6,209)	-
Additions	5	249
Carrying amount at end of year	40,600	46,804
Office improvements		
Carrying amount at beginning of year	245	301
Additions	285	43
Depreciation	(108)	(99)
Carrying amount at end of year	422	245
Computer equipment		
Carrying amount at beginning of year	611	646
Additions	926	398
Disposals	(2)	(149)
Depreciation	(490)	(284)
Carrying amount at end of year	1,045	611
Motor vehicles		
Carrying amount at beginning of year	1,871	2,004
Additions	798	694
Disposals	(343)	(351)
Depreciation	(436)	(476)
Carrying amount at end of year	1,890	1,871
Plant and equipment		
Carrying amount at beginning of year	2,623	3,932
Additions	575	647
Depreciation	(679)	(1,956)
Carrying amount at end of year	2,519	2,623
Total property, plant and equipment		
Carrying amount at beginning of year	52,154	53,438
Revaluations	(6,209)	-
Additions	2,589	2,031
Disposals	(345)	(500)
Depreciation	(1,713)	(2,815)
Carrying amount at end of year	46,476	52,154

c) Depreciation

Land and specific use buildings are valued by first establishing an estimated replacement cost for an equivalent new asset less depreciation for current physical, functional and economic obsolescence. The functional and economic obsolescence is linked to the estimated life of mining in each asset's region.

Annual reassessments of remaining useful lives are made on a regular basis for all assets. The depreciation rates used for each class of assets are:

	2017	2016
Office improvements	10%	10%
Computer equipment	20% - 50%	20% - 50%
Motor vehicles	10% - 15%	10% - 15%
Plant and equipment	6.7% - 25%	6.7% - 25%

15 PROPERTY, PLANT AND EQUIPMENT continued

d) Land and buildings valuations

	2017 $'000	2016 $'000
i) Carrying amount		
Land and specific use buildings at existing use value	29,720	36,705
Land and general use buildings at fair value	10,880	10,099
Carrying amount	40,600	46,804
ii) Amount that would have been recognised on historical cost		
Freehold land at cost	8,746	8,746
Buildings at cost	58,415	58,410
Accumulated depreciation	(12,300)	(10,840)
Net historical cost	54,861	56,316
iii) Amount that would have been recognised on fair value	23,100	21,865

NOTE 16: ACCOUNTING ESTIMATES AND JUDGEMENTS

The key areas of estimation uncertainty for the Group are described below.

Estimation of accrued premium income and premiums invoiced in advance
Estimation of the amount of accrued premiums and premiums invoiced in advance are made using information from prior periods adjusted for the impact of recent trends and information that has become available after the reporting period and before the financial statements are authorised for issue.

Estimation of outstanding claims provision
Provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Group.

The estimated cost of claims includes direct expenses to be incurred in settling claims and is net of the expected value of recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original provision established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR claims may often not be reported until many years after the event(s) giving rise to the claims occurred. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. Short-tail claims are typically reported soon after the claim event, and hence, tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Note 17 provides details on actuarial assumptions and methodology, and Note 6 provides an analysis of the outstanding claims provision.

Defined benefit pension scheme
The Group participates in a number of defined benefit pension schemes. The present values of the Group's obligations under these arrangements are calculated by an actuary, and the principal assumptions used in these calculations are disclosed in Note 25(f).

Estimated fair values of investment & owner occupied properties
The Group carries its investment properties and owner occupied general use properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations annually for investment properties and at least once every three years for owner occupied properties. At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations.

When measuring the fair value of the buildings the Group uses market observable data as far as possible.

NOTE 17: ACTUARIAL ASSUMPTIONS AND METHOD

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including numbers of reported and finalised claims, amounts of claims payments, changes in case estimates and incurred loss ratios. This analysis allows patterns to be identified in past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance sheet date can be estimated.

The determination of the provision estimate for outstanding claims at the balance date involved:

- Estimating an allowance for claims incurred but not reported (IBNR) and the further development on reported claims
- The determination of a risk margin and claims handling expense provision to be added to the central estimate of outstanding claims to achieve an estimated 75% level of confidence.

The central estimate has no deliberate bias towards over or under estimation.

The actuarial techniques used to estimate the outstanding claims liabilities are:

- To value current claims occurring before 30 June 1985 having regard for whether or not weekly benefits are being paid and the expected term of those payments. Claims occurring before 30 June 1985 are entitled to receive weekly benefits until such time as the claimant is deceased.

- To value claims occurring after 30 June 1985 by payment type using recognised payments based valuation models as follows:
  - Common law and redemptions: payments per claim finalised via a common law or redemption claim settlement
  - Lump sums: payments per claim settled involving a lump sum payment
  - Weekly compensation: payments per active weekly claim (until one year post Commonwealth retirement age)
  - Legal, medical and other payments: payments per non deafness claim incurred
  - Industrial deafness/disease: payments per industrial deafness claim incurred

- To value lung disease and asbestos related disease claims having regard to observed historical average claim size and industry pattern of claims reporting

The company has no unearned premium and therefore no premium liabilities at the balance date.

The methods used to estimate the allowance for claims incurred in the year were consistent with those adopted to estimate the outstanding claims provision.

The determination of a risk margin, claims handling expense and policy administration expense provisions to achieve an estimated 75% level of confidence has been added to the central estimate of the claims provision.

Process used to determine actuarial assumptions

Claim numbers
The first analysis undertaken was an analysis of reported claims for the scheme. Ratios of the cumulative claims numbers reported in succeeding half years were calculated and the underlying pattern used to estimate the total claims numbers in each accident half year. Similar methods were used to estimate future numbers of claim finalisations for the scheme.

Active claims
The number of active claims in a given period has, for valuation purposes, been defined as the number of claims which have received a weekly benefit during the last six months.

Common law redemptions
The numbers of past common law and redemption settlements were expressed as a percentage of estimated ultimate non deafness claims for each half year. The pattern underlying these percentages was then used to project the number of common law and redemption settlements in future half years based on the projected numbers of ultimate non deafness claims in those future half years.

Lump sums
The numbers of past lump sum settlements were expressed as a percentage of the estimated ultimate non deafness claims for each half year. The pattern underlying these percentages was then used to project the number of lump sum settlements in future half years based on the projected numbers of ultimate non deafness claims in those future half years.

Payments
The payments per claim pattern for each payment type was used to estimate the payments expected in future years for each year of accident based on a calculated future average payment per claim.

NOTE 18: INSURANCE CONTRACTS

The Group has established practices for accepting insurance risks which is based on a statutory obligation in the *Coal Industry Act*. The risk under any one insurance contract arises out of the uncertainty surrounding the timing and severity of claims under the contract.

The Group manages its insurance risk through review procedures for transactions, centralised management of reinsurance and monitoring of emerging issues.

Methods of monitoring performance include internal risk measurement models, scenario and stress testing and regular reviews of performance.

The principal risk is that the frequency and severity of claims is greater than expected. Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

The Group has an objective to control insurance risk, thus reducing the volatility of operating profits. Due to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, profits from insurance business are affected by market factors, and movements in asset values. Short-term variability is, to some extent, a feature of insurance business.

Objectives in managing risk arising from insurance and policies for mitigating those risks
The Group's policies and procedures, processes and controls encompass its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Group.

Underwriting strategy
The underwriting strategy is to ensure that the Group is able to meet the insurance needs of its customers, whilst achieving the risk management objectives of the Group.

Reinsurance strategy
The Group adopts a conservative approach towards its reinsurance risk management. The Board determines the level of risk, which is appropriate for the Group having regard to its financial resources, premium volume and the concepts of prudence.

The Group has a Board Audit and Risk Management Committee that assesses the effectiveness of the reinsurance management process. The control mechanisms include annual review of reinsurance arrangements, reinsurance programs, and criteria for selection of reinsurers.

Terms and conditions of insurance contracts
The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are discussed as follows:

Product features
The Group writes insurance risk only for the coal industry of New South Wales. Insurance indemnifies the policyholder against all liability arising under workers compensation legislation.

Management of risks
The key insurance risks are underwriting risk and claims experience risk (including the variable incidence of natural disasters).

Underwriting risk is the risk that the Group does not charge premiums appropriate for the different products it insures. The risk on any policy will vary according to many factors such as the assumptions of the insured and the policy limit. Underwriting risk is partially managed by the Group issuing contracts including policy limitations and exclusions. These are not terms and conditions that are expected to have a material impact on the financial statements of the Group.

Underwriting risk also exists as a result of workers compensation being a statutory product. An employer in the NSW coal mining industry is required to incept and maintain a policy of insurance with the Group. The Group cannot refuse insurance coverage. Additionally, the Group must continue to provide coverage regardless of whether the employer has maintained payment of premiums.

Claims experience is monitored on an ongoing basis to ensure that any adverse performance is addressed. The potential incidence of catastrophic events are managed through the reinsurance management process and is reviewed on an annual basis. The Group is able to reduce the claims experience risk of catastrophic events through the use of reinsurance.

Concentration of insurance risks
Concentration risk is managed primarily through sensible pricing and reinsurance.

NOTE 18: INSURANCE CONTRACTS continued

Interest rate risk

The insurance or reinsurance contracts contain no clauses that expose the Company directly to interest rate risk. The insurance and reinsurance contracts are renewable annually.

Credit risk

The Company is exposed to credit risk on insurance contracts as a result of exposure to individual reinsurers and with policyholders. The Company does not have any material exposure to an individual reinsurer which would significantly impact the operating profit. The credit risk to reinsurers is managed through the Company having a pre-determined policy on the appropriate rating a reinsurer must have to participate in the Company's reinsurance programme. Credit risk also exists through the requirement to provide coverage regardless of receipt of premium payment. This risk is managed through the adoption of robust debt collection processes to minimise exposure.

NOTE 19: LIABILITY ADEQUACY TEST

A liability adequacy test is not required as the Company has no unearned premium at balance sheet date.

NOTE 20: CAPITAL MANAGEMENT

Capital management strategy

The capital management strategy plays a central role in managing risk so as to ensure that the organisation exists in the long term to meet its crucial objective of providing an appropriate level of capital to protect the New South Wales coal mining industry, and specifically, policyholders' and mine industry employees' interests.

Coal Services actively considers its risk appetite through the holistic implementation of strategies around identified key risk levers of underwriting, reinsurance, capital, asset allocation and risk management. The target level of capitalisation for Coal Services is assessed by consideration of factors including:

- The relative access to additional capital
- Sustainability of the organisation
- The probability of financial ruin over the next one to three years and
- The obligation of the organisation to provide services to the industry as outlined in the *Coal Industry Act 2001*.

The amount of capital required that fulfils these risk appetite factors varies according to the business underwritten, extent of reinsurance and asset allocation and is estimated using dynamic financial analysis modelling. For ease of communication, internally and externally, Coal Services has translated the outcome to a target capital position with reference to a multiple of the prescribed capital amount by applying the Australian Prudential Regulation Authority's (APRA) prescribed methodology.

Internal policies are in place to ensure significant deviations from this benchmark are considered at the Board level as to how any shortfall should be made good, or any surplus utilised.

Economic capital

Coal Services' subsidiary, Coal Mines Insurance, operates a workers compensation insurance business for the coal mining industry of New South Wales. Established by operation of the *Coal Industry Act 2001*, Coal Mines Insurance is not regulated by APRA, however, from a good governance perspective, operates, where possible, in accordance with the APRA prudential framework, including the adoption of a target capital amount.

Coal Services has a risk appetite and a long term target capital range of 1.9-2.1 times the APRA prescribed capital amount. The Board review the target capital range annually.

In conjunction with the above, consideration is given to the operational capital needs of the business to meet its statutory obligations. Targeting a capital multiple above the minimum regulatory requirement aims to ensure the ongoing strength and security of Coal Services under both normal and stressed business conditions, whilst suitably protecting policyholders and coal industry employees.

Coal Services Pty Limited, as parent entity of the Coal Services Group, holds the majority of excess capital. This capital is available to subsidiaries in accordance with a Deed of Indemnity for Coal Mines Insurance Pty Ltd and a loan agreement with Mines Rescue Pty Limited.

NOTE 21: FINANCIAL RISK MANAGEMENT

The activities of the Group expose it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The key objectives of the Group's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Group's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns.

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types risk: price risk (due to fluctuations in market prices), currency risk (due to fluctuations in foreign exchange rates) and interest risk (due to fluctuations in market interest rates).

i) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether these changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Group is exposed to price or market value risk on its investment in equities and managed funds. To manage its price risk arising from these investments, the company diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group. The potential impact of movements in the market value of securities on the Group's statement of comprehensive income and statement of financial position is shown in the table below.

ii) Currency risk

Currency risk is the risk of loss arising from an unfavourable movement in market foreign exchange rates.

The Group has some direct exposure to investments, denominated in a currency other than Australian dollars. The Group considers this exposure limited and as such no hedge instruments have been entered into at the balance sheet date.

iii) Interest rate risk

Financial instruments with floating interest rate expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk. The Group holds interest bearing short term deposits with various banks.

21 FINANCIAL RISK MANAGEMENT continued

a) Market risk continued

iv) Sensitivity analysis

Financial assets	2017 ($'000) Carrying amount	2017 ($'000) Interest risk +-1%	2017 ($'000) Price risk +-10%	2017 ($'000) Currency risk +-10%	2016 ($'000) Carrying amount	2016 ($'000) Interest risk +-1%	2016 ($'000) Price risk +-10%	2016 ($'000) Currency risk +-10%
Cash	11,402	114	-	-	7,710	77	-	-
Deferred settlement on sale of property	15,825	-	1,583	-	16,426	-	1,643	-
Australian bond trust units	267,880	971	26,788	-	277,319	964	27,732	-
Australian listed shares	59,425	-	5,943	-	62,621	.	6,262	-
Overseas equity trust units	41,636	-	4,164	4,164	31,945	-	3,195	3,195
Global infrastructure funds	19,822	-	1,982	-	27,987	-	2,799	-
Global fixed income and absolute return funds	48,469	485	4,847	4,847	27,645	276	2,765	2,765
Hedge funds	39,883	-	3,988	-	37,171	-	3,717	-
Australian cash holdings	19,418	194	-	-	14,757	148	-	-
	523,760	1,764	49,295	9,011	503,581	1,465	48,113	5,960

b) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Group's credit risk arises predominantly from investment activities, future claims on the reinsurance contracts and trade receivables.

There is no material exposure to individual reinsurers that could significantly impact the operating result. Reinsurer credit risk is managed through reinsurer rating compliance for participation in the reinsurance programme.

There is no material exposure to individual customers that could significantly impact the operating result. Doubtful debts have been impaired. Coal Mines Insurance Pty Ltd is obligated to provide workers compensation insurance to all operators in the NSW coal industry. For all other business trade credit risk is managed through policy application on the granting of credit.

The Group's maximum exposure to credit risk at balance date is the carrying amount of those assets as indicated in the statement of financial position.

	2017 ($'000) Not yet due	2017 Past due not impaired 31 - 90 days	2017 Past due not impaired 90+ days	2017 Past due impaired	2017 Total	2016 ($'000) Not yet due	2016 Past due not impaired 31 - 90 days	2016 Past due not impaired 90+ days	2016 Past due impaired	2016 Total
Trade and Other Receivables	30,651	212	257	1,927	33,047	31,879	266	608	1,038	33,791

21 FINANCIAL RISK MANAGEMENT continued

b) Credit risk continued

The following table provides information regarding the Group's aggregated credit risk exposure by classifying assets according to the S&P's credit rating for each counterparty. AAA is the highest possible rating. The company regularly reviews its credit risk exposure on the 'Not Rated' assets to ensure their credit worthiness. These 'Not Rated' assets are primarily units in unlisted trust/funds which have limits governing the allowable credit quality of the underlying investments in the funds.

	2017 ($'000)						2016 ($'000)					
	AAA	AA	A	BBB	Not Rated	Total	AAA	AA	A	BBB	Not Rated	Total
Cash and cash equivalents	-	11,402	-	-	-	11,402	-	7,710	-	-	-	7,710
Trade and other receivables	-	-	-	-	31,120	31,120	-	-	-	-	32,753	32,753
Australian bond trust units	129,958	52,386	55,358	30,178	-	267,880	115,387	50,779	88,109	23,044	-	277,319
Australian listed shares	-	-	-	-	59,425	59,425	-	-	-	-	62,621	62,621
Overseas equity trust units	-	-	-	-	41,636	41,636	-	-	-	-	31,945	31,945
Global infrastructure funds	-	-	-	-	19,822	19,822	-	-	-	-	27,987	27,987
Global fixed income and absolute return funds	4,113	852	24,778	16,605	2,121	48,469	5,928	3,971	6,396	11,350		27,645
Hedge funds	-	-	-	-	39,883	39,883	-	-	-	-	37,171	37,171
Australian cash holdings	-	-	19,418	-	-	19,418	-	-	14,757	-	-	14,757
Total	134,071	64,640	99,554	46,783	194,007	539,055	121,315	62,460	109,262	34,394	192,477	519,908

c) Liquidity risk

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Group. The assets held to back insurance liabilities consist of equities and managed funds which can generally be readily sold or exchanged for cash. In addition the Group also has strong cash reserves. The following table shows the maturity profile of the Group's financial liabilities based on remaining contractual obligations:

	2017 ($'000)						2016 ($'000)					
	1 year	2 - 3 years	4 - 5 years	After 5 years	Total	Carrying amount	1 year	2 - 3 years	4 - 5 years	After 5 years	Total	Carrying amount
Miners pension fund indemnity (i)	562	476	430	4,036	5,504	4,535	665	1,189	912	3,914	6,680	5,025
Miners pension fund indemnity part 3 CPI liability	240	-	-	-	240	240	240	240	-	-	480	480
Payable and accruals	15,805	-	-	-	15,805	15,805	9,419	-	-	-	9,419	9,419
Discounted claims liability (ii)	85,663	103,842	64,669	151,292	405,466	405,466	69,327	95,968	59,859	158,800	383,954	383,954
Total	102,270	104,318	65,099	155,328	427,015	426,046	79,651	97,397	60,771	162,714	400,533	398,878

i. These are undiscounted payments. The difference between the total payments and book value represents the discount to present value.

ii. The claims liability above presents the estimated discounted cash flows based on the remaining term to payment. Actual cash flows may differ from expected maturities.

21 FINANCIAL RISK MANAGEMENT continued

d) Operational risk

Operational risk is the risk of loss to the Group resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the Group include legal compliance, business continuity, data infrastructure, outsourced services failures, fraud and employee error.

The Group's objective is to manage operational risk to avoid financial loss. These risks are managed through the implementation of policies, controls and systems to monitor, detect and mitigate risk events and minimise their impact. Systems of internal control are enhanced through:

- The segregation of duties between employee duties and functions, including approval and processing duties
- Documentation of the policies and procedures, employee job descriptions and responsibilities, to reduce the incidence of errors and inappropriate behaviour
- Implementation of the whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff
- Effective dispute resolution procedures to respond to employees' complaints
- Effective insurance arrangements to reduce the impact of losses and
- Contingency plans for dealing with the loss of functionality of systems or premises or staff.

e) Fair values

	2017 $'000	2016 $'000
Assets carried at fair value		
Australian bond trust units	267,880	277,319
Australian listed shares	59,425	62,621
Overseas equity trust units	41,636	31,945
Global infrastructure funds	19,822	27,987
Global fixed income and absolute return funds	48,469	27,645
Hedge funds	39,883	37,171
Australian cash holdings	19,418	14,757
	496,533	479,445
Assets carried at amortised cost		
Cash	11,402	7,710
Trade and other receivables	31,120	32,753
	42,522	40,463
Liabilities at fair value		
Miners' pension fund indemnity	4,535	5,025
Miners' pension fund indemnity part 3 CPI liability	240	480
Trade and other payables	15,805	9,419
Defined benefit superannuation scheme	1,794	4,559
Employee benefits	11,745	12,058
	34,119	31,541

21 FINANCIAL RISK MANAGEMENT continued

f) Fair value hierarchy

The investments carried at fair value have been classified under the three levels of the fair value hierarchy as follows:

a) Level 1: Quoted prices (unadjusted) in active markets for an identical instrument.

b) Level 2: Valuation techniques based on observable inputs, whether directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market process in active markets for the similar instruments; quoted prices for identical or similar instruments in the markets that are considered less than active; or other valuation techniques where all the significant inputs are directly or indirectly observable from the market data.

c) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments. Significant unobservable adjustments or assumptions are required to reflect differences between instruments.

The following table analyses financial instruments, measured at the fair value at the end of the reporting period, by level in the fair value hierarchy into which the fair value measurement is categorised.

	2017 ($'000)				2016 ($'000)			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Australian bond trust units	267,880	-	-	267,880	277,319	-	-	277,319
Australian listed shares	59,425	-	-	59,425	62,621	-	-	62,621
Overseas equity trust units	41,636	-	-	41,636	31,945	-	-	31,945
Global infrastructure funds	-	19,822	-	19,822	-	27,987	-	27,987
Global fixed income and absolute return funds	48,469	-	-	48,469	27,645	-	-	27,645
Hedge funds	-	39,883	-	39,883	-	37,171	-	37,171
Australian cash holdings	19,418	-	-	19,418	14,757	-	-	14,757
Total	436,828	59,705	-	496,533	414,287	65,158	-	479,445

	2017 $'000	2016 $'000

22 CONTRIBUTED EQUITY

	2017 $'000	2016 $'000
Fully paid: 2 shares at $1 each	-	-

It is not the Company's policy, nor the expectation of shareholders, for the Company to pay dividends. On a show of hands, every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one vote and upon a poll each share is entitled to one vote.

23 RESERVES AND RETAINED PROFIT

a) Reserves

	2017 $'000	2016 $'000
Property, plant and equipment revaluation reserve	-	2,958

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

b) Retained profit

	2017 $'000	2016 $'000
Balance at beginning of year	210,338	197,012
Net (loss)/profit for the year	(26,837)	12,127
Defined benefit super scheme actuarial gains/(losses)	2,910	1,199
Balance at end of year	186,411	210,338

24 INCOME TAX

The Group's tax exempt status under the Australian Tax Office letter dated 28 September 2011 covered the year-ends until 30 June 2015. The Group received further confirmation from the Australian Tax Office on 15 April 2015 that it is exempt from income tax pursuant to section 50-1 of the Income Tax Assessment Act 1997. The exemption applies to the years ending 30 June 2016 through to 30 June 2019 inclusive and accordingly no current or deferred tax assets and liabilities of the Group have been recognised. No tax reconciliation has been presented as the Group is a tax exempt entity pursuant to Section 50-1 of the Income Tax Assessment Act 1997.

25 DEFINED BENEFIT SUPERANNUATION SCHEME

a) Superannuation plans

i) Energy Industry Superannuation Scheme

The parent entity participated in this scheme comprising the Defined Benefit Scheme, Retirement Scheme and Accumulation Scheme. In the Defined Benefit and Retirement schemes a component of the final benefit is derived from a multiple of a member's salary and years of membership. The Defined Benefit and Retirement schemes are closed to new members. The Accumulation Scheme is open to new members.

ii) Mines Rescue Stations Staff Superannuation Plan

Mines Rescue Pty Limited, a subsidiary, participated in this plan under the provision of the NSW Coal and Oil Shale Workers Superannuation Act. The Mines Rescue Stations Staff Superannuation Plan is a final 3 year average lump sum defined benefit arrangement providing benefits on death, disability, resignation and retirement. The plan is closed to new members.

	2017 $'000	2016 $'000

25 DEFINED BENEFIT SUPERANNUATION SCHEME continued

b) Number of members

	2017	2016
Energy Industry Superannuation Scheme	11	13
Mines Rescue Stations Staff Super Plan	3	3
	14	16

c) Carrying amount

	2017	2016
Present value of the defined benefit obligation		
Energy Industry Superannuation Scheme	(15,085)	(18,512)
Mines Rescue Stations Staff Super Plan	(2,140)	(2,124)
	(17,225)	(20,636)
Present value of the defined benefit plan assets		
Energy Industry Superannuation Scheme	13,985	14,893
Mines Rescue Stations Staff Super Plan	1,446	1,184
	15,431	16,077
Net liabilities recognised in the statement of financial position		
Energy Industry Superannuation Scheme	(1,100)	(3,619)
Mines Rescue Stations Staff Super Plan	(694)	(940)
	(1,794)	(4,559)

d) Asset allocations

	2017	2016	2017 $'000	2016 $'000
Energy Industry Superannuation Scheme				
Australian equities	16%	17%	2,238	2,533
International equities	26%	23%	3,636	3,425
Property	4%	10%	559	1,489
Private equity	1%	2%	140	298
Infrastructure	11%	8%	1,538	1,191
Alternatives	10%	0%	1,399	-
Fixed income	27%	28%	3,776	4,170
Cash	5%	12%	699	1,787
	100%	100%	13,985	14,893
Mines Rescue Stations Staff Super Plan				
Australian equities	24%	23%	347	271
International equities	16%	15%	231	178
Australian fixed interest	30%	26%	434	308
Property	2%	3%	29	36
Other	9%	25%	130	296
Cash	19%	8%	275	95
	100%	100%	1,446	1,184
Total			15,431	16,077

All scheme assets are invested by the Trustees at arm's length through independent managers.

e) Movement

Movement in net liabilities	2017	2016
Net liabilities at the beginning of the year	(4,559)	(6,105)
Net expense recognized in profit and loss	(575)	(818)
Gains recognized in OCI	2,910	1,199
Contributions	430	1,165
Net liabilities	(1,794)	(4,559)

25 DEFINED BENEFIT SUPERANNUATION SCHEME continued

e) Movement continued

	2017 $'000	2016 $'000
Reconciliation of the present value of defined benefit obligations		
Opening defined benefit obligation	20,636	23,377
Current service cost	430	654
Interest cost	671	655
Contributions by fund participants	93	94
Actuarial (gains)/losses	(2,376)	(1,220)
Benefits paid	(2,063)	(2,516)
Taxes, premiums and expenses paid	(166)	(408)
Closing defined benefit obligation	17,225	20,636
Reconciliation of the fair value of fund assets		
Opening fair value of fund assets	16,077	17,272
Interest Income	526	491
Return on plan assets	534	(20)
Employer contributions	430	1,164
Contributions by fund participants	93	94
Benefits paid	(2,063)	(2,516)
Taxes, premiums and expenses paid	(166)	(408)
Closing fair value of fund assets	15,431	16,077

f) Amounts recognised in profit and loss

	2017 $'000	2016 $'000
Current service cost	430	654
Interest cost	145	164
	575	818

g) Amounts recognised in other comprehensive income

	2017 $'000	2016 $'000
Actuarial gains	2,910	1,199

h) Principal actuarial assumptions

	2017	2016
Energy Industries Superannuation Scheme		
Salary increase rate	2.5%	2.5%
Rate of CPI increase	2.2%	2.5%
Expected rate of return on assets	5.9%	6.3%
Discount rate after tax	4.3%	3.5%
Mines Rescue Stations Staff Superannuation Plan		
Salary increase rate	2.0%	2.5%
Discount rate after tax	3.4%	3.1%

25 DEFINED BENEFIT SUPERANNUATION SCHEME continued

i) Employer contributions

Energy Industry Superannuation Scheme
The method used to determine the employer contributions at the last actuarial review was the Aggregate Funding method. The method adopted affects the timing of the cost to the employer. Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions. The recommended contribution rates for the entity were:

	2017 $'000	2016 $'000
EISS Division B – member contributions (x salary)	1.9	1.9
EISS Division C – % of salary	2.5%	2.5%
EISS Division D – member contributions (x salary)	1.6	1.6
Required additional contributions	-	-

If a surplus exists in the employer's interest in the Scheme, the employer may be able to reduce its contribution rate, depending on the advice of the Scheme's actuary. Where a deficiency exists, the employer is responsible for any difference between the employer's share of scheme assets and the defined benefit obligation. The recommended contribution rates are consistent with the previous year.

Mines Rescue Stations Staff Super Plan

	2017 $'000	2016 $'000
Employer contributions	13.99%	39.29%
Member contributions	4.71%	4.71%
	18.70%	44.00%

The method used to determine the employer contributions is the balance of the cost of benefits after members' contributions.

25 DEFINED BENEFIT SUPERANNUATION SCHEME continued

j) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would affect the defined benefit obligation by the amounts shown below:

	2017 ($'000)				2016 ($'000)			
	Change	Base	Decrease	Increase	Change	Base	Decrease	Increase
Energy Industries Superannuation Scheme								
Discount rate	1.0%	15,085	2,318	(1,884)	1.0%	18,512	2,851	(2,289)
Future salary growth	0.5%	15,085	(230)	244	0.5%	18,512	(232)	246
Rate of CPI increase	0.5%	15,085	(793)	874	0.5%	18,512	(975)	1,081
Future mortality	5.0%	15,085	219	(138)	5.0%	18,512	278	(175)
Mines Rescue Staff Superannuation Plan								
Discount rate	0.5%	2,140	71	(69)	0.5%	2,124	81	(79)
Future salary growth	0.5%	2,140	(48)	48	0.5%	2,124	(68)	71

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

26 KEY MANAGEMENT PERSONNEL

Key management personnel are considered to be the directors of the Company and senior officers, also referred to as the General Management Team, of the parent entity, Coal Services Pty Limited.

Directors of the company during the financial year:

D J Moult (Chairman)
L A Flemming (Managing Director)
P M Jordan
M S Genovese
The Hon. J P Hannaford
G S Sullivan
A W Honeysett

Key management remuneration

Amounts reported here represent the full remuneration paid to key management personnel by the parent entity, Coal Services Pty Limited.

The Managing Director, who is also the Chief Executive Officer, is included as a Director for purposes of reporting.

There was a change in General Manager of Insurance during 2016. This change resulted in additional remuneration costs and is counted as two Senior Officers for purposes of reporting.

	2017 $	2016 $
Number of Directors		
Who earned more than $100k	2	1
Who earned less than $100k	5	6
	7	7
Directors' remuneration packages		
More than $100k	610,256	472,636
Less than $100k	353,460	473,712
	963,716	946,348
Number of senior officers		
Who earned more than $300k	2	3
Who earned less than $300k	4	4
	6	7
Senior officers' remuneration packages		
More than $300k	698,960	1,036,117
Less than $300k	1,029,498	787,266
	1,728,458	1,823,383
Total key management remuneration	2,692,174	2,769,731

27 AUDITOR'S REMUNERATION

	2017 $	2016 $
KPMG		
Audit of financial report	182,240	182,240
Other regulatory audit services	9,135	51,885
	191,375	234,125

	2017 $	2016 $

28 RELATED PARTIES

The ultimate parent entity in the wholly-owned Group is Coal Services Pty Limited. The parent entity is owned 50% by NSW Minerals Subsidiary Company Pty Limited, and 50% by the Construction Forestry Mining and Energy Union. NSW Minerals Subsidiary Company Pty Limited is a company owned by the NSW Minerals Council, an association representing employers in the NSW coal industry. The Construction Forestry Mining and Energy Union (CFMEU) is an association representing employees in the NSW coal industry.

	2017 $	2016 $
Amounts recognised as expenses		
(a) Directors fees (NSW Minerals Council and CFMEU representatives)	327,855	320,577
(b) Other services	28,100	15,864
	355,955	336,441

The Coal Services group comprises Coal Services Pty Limited and its wholly owned entities Coal Mines Insurance Pty Ltd and Mines Rescue Pty Limited.

	2017 $	2016 $
Total due from Mines Rescue Pty Limited at balance sheet date	10,038,158	10,224,048
Total due to Coal Mines Insurance Pty Ltd at balance sheet date	(408,205,541)	(380,475,864)

L A Flemming, a director, is also a trustee of the Coal Services Health and Safety Trust.

29 EVENTS OCCURING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

The Company expects to settle the Hornsby property sale by 31 October 2017.

No other matters or circumstances have arisen since the end of the financial year that significantly impact the Company.

30 CONTINGENT ASSETS AND LIABILITIES

Mines Rescue Stations Staff Super Plan
When a member reaches age 55 a top-up contribution is required. The amount of the top-up will be calculated at 1 July 2018. The amount will depend on the actual increase in benefits and the funding status of the plan at that date. Two of the members reach age 55 in 2018 and the third member in 2023.

31 COMMITMENTS

a) Capital commitments
Capital expenditure contracted at reporting date, not recognised as liabilities:

	2017 $	2016 $
Within one year	1,581	1,265

b) Lease commmitments
Leases contracted at reporting date, not recognised as liabilities:

	2017 $	2016 $
Within one year	1,139	1,048
One to five years	624	1,041
	1,763	2,089

32 RECONCILIATION OF NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2017 $'000	2016 $'000
Net (loss)/profit from ordinary activities	(26,837)	12,127
Depreciation and amortisation	1,713	2,815
Fair value gain on investment property	(777)	(4,087)
Impairment of plant and equipment	3,250	-
Realised gains on investments	(4,641)	(14,592)
Unrealised loss/(gains) on investments	(9,282)	18,369
Net loss on disposal of property, plant and equipment	(36)	185
Impairment of receivables	950	(2,970)
Interest charged on investment property receivable	(919)	(964)
Profit on sale of investment property	(2,705)	-
Change in defined benefit superannuation scheme	145	(347)
Change in receivables	1,633	1,667
Change in inventories	(62)	38
Change in prepayments	126	112
Change in payables	6,386	(2,994)
Change in unearned revenue	-	(1,107)
Change in claims provision	21,512	1,762
Change in other provisions	(1,043)	362
Net cash (out)/in flow from operating activities	(10,587)	10,376

33 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries.

Name of entity	Country of incorporation	Class of shares	Equity holding
Coal Mines Insurance Pty Ltd	Australia	Ordinary	100%
Mines Rescue Pty Limited	Australia	Ordinary	100%

In October 2007 the Coal Services Pty Limited Board approved a funding agreement for the development and construction costs of Mines Rescue Pty Limited. The funding comprises a secured interest free loan with a 5 year repayment term and subscription of B Class ordinary shares in Mines Rescue Pty Limited. The loan was extended for a further 5 years in September 2013.

	2017 $'000	2016 $'000
Equity investment in Mines Rescue Pty Limited		
Mines Rescue Pty Limited Class B shares issued	25,000	25,000
Equity component of interest free loan	1,476	1,476
	26,476	26,476
Loans receivable from Mines Rescue Pty Limited		
Interest free loan	4,786	4,786
Other intercompany receivables	5,252	5,438
	10,038	10,224

34 PARENT ENTITY DISCLOSURE

As at and throughout the year ending 30 June 2017 the parent entity of the Group was Coal Services Pty Limited.

	2017 $'000	2016 $'000
a) Parent entity result		
(Loss)/Profit for the year	(23,318)	15,216
Other comprehensive income	2,657	1,142
Total comprehensive (loss)/income for the year	(20,661)	16,358
b) Parent entity financial position		
Assets		
Current assets	525,158	483,035
Non-current assets	77,044	109,365
Total assets	602,202	592,400
Liabilities		
Current liabilities	(416,907)	(383,482)
Non-current liabilities	(6,355)	(9,317)
Total liabilities	(423,262)	(392,799)
Equity		
Share capital	-	-
Retained earnings	178,940	199,601
Total equity	178,940	199,601

Coal Mines Insurance Pty Ltd indemnity

The parent entity has indemnified Coal Mines Insurance Pty Ltd, a wholly owned subsidiary, against all claims, payments, damages, costs, outgoings and liabilities arising under, or in administration of, the workers compensation insurance scheme.

The indemnity is limited to the value of the gross assets of Coal Services Pty Limited (excepting the value of the share which Coal Services Pty Limited holds in its subsidiary, Mines Rescue Pty Limited) less the value of the total liabilities of Coal Services Pty Limited (except for the value of the indemnity given under the Deed of Indemnity).

Although the provision for the indemnity has been classified as a current liability, it is not expected to be settled within the next 12 months.

	2017 $'000	2016 $'000
Increase in indemnity debited to the statement of comprehensive income	48,128	7,906
Provision for indemnity at year end	256,729	208,601

Mines Rescue Pty Limited loan

	2017 $'000	2016 $'000
The full loan receivable from Mines Rescue Pty Limited has been impaired in the Parent entity financial position above.	10,038	10,224

The directors of Coal Services Pty Limited have provided an undertaking not to call upon the loan before 31 December 2018.

Directors' Declaration

In the opinion of the Directors of Coal Services Pty Limited ('the Group'):

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Group as at 30 June 2017 and of its performance for the financial year ended on that date; and

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

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

Signed in accordance with a resolution of Directors:

D J Moult	**L A Flemming**
Chairman	**Managing Director**
Sydney	Sydney
16 October 2017	16 October 2017

Independent Auditor's Report

To the members of Coal Services Pty Limited

Opinion

We have audited the ***Financial Report*** of Coal Services Pty Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of consolidated financial position as at 30 June 2017;
- Statement of consolidated comprehensive income, Statement of consolidated changes in equity, and Statement of consolidated cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in Coal Services Pty Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and Financial Overview to be included in the Coal Services Annual Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

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_files/ar7.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Andrew Reeves
Partner

Sydney
16 October 2017