Platinum®
CAPITAL LIMITED

# ANNUAL REPORT 2013

PLATINUM CAPITAL LIMITED ABN 51 063 975 431

## Directors

Bruce Phillips
Bruce Coleman
Richard Morath
Kerr Neilson
Andrew Clifford
Philip Howard

## Company Secretary

Philip Howard

## Investment Manager

Platinum Investment Management Limited

## Shareholder Liaison

Liz Norman

## Registered Office

Level 8, 7 Macquarie Place
Sydney NSW 2000

Phone 1300 726 700 (Australia only)
Phone 0800 700 726 (New Zealand only)
Phone +61 2 9255 7500
Fax +61 2 9254 5555

## Share Registrar

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000

Phone 1300 855 080 (Australia only)
Phone +61 3 9415 4000
Fax +61 3 9473 2500

## Auditor and Taxation Advisor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

## Securities Exchange Listing

Ordinary Shares listed on the Australian Securities Exchange
ASX Code: **PMC**

## Website

www.platinum.com.au/Our-Funds/Platinum-Capital-Limited/

# CONTENTS

# CHAIRMAN'S REPORT

## Investment Performance

I am pleased to report that Platinum Capital Limited has had an outstanding year, resulting from a recovery in global equity markets and the strong outperformance by the investment manager against both Australian and international benchmarks.

In the year ending 30 June 2013, Platinum Capital's net asset value (NAV) increased by 42.35% pre-tax. For a comparison, the benchmark Morgan Stanley Capital Index increased 30.54% for the 12 months. After allowing for all tax liabilities, both realised and unrealised, the NAV increased by 34.07%.

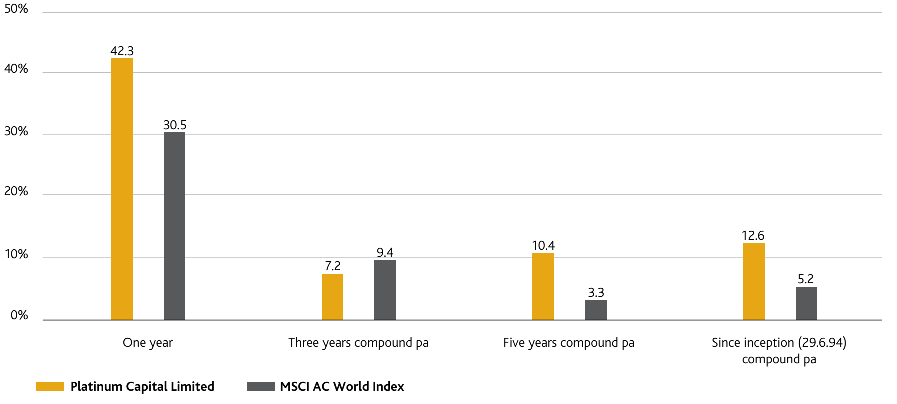
Perhaps most pleasing was that total shareholder return measured in terms of Company share price plus dividends paid was 52.33% for the 12 months to 30 June 2013.

This strong short-term performance made a useful contribution to our very satisfactory long-term and medium-term performance against both the World Index and the Australian Index.

Since its inception in 1994, the compound annual appreciation of the Company's net assets on a pre-tax basis has been 12.60% compared to the return from the MSCI World Index of 5.18%. The comparable return from the Australian All Ordinaries Accumulation Index has been 9.0% annually over the same 19 years.

The short-term, medium-term and long-term outperformance of both the World Index and of the Australian Index demonstrates that opportunities and rewards are there for patient investors.

PLATINUM CAPITAL LIMITED – PRE-TAX NET ASSET VALUE RETURN VERSUS MSCI* INDEX TO 30 JUNE 2013 (%)




** Morgan Stanley Capital International All Country World Net Index*
Source: Platinum and MSCI

## Financial Results and Accounting Standards

For the year ended 30 June 2013, the Company made a pre-tax operating profit of $74.8 million and a post-tax operating profit of $58.8 million. This represents a 435% increase in profit from the prior year and is predominantly attributable to mark to market unrealised gains associated with historical buying of neglected stocks at attractive prices.

However, under Australian Accounting Standards, realised profits and losses are added to or reduced by changes in the market value of the Company's total assets. This can lead to large variations in reported profits from any one year to the next.

Therefore, despite the strong profit performance, it is still the opinion of your Directors that a more appropriate measure of the Company's results is the change in its NAV adjusted for dividends. On this measure the Company's pre-tax net asset value increased by 42% to $1.51 per share during the year.

# CHAIRMAN'S REPORT
CONTINUED

## Dividends
As a direct consequence of returning to positive retained earnings, the Company is pleased to report that a fully-franked dividend of 5 cents will be paid for the year ended 30 June 2013, making 7 cents for the full year.

The Company continues its policy of dividend smoothing, in an attempt to ensure that there are sufficient franking credits available to pay fully franked dividends in the future.

## Capital Management Programme
On 28 March 2013, the Company announced the termination of the share buy-back programme that had been in operation since 2 April 2012. The programme was terminated because it had achieved its main objective of limiting the discount between the Company's share price and its underlying NAV per share, which was 0.01% at the date of termination. Under the buy-back programme, 506,675 shares were bought-back and this represented 0.31% of issued share capital.

The Directors continue to monitor the Company's share price discount or premium to its NAV and any significant divergence may result in a share buy-back programme or rights issue in the future.

## Corporate Governance
As shareholders would be aware, Platinum Capital's funds are ultimately managed by Platinum Investment Management Limited through two key agreements previously approved by shareholders; the Investment Management Agreement and the Administration Services Agreement.

In the past year, the independent directors are again pleased to report they have continued to monitor the performance of the Investment Manager and its adherence to the agreements with the full and transparent co-operation of Platinum Asset Management and its management team. We are accordingly confident in the integrity and reporting of the Company's financial results to shareholders.

## Outlook for 2013-2014

As highlighted recently by our Investment Manager, "Economic signals from the US remain reassuring and even Europe is tentatively showing signs of bottoming out. There are also some interesting initiatives being proposed by the European Commission and the German government to help fund small and medium enterprises in the peripheral countries. We remain convinced that Japanese corporate profitability is on the mend, thanks to their own initiatives and the benefits of a weaker Yen. Somewhat discouraging are the social issues that are coming to the fore in significant emerging countries ranging from Brazil to Turkey and Egypt. The internet is unleashing more power than even the enthusiasts would have imagined at the height of the stock market boom of 2000.

After some strong runs it is possible that investors cool over the northern summer and fret about the speed of growth in China, the social resistance to change in Europe, notably France, and the sustainability of profits from sectors that have been market favourites for some while. We believe these will be mere distractions and should be seen as offering opportunities to buy fine businesses."

## Finally

The strong results achieved in the last 12 months is a tribute to the skill and expertise of the investment manager, so I wish to express my appreciation of the outstanding contribution made by Kerr Neilson, Andrew Clifford and their team over the last year.

## Bruce Phillips

*Chairman*

Sydney, 13 August 2013

# FINANCIAL STATEMENTS 2013

PLATINUM CAPITAL LIMITED

# SHAREHOLDER INFORMATION

## Substantial Shareholders

No substantial shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 8 August 2013.

## Distribution of Securities

| (i) DISTRIBUTION SCHEDULE OF HOLDINGS | CLASS OF EQUITY SECURITY ORDINARY |
|---|---|
| 1 – 1,000 | 885 |
| 1,001 – 5,000 | 2,283 |
| 5,001 – 10,000 | 1,977 |
| 10,001 – 100,000 | 3,681 |
| 100,001 and over | 158 |
| Total number of holders | 8,984 |
| (ii) Number of holders of less than a marketable parcel | 474 |
| (iii) Percentage held by the 20 largest holders | 13.87% |

## Twenty Largest Shareholders

The names of the twenty largest holders of each class of listed equity securities as at 8 August 2013 are listed below:

| | NUMBER OF SHARES | % |
|---|---|---|
| BNP Paribas Nominees Pty Limited | 5,958,979 | 3.59 |
| Citicorp Nominees Pty Limited | 2,947,776 | 1.78 |
| K Neilson | 1,648,038 | 0.99 |
| Moya Pty Limited | 1,412,005 | 0.85 |
| UBS Wealth Management Australia Nominees Pty Limited | 1,203,545 | 0.73 |
| JP Morgan Nominees Australia Limited | 1,138,031 | 0.69 |
| Forsyth Barr Custodians Limited | 1,090,517 | 0.66 |
| Navigator Australia Limited | 1,050,617 | 0.63 |
| Nulis Nominees (Australia) Limited | 981,796 | 0.59 |
| Questor Financial Services Limited | 755,244 | 0.46 |
| R Thompson | 664,744 | 0.40 |
| R E Ware Pty Limited | 645,351 | 0.39 |
| Feboco Investments Pty Limited | 562,827 | 0.34 |
| I T Heffernan Pty Limited | 525,000 | 0.32 |
| Haidee Pty Limited | 449,070 | 0.27 |
| HSBC Custody Nominees (Australia) Limited | 445,578 | 0.27 |
| R Ireson | 400,288 | 0.24 |
| Australian Executor Trustees Limited | 386,738 | 0.23 |
| Australian Executor Trustees SA Limited | 367,367 | 0.22 |
| Fay Fuller Foundation Pty Limited | 364,000 | 0.22 |

# SHAREHOLDER INFORMATION
CONTINUED

## Voting Rights

### Ordinary Shares

On a show of hands, every member present in person or represented by a proxy or representative shall have one vote and, on a poll, every member present in person or represented by a proxy or representative shall have one vote for every share held by them.

## Company's Commitment to Carbon Neutrality

The Company continues to report that it is carbon neutral (as is the Investment Manager). The Manager has purchased carbon credits to offset the Company's carbon emissions.

## Distribution of Annual Report to Shareholders

The Law allows for an "opt in" regime through which shareholders will receive a printed "hard copy" version of the Annual Report only if they request one. The Directors have decided to only mail out an Annual Report to those shareholders that have "opted in".

## Financial Calendar

| | |
|---|---|
| Ordinary shares trade ex-dividend | 16 August 2013 |
| Record (books close) date for final dividend | 22 August 2013 |
| Final dividend paid | 9 September 2013 |
| Annual General Meeting | 21 October 2013 |

These dates are indicative and may be changed.

## Questions at AGM

If you would like to submit a question prior to the AGM to be addressed at the AGM, you may email your question to invest@platinum.com.au.

# INVESTMENT METHODOLOGY

Platinum Capital Limited (the "Company") is an investment company listed on the Australian Securities Exchange and open to investors who wish to purchase shares in the same way as one might buy shares in NAB or BHP. The Company is taxed at source and pays shareholders dividends (usually fully franked) where possible. This feature distinguishes it from managed investment trust products.

The Company delegates the investment function to Platinum Investment Management Limited (trading as Platinum Asset Management) (the Manager). This entity employs an investment team that manages the investments of the Company. These are two discrete legal entities. As a shareholder in the Company, you have no interest/ownership in Platinum Investment Management Limited or its listed parent, Platinum Asset Management Limited.

Platinum Asset Management's investment process has been well-tested over time. The principles on which it is based have not varied since inception, although refinements continually evolve and develop.

Platinum Asset Management seeks a broad range of investments globally whose businesses and growth prospects, it believes, are being inappropriately valued by the market. By using themes and an industry focus, the portfolio is built up through individual stock selection. Consideration of the macro environment, as well as careful evaluation of how the stock will fit and function in the portfolio, is also important.

By locating the research efforts together in one place, Platinum Asset Management facilitates the cross pollination of ideas that is possible with the free-flow of information between managers with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter and calming influence enabling a more objective assessment of "noisy" markets. This process is well supported by carefully planned and extensive visits to companies and key areas.

The wealth of research and detailed analysis that leads to the consideration of a stock addition/retention/reduction in a portfolio takes form in a disciplined reporting process that is open to the critical scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" the investment decision, as well as add accountability to the process. Implementation of investment decisions is also given detailed attention, as is the ongoing review and monitoring of the portfolio.

For a more detailed look at Platinum Asset Management's investment process, we would encourage you to visit Platinum's website at the following link: www.platinum.com.au/About-Us/Investment-Process/

# DIRECTORS' REPORT

In respect of the year ended 30 June 2013, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

## Directors

The following persons were Directors of the Company during the financial year and up to the date of this report:

| | |
|---|---|
| Bruce Phillips | (Chairman and Non-Executive Director) |
| Bruce Coleman | (Non-Executive Director) |
| Richard Morath | (Non-Executive Director) |
| Kerr Neilson | (Managing Director) |
| Andrew Clifford | (Executive Director) |
| Philip Howard | (Executive Director and Company Secretary) |

## Principal Activity

The principal activity of the Company during the year was the investment of funds internationally into securities of companies, which are perceived by the Investment Manager to be undervalued.

## Trading Results

The net profit of the Company for the year was $58,802,000 (2012: net loss of $17,546,000) after income tax expense of $16,046,000 (2012: income tax expense of $2,282,000).

## Dividends

On 13 August 2013, the Directors declared a 5 cents per share ($8,293,000) fully franked dividend payable to shareholders on 9 September 2013. A fully franked dividend of 2 cents per share ($3,305,000) was paid on 11 March 2013.

A nil dividend was paid for the year ended 30 June 2012.

## Capital Management

On 28 March 2013, the Company announced the termination of the share buy-back programme that had been in operation since 2 April 2012. The programme was terminated because it had achieved its main objective of limiting the discount between the Company's share price and its underlying Net Asset Value (NAV) per share, which was 0.01% at the date of its termination. Under the buy-back programme, 506,675 shares were bought-back and this represented 0.31% of issued share capital.

## Review of Operations

The net profit before tax was $74,848,000 (2012: net loss before tax of $15,264,000) and net profit after tax of $58,802,000 (2012: net loss after tax of $17,546,000). Income tax expense for the year was $16,046,000 (2012: income tax expense of $2,282,000).

## Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or the financial statements.

## Events Subsequent to the End of the Financial Year

Since the end of the financial year, the Directors are not aware of any matter or circumstance, not otherwise dealt with in this report or financial statements, that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial periods.

## Likely Developments and Expected Results of Operations

The Company will continue to pursue its investment objective, which is to increase the net asset value of the Company. The methods of operating the Company are not expected to change in the foreseeable future.

## Rounding of Amounts

The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/0100 (as amended) and, consequently, amounts in the Directors' Report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## Environmental Regulation

The Company is not adversely impacted by any particular or significant environmental regulations under a Commonwealth, State or Territory Law.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

## Non-Audit Services

The Directors, in accordance with advice received from the Audit and Risk Committee, are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied, considering the nature and quantum of the non-audit services, that the provision of non-audit services by the Auditor did not compromise the auditor independence requirements of the *Corporations Act 2001*.

# DIRECTORS' REPORT
CONTINUED

Details of the amounts paid or payable to the Auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

| | 2013 $ | 2012 $ |
|---|---|---|
| Audit services – statutory | **98,150** | 94,300 |
| Taxation services – compliance | **44,967** | 44,677 |
| **Total** | **143,117** | 138,977 |

## Auditor's Independence Declaration
A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

## Information on Directors
**Bruce Phillips** BSC (HONS)
Chairman since 23 October 2009, Independent Non-Executive Director since March 2009 and member of the Audit and Risk Committee. (Age 58)

Mr Phillips has over 34 years of technical, financial and managerial experience in the global energy industry. He has worked on projects throughout Australasia, South America, the UK, Southeast Asia and East Africa. He founded AWE Limited in 1997 and was its Managing Director until 2007. He has been a Non-Executive Director of AGL Limited since 2007 and AWE Limited since 2009 and Chairman of AWE Limited since 2010. He was a Non-Executive Director of Sunshine Gas Limited from 2007 to 2008.

**Bruce Coleman** BSC, BCOM, CA, FFIN
Independent Non-Executive Director since April 2004 and member of the Audit and Risk Committee. (Age 63)

Mr Coleman has worked in the finance and Investment industry since 1986. He was the CEO of MLC Investment Management from 1996 to 2004. He has held various directorships within MLC Limited, Lend Lease and the National Australia Banking group. Mr Coleman is a Non-Executive Director of Platinum Asset Management Limited.

**Richard Morath** BA, FIAA, ASIA
Independent Non-Executive Director since March 2009 and Chairman of the Audit and Risk Committee. (Age 64)

Mr Morath has over 38 years experience in the funds management and banking industry. He currently holds several board positions with organisations that operate under the

National Australia Group of companies. He is Chairman of Plum, the group vehicle providing member services to the corporate superannuation market, Chairman of GWM Advisor Services, the holder of dealer licences for all MLC financial planning companies, and Chairman of National Australia Trustees. He is also a Director of BNZ Life and JANA Investment Advisers Pty Limited and was appointed a Director of BNZ Investment Services Limited, effective 1 July 2013. Mr Morath held senior and leadership roles with the Commercial Banking Company of Sydney and State Bank of NSW. He has worked as Managing Director of Australian Bank in the 1980s, and was CEO of MLC Retail Funds and CEO of MLC's corporate funds business in the 1990s. Before retiring in December 2001, Mr Morath worked with Lend Lease Corporation as Group Executive and was responsible for relations with media, analysts, shareholders and government.

**Kerr Neilson** BCOM, ASIP
Managing Director for 19 years. (Age 63)

Appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Investment Management Limited, the Company's Investment Manager and Platinum Asset Management Limited. Prior to Platinum, Mr Neilson was an Executive Vice President at Bankers Trust Australia Limited. Previously, he worked in both the UK and South Africa in broking and funds management.

**Andrew Clifford** BCOM (HONS)
Director for 19 years. (Age 47)

Appointed a Director of the Company upon incorporation. He is a Director and Chief Investment Officer of Platinum Asset Management Limited and Director of Platinum Investment Management Limited, the Company's Investment Manager. Prior to Platinum Investment Management Limited, Mr Clifford was a Vice President at Bankers Trust Australia Limited.

**Philip Howard** BCOM, CA
Finance Director and Company Secretary since March 2011. (Age 52)

He is a Director of Platinum Investment Management Limited, the Company's Investment Manager and a Director of Platinum Asset Management Limited. Mr Howard was Platinum's Chief Operating Officer since his appointment to that role in September 2001. Mr Howard is a Chartered Accountant with over 25 years experience in the financial services industry. Prior to Platinum, Mr Howard has held senior roles in finance, operations and management with State Street Australia, Bankers Trust Australia and Price Waterhouse, Sydney.

# DIRECTORS' REPORT
CONTINUED

## Directors' Meetings
The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2013.

| NAME | BOARD MEETINGS HELD WHILE A DIRECTOR | BOARD MEETINGS ATTENDED | AUDIT AND RISK COMMITTEE MEETINGS HELD WHILE A MEMBER | AUDIT AND RISK COMMITTEE MEETINGS ATTENDED |
|---|---|---|---|---|
| Bruce Phillips | 5 | 5 | 4 | 4 |
| Bruce Coleman | 5 | 5 | 4 | 4 |
| Richard Morath | 5 | 5 | 4 | 4 |
| Kerr Neilson | 5 | 5 | – | – |
| Andrew Clifford | 5 | 5 | – | – |
| Philip Howard | 5 | 5 | – | – |

## Remuneration Report (audited)
### Executive Summary
- There are only three employees remunerated by the Company (the Non-Executive Directors).
- There has been no increase in remuneration (including no bonuses) paid to the Non-Executive Directors, since 2003.
- There were no bonuses paid despite NAV, share price, earnings, earnings per share and dividends all increasing in the 2012/2013 financial year.
- The Executive Directors are not employed or paid by the Company. They are employed by Platinum Investment Management Limited, whose services are governed by the Investment Management Agreement with the Company.

### Introduction
The Directors of Platinum Capital Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2013.

The information provided in this Remuneration Report has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 (3C) of the *Corporations Act 2001*.

## Key Management Personnel ("KMP")

For the purposes of this report, the KMP of the Company in office during the financial year were:

| NAME | POSITION |
|---|---|
| Bruce Phillips | Chairman and Non-Executive Director |
| Bruce Coleman | Non-Executive Director |
| Richard Morath | Non-Executive Director |
| Kerr Neilson | Managing Director |
| Andrew Clifford | Executive Director |
| Philip Howard | Executive Director and Company Secretary |

There are no employees within the Company, other than those disclosed above.

## Shareholders' Approval of the 2012 Remuneration Report

Under the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, a 25% or higher "no" vote on the remuneration report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed.

At the last AGM, the Company received a "no" vote of only 7.45%. This was well below the 25% threshold. Despite this low "no" vote, we have set out to fully explain the basis and structure of the remuneration paid to KMP.

## Non-Executive Director Remuneration

The Constitution of the Company requires approval by shareholders at a general meeting of a maximum amount of remuneration to be paid to Non-Executive Directors.

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at the 2005 Annual General Meeting, is $350,000 per annum (including superannuation). Despite the approval of shareholders to increase Non-Executive Directors remuneration up to $350,000 per annum, only $168,950 in aggregate was paid in 2013.

The Executive Directors determine the remuneration of the Non-Executive Directors within the maximum approved shareholder limit. The Non-Executive Directors are not entitled to any other remuneration.

# DIRECTORS' REPORT
CONTINUED

### Principles, Policy and Components of Non-Executive Director's Remuneration
Remuneration paid to the Non-Executive Directors is designed to ensure that the Company can attract and retain suitably qualified and experienced directors.

It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors.

Non-Executive Directors received a fixed fee and mandatory superannuation.

Non-Executive Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

The Executive Directors examine the base pay of the Non-Executive Directors annually and may utilise the services of an external advisor. No other retirement benefits (other than mandatory superannuation) are provided to the Non-Executive Directors. There are no termination payments payable on the cessation of office and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

### Remuneration for Non-Executive Directors
The table below presents actual amounts received by the Non-Executive Directors.

| NAME | CASH SALARY $ | SUPER-ANNUATION $ | SHORT-TERM INCENTIVES $ | LONG-TERM INCENTIVES $ | TOTAL $ |
|---|---|---|---|---|---|
| Bruce Phillips | | | | | |
| FY 2013 | 55,000 | 4,950 | – | – | 59,950 |
| FY 2012 | 55,000 | 4,950 | – | – | 59,950 |
| Bruce Coleman | | | | | |
| FY 2013 | 50,000 | 4,500 | – | – | 54,500 |
| FY 2012 | 50,000 | 4,500 | – | – | 54,500 |
| Richard Morath | | | | | |
| FY 2013 | 50,000 | 4,500 | – | – | 54,500 |
| FY 2012 | 50,000 | 4,500 | – | – | 54,500 |
| Total Non-Executive remuneration | | | | | |
| FY 2013 | 155,000 | 13,950 | – | – | 168,950 |
| FY 2012 | 155,000 | 13,950 | – | – | 168,950 |

## Executive Director Remuneration

The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are employees of the Investment Manager, Platinum Investment Management Limited. The responsibilities that each of the Executive (and Non-Executive) Directors performs are outlined in the Corporate Governance Statement on pages 23 to 24.

The Executive Directors continue to waive their right to any fee and as a result the Company does not pay the Executive Directors any remuneration. The Company has never paid any remuneration to the Executive Directors and this waiver is consistent with the practice adopted in the past.

## Employment Arrangements of KMP

The key aspects of the KMP contracts are as follows:

– Remuneration and other terms of employment for Non-Executive Directors are formalised in service agreements.
– All contracts with Directors include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
– Each contract is for an unlimited duration. The tenure of all Directors is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
– In the event of termination, all KMP are only entitled to receive their statutory entitlements.

# DIRECTORS' REPORT
CONTINUED

## Link between Company Performance and Remuneration paid

| | 2013 | 2012 | 2011 | 2010[1] | 2009[1] |
|---|---|---|---|---|---|
| Total net investment income/(loss) ($'000) | 79,555 | (10,970) | (8,271) | 28,593 | 39,459 |
| Expenses ($'000) | 4,707 | 4,294 | 4,846 | 5,126 | 9,730 |
| Profit/(loss) after tax ($'000) | 58,802 | (17,546) | (8,773) | 17,235 | 20,567 |
| Earnings per share (cents per share) | 35.53 | (10.59) | (5.35) | 11.16 | 14.74 |
| Dividends (cents per share) | 7.0 | – | 5.9 | 10.0 | 10.0 |
| Net asset value (post-tax) (30 June) ($ per share) | 1.42 | 1.07 | 1.19 | 1.35 | 1.33 |
| Closing share price (30 June) ($) | 1.45 | 0.97 | 1.16 | 1.42 | 1.46 |
| Total fixed remuneration (salary and superannuation) paid ($) | 168,950 | 168,950 | 168,950 | 200,071 | 182,092 |

(1) Differences in total Directors' remuneration above $168,950 were caused by transitional Director movements, which raised the number of Non-Executive Directors above the core of three temporarily in parts of these years.

## Interests of Non-Executive and Executive Directors in shares

The relevant interest in ordinary shares of the Company that each Director held at balance date were:

| NAME | 2013 QUANTITY |
|---|---|
| Bruce Phillips | 429,985 |
| Bruce Coleman | 200,000 |
| Richard Morath | 27,000 |
| Kerr Neilson | 1,648,039 |
| Andrew Clifford | 1,412,006 |
| Philip Howard | – |

No Director bought or sold shares during the year.

## Directors' Interests in Contracts

The three Executive Directors are employees of and have a relevant interest in the Investment Manager and will receive a portion of the management fee. They do not receive any Directors' remuneration directly from the Company.

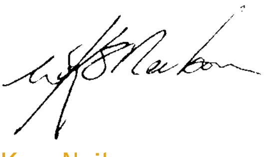
## Directors' Insurance

During the year, the Company incurred a premium in respect of a contract for indemnity insurance for the Directors and Officers of the Company named in this report.

## Executives

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

Bruce Phillips
*Chairman*



Kerr Neilson
*Director*

Sydney, 13 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION

pwc

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Platinum Capital Limited during the period.

Joe Sheeran
*Partner*
PricewaterhouseCoopers

Sydney, 13 August 2013

**PricewaterhouseCoopers, ABN 52 780 433 757**
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

# CORPORATE GOVERNANCE STATEMENT

## Introduction

Platinum Capital Limited ABN 51 063 975 431 (the "Company") is a listed investment company on the Australian Securities Exchange ("ASX"). The objective of the Company is to seek long-term capital growth through utilising the skills of the Investment Manager and Administrator, Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management.

The Company has no employees other than its Non-Executive Directors. It has no premises, plant & equipment or other physical assets. The Company's investment activities are undertaken by Platinum Asset Management, in accordance with an Investment Management Agreement. The Company's day-to-day affairs are managed by Platinum Asset Management, in accordance with an Administrative Services Agreement.

The Company's main corporate governance practices are set out below and, unless otherwise stated, were in place for the entire year. The Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments* ("Governance Principles"), except where indicated.

Company policies, charters and codes referred to in this Statement are provided on the Company's website at www.platinum.com.au/Our-Funds/Platinum-Capital-Limited/.

## Principle 1: Lay solid foundations for management and oversight

**RECOMMENDATION 1.1 – Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**

### Role of the Board

The Board has adopted a Charter that details the functions and responsibilities of the Board.

The role of the Board is to promote the long-term health and prosperity of the Company.

### Responsibilities of the Board

The principal responsibilities of the Board include:

- monitoring the financial position and performance of the Company;
- ensuring the appointed Investment Manager and Administrator is performing its duties in a skilful and diligent manner, employs qualified and experienced staff and operates appropriate risk monitoring and compliance procedures;
- overseeing and monitoring Platinum Asset Management's compliance with the terms of the Investment Management Agreement and Administrative Services Agreement;

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

- ensuring the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted;
- identifying the principal risks faced by the Company and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
- overseeing the integrity of the financial accounts and reporting;
- overseeing communications and reporting to shareholders;
- appointing the Chair and Board Committee members; and
- setting the charters of the delegated Committees of the Board.

RECOMMENDATION 1.2 – **Companies should disclose the process for evaluating the performance of senior executives.**

As the Company has no senior executives other than the Executive Directors of the Board and the Executive Directors are not remunerated by the Company, it is considered appropriate that their performance be assessed as part of the collective review outlined under Recommendation 2.5.

## Principle 2: Structure the Board to add value

RECOMMENDATION 2.1 – **A majority of the board should be independent directors.**

### Structure of the Board

The Board currently comprises six Directors: three Non-Executive Directors and three Executive Directors (including the Managing Director).

Non-Executive Directors: Bruce Phillips (Chair), Bruce Coleman, Richard Morath.

Executive Directors: Kerr Neilson (Managing Director), Andrew Clifford and Philip Howard.

The Board considers that equal representation is appropriate for the Company, given its size and purpose. The Non-Executive Chair has a casting vote where votes are tied.

Details of the background, experience and professional skills of each Director are set out in the Directors' Report on pages 14 to 15.

### Director Independence

All the current Non-Executive Directors of the Company have been assessed as independent. An independent Director is a Non-Executive Director that the Board considers to be independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement.

The Board regularly assesses the independence of each Director by taking into account the factors outlined below:

– the specific disclosures made by each Director as referred to below;
– where applicable, the related party dealings referable to each Director, noting whether those dealings are material under accounting standards;
– whether a Director is, or is associated directly with, a substantial shareholder of the Company;
– whether the Director has ever been employed by the Company or any of its subsidiaries;
– whether the Director is, or is associated with, a supplier, professional adviser, consultant to or customer of the Company, which is material under accounting standards; and
– whether the Director personally carries on any role for the Company other than as a Director of the Company.

The Board also has regard to the matters set out in the Governance Principles. The Board does not consider that term of service on the Board should be considered as a factor affecting a Director's ability to act in the best interests of the Company.

Directors must disclose any material personal or family contract or relationship in accordance with the *Corporations Act 2001*. Directors also adhere to constraints on their participation and voting in relation to matters in which they may have an interest in accordance with the *Corporations Act 2001* and the Company's policies.

Each Director may from time to time have personal dealings with the Company. Some Directors are involved with other companies or professional firms that may from time to time have dealings with the Company.

Details of offices held by Directors with other organisations are set out in the Directors' Report on pages 14 to 15. Full details of related party dealings are set out in notes to the Company's accounts as required by law.

If a Director's independent status changes, this will be disclosed and explained to the market in a timely manner and in consideration of the Company's Communications Plan.

## Materiality

The Board determines "materiality" on both a quantitative and qualitative basis. An item that either affects the Company's net assets by approximately 5% or affects the Company's distributable income in a forecast period by more than approximately 5% of the Company's net profit before tax is likely to be material. However, these quantitative measures must be

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

supplemented with a qualitative examination. The facts (at the time) and the context in which the item arises will influence the determination of materiality.

### Access to Information and Independent Advice
All Directors have unrestricted access to Company records and information.

The Investment Manager and Administrator provides regular information and reports to the Board (as requested).

The Board of Directors' Charter provides that the Directors may seek independent professional advice at the Company's expense, after first notifying the Board. The Board will review the estimated costs for reasonableness, but will not impede the seeking of advice.

RECOMMENDATION 2.2 – **The chair should be an independent director.**

The Chair of the Board is an Independent Director.

The Chair is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning. The Chair facilitates the effective contribution of all Directors and promotes constructive and respectful relations between Directors and between the Board and Management.

RECOMMENDATION 2.3 – **The roles of chair and chief executive officer should not be exercised by the same individual.**

The roles of Chair and Managing Director (Chief Executive Officer) are not exercised by the same individual.

The Managing Director is responsible for ensuring the terms of the Investment Management Agreement and Administrative Services Agreement are fulfilled by Platinum Asset Management.

RECOMMENDATION 2.4 – **The board should establish a nomination committee.**

Given the size and purpose of the Company, the Board considers a nomination committee is not warranted. The full Board considers the issues that would otherwise be a function of a nomination committee.

The Board's policy is that the Board needs to have an appropriate mix of skills, experience, expertise and diversity (including gender diversity).

When evaluating, selecting and appointing Directors, the Board considers:

- the candidate's competencies, qualifications and expertise, addition to diversity of the Board and his/her fit with the current membership of the Board;
- the candidate's knowledge of the industry in which the Company operates;
- directorships previously held by the candidate and his/her current commitments to other boards and companies;
- existing and previous relationships with the Company and Directors;
- the candidate's independence status and the need for a majority or equal balance on the Board; and
- requirements of the *Corporations Act 2001*, ASX Listing Rules, the Company's Constitution and Board Policy.

The Board seeks to ensure that:

- its membership represents an appropriate balance between Directors with investment management experience and Directors with an alternative perspective; and
- the size of the Board is conducive to effective discussion and efficient decision-making.

Under the terms of the Company's Constitution:

- an election of Directors must be held at each Annual General Meeting and at least one Director (but not the Managing Director) must retire from office; and
- each Director (but not the Managing Director) must retire from office at the third Annual General Meeting following his/her last election.

Where eligible, a Director may stand for re-election.

RECOMMENDATION 2.5 – **Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The Board of Directors' Charter requires:

- the Board to review its performance (at least annually) against previously agreed measurable and qualitative indicators;
- the Chair of the Board to review each Director's performance;
- a nominated Director to review the Chair's performance; and
- the Board to undertake a formal annual review of its overall effectiveness, including its Committees.

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

The Board reviews its performance in terms of Company objectives, Company results and achievements of the Investment Manager and Administrator. The Board ensures each Director has the necessary skills, experience and expertise, and the mix remains appropriate for the Board to function effectively. As a result of these performance reviews, the Board may implement changes to improve the effectiveness of the Board and corporate governance structures. Independent professional advice may be sought as part of this process.

The Board undertook a review of its performance and that of its Committee during the year.

## Principle 3: Promote ethical and responsible decision-making

RECOMMENDATION 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the code as to:

– the practices necessary to maintain confidence in the company's integrity;
– the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
– the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

### Directors' Code of Conduct

The Board has adopted a Directors' Code of Conduct, which is based upon the Australian Institute of Company Directors' Code of Conduct. It requires the Directors to act honestly, in good faith, and in the best interests of the Company as a whole, whilst in accordance with the letter (and spirit) of the law.

### Business Rules of Conduct

The Investment Manager and Administrator, Platinum Asset Management, has established Business Rules of Conduct applicable to its Directors and all applicable staff. It communicates the appropriate standards of behaviour, provides a framework for the workplace, and informs staff of their responsibilities with respect to legal compliance, confidentiality and privacy, conflicts of interest, investment activities and operational processes.

All new employees of the Investment Manager and Administrator receive induction training in relation to the Business Rules of Conduct and are asked to sign an annual declaration confirming their ongoing compliance.

Compliance is monitored by the Compliance team of the Investment Manager and Administrator.

RECOMMENDATION 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy.

The Company's approach to business promotes a culture of equal opportunity and has the core principles of meritocracy based on ability, fairness and equality. The Company does not discriminate on gender, race, religion or cultural grounds.

As the Company has no full-time employees and given the size of the Board, a diversity policy has not been established under Recommendations 3.2 – 3.4. The Board's composition is reviewed on an annual basis. In the event a vacancy exists, the Board will include diversity in its nomination process.

RECOMMENDATION 3.3 – Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with diversity policy and progress towards achieving them.

Refer to Recommendation 3.2.

RECOMMENDATION 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

The Company has no full-time employees. There are no women on the Board.

RECOMMENDATION 3.5 – Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Directors' Code of Conduct and other corporate governance items are posted on the Company's website at www.platinum.com.au/Our-Funds/Platinum-Capital-Limited/.

Departures from Recommendations 3.2, 3.3 and 3.4 are explained within their respective sections.

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

## Principle 4: Safeguard integrity in financial reporting

RECOMMENDATION 4.1 – The Board should establish an audit committee.

### Audit and Risk Committee

The Board has established an Audit and Risk Committee. The purpose of the Audit and Risk Committee is to assist the Board in fulfilling its responsibilities relating to the financial reporting and accounting practices of the Company.

Its key responsibilities are to:

- review and recommend to the Board the financial statements (including key financial and accounting principles adopted by the Company);
- review and monitor risks and the implementation of mitigation measures for those risks as appropriate;
- assess and recommend to the Board the appointment of external auditors and monitor the conduct of audits;
- monitor the Company's compliance with its statutory obligations;
- review and monitor the adequacy of management information and internal control systems; and
- ensure that any shareholder queries relating to such matters are dealt with expeditiously.

### Company Auditor

The policy of the Board is to appoint an Auditor that clearly demonstrates competence and independence.

The performance of the Auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

PricewaterhouseCoopers was appointed as the Auditor to the Company in 1994. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years. The most recent audit rotation commenced on 1 July 2012.

An analysis of fees paid to the Auditor, including a breakdown of fees for non-audit services, is provided in the Directors' Report. It is the policy of the Auditor to provide an annual declaration of its independence to the Audit and Risk Committee.

The Auditor is required to attend the Company's Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

RECOMMENDATION 4.2 – The audit committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board; and
- has at least three members.

The Audit and Risk Committee has three members: Richard Morath (Chair), Bruce Coleman and Bruce Phillips.

All members of the Audit and Risk Committee are independent Non-Executive Directors.

Attendance record at Audit and Risk Committee meetings is provided in the Directors' Report on page 16.

RECOMMENDATION 4.3 – The audit committee should have a formal charter.

The Audit and Risk Committee operates under an approved charter.

The Audit and Risk Committee has authority (within the scope of its responsibilities) to seek any information it requires from any employee of the Investment Manager and Administrator or external party. Members may also meet with auditors (internal and/or external) without Management present and consult independent experts, where the Audit and Risk Committee considers it necessary to carry out its duties.

All matters determined by the Audit and Risk Committee are submitted to the full Board as recommendations for Board decisions. Minutes of an Audit and Risk Committee meeting are tabled at a subsequent Board meeting. Additional requirements for specific reporting by the Audit and Risk Committee to the Board are addressed in the Charter.

## Principle 5: Make timely and balanced disclosure

RECOMMENDATION 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has a Continuous Disclosure Policy.

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

The Board is committed to:

- the promotion of investor confidence by ensuring that trading in Company shares takes place in an efficient, competitive and informed market;
- complying with the Company's disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*; and
- ensuring the Company's stakeholders have the opportunity to access externally available information issued by the Company.

The Company Secretary is responsible for coordinating the disclosure of information to Regulators and shareholders and ensuring that any notifications/reports to the ASX are promptly posted on the Company's website.

## Principle 6: Respect the rights of shareholders

**RECOMMENDATION 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

The Board has adopted a Communications Plan that describes the Board's policy for ensuring shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company.

The Company's primary portals are its website, Annual Report, Annual General Meeting, Half-Yearly Report, Quarterly Investment Report and monthly notices to the ASX.

The Company Secretary oversees and coordinates the distribution of all information by the Company to the ASX, shareholders, the media and the public.

All shareholders have the opportunity to attend the Annual General Meeting and ask questions of the Board.

## Principle 7: Recognise and manage risk

**RECOMMENDATION 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

The Board, through the Audit and Risk Committee, is responsible for ensuring that:

- there are adequate policies for the oversight and management of material business risks to the Company;
- there are effective systems in place to identify, assess, monitor and manage the risks of the Company and to identify material changes to the Company's risk profile; and

- arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

The Investment Manager and Administrator, Platinum Asset Management, has implemented risk management and compliance frameworks based on ISO 31000:2009 *Risk Management – Principles and Guidelines* and AS 3806-2006 *Compliance Programs*. These frameworks (together with the firm's internal audit function) ensure that:

- emphasis is placed on maintaining a strong control environment;
- accountability and delegations of authority are clearly identified;
- risk profiles are in place and regularly reviewed and updated;
- timely and accurate reporting is provided to Management and respective Committees; and
- compliance with the law, contractual obligations and internal policies (including business rules of conduct) is communicated and demonstrated.

RECOMMENDATION 7.2 – **The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.**

The Investment Manager and Administrator reports periodically to the Audit and Risk Committee on the effectiveness of its risk management and compliance frameworks with respect to services undertaken for the Company.

The Executive Directors have reported to the Board as to the effectiveness of the Company's management of its material business risks.

RECOMMENDATION 7.3 – **The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

In respect of the year ended 30 June 2013, the Managing Director and Finance Director have made the following certifications to the Board:

# CORPORATE GOVERNANCE STATEMENT
CONTINUED

– the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant Accounting Standards.
– the above statement is founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## Principle 8: Remunerate fairly and responsibly

RECOMMENDATION 8.1 – The board should establish a remuneration committee.

Given the size of the Company and the fact that the Executive Directors are not remunerated by the Company, the Board has determined that a remuneration committee is not warranted. The full Board considers the issues that would otherwise be a function of a remuneration committee.

RECOMMENDATION 8.2 – The remuneration committee should be structured so that it:
– consists of a majority of independent directors;
– is chaired by an independent chair; and
– has at least three members.

Not applicable – refer Recommendation 8.1

RECOMMENDATION 8.3 – Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

### Remuneration Policies

Remuneration for the Non-Executive Directors is set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. The Executive Directors review and determine the remuneration of the Non-Executive Directors accordingly. Independent professional advice may be sought.

Further information is provided in the Remuneration Report set out in the Directors' Report on pages 16 to 20.

### Remuneration Paid

Remuneration paid to the Non-Executive Directors for the 2012/2013 reporting year is set out in the Directors' Report on page 18.

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Investment income** | | | |
| Dividends | | **3,735** | 5,744 |
| Interest | | **3** | 22 |
| Net gains/(losses) on equities/derivatives | | **68,425** | (15,454) |
| Net gains/(losses) on forward currency contracts | | **5,712** | (1,352) |
| Net foreign exchange gains on overseas bank accounts | | **1,680** | 70 |
| **Total net investment income/(loss)** | | **79,555** | (10,970) |
| **Expenses** | | | |
| Management fee | 15 | **3,084** | 2,719 |
| Custody | | **198** | 163 |
| Share registry | | **152** | 122 |
| Directors' fees | | **169** | 169 |
| Continuous reporting disclosure | | **175** | 181 |
| Auditor's remuneration | | | |
| – Auditing and review ($98,150, 2012: $94,300) | | **98** | 94 |
| – Taxation services ($44,967, 2012: $44,677) | | **45** | 45 |
| Transaction costs | | **221** | 204 |
| Withholding tax on foreign dividends | | **388** | 414 |
| Other expenses | | **177** | 183 |
| **Total expenses** | | **4,707** | 4,294 |
| **Profit/(loss) before income tax** | | **74,848** | (15,264) |
| Income tax expense | 2(a) | **16,046** | 2,282 |
| **Profit/(loss) after income tax** | | **58,802** | (17,546) |
| Other comprehensive income | | **–** | – |
| **Total comprehensive income/(loss) for the year** | 8 | **58,802** | (17,546) |
| **Basic earnings per share (cents per share)** | 7 | **35.53** | (10.59) |
| **Diluted earnings per share (cents per share)** | 7 | **35.53** | (10.59) |

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# BALANCE SHEET
## AS AT 30 JUNE 2013

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 9(a) | **19,189** | 19,642 |
| Financial assets at fair value through profit or loss | 3 | **232,056** | 160,354 |
| Receivables | 4 | **598** | 388 |
| Income tax receivable | | **–** | 435 |
| Net deferred tax assets | 2(b) | **–** | 1,530 |
| **Total assets** | | **251,843** | 182,349 |
| **Liabilities** | | | |
| Payables | 5 | **1,550** | 493 |
| Financial liabilities at fair value through profit or loss | 3 | **835** | 2,739 |
| Current tax payable | | **660** | – |
| Net deferred tax liabilities | 2(b) | **13,856** | – |
| **Total liabilities** | | **16,901** | 3,232 |
| **Net assets** | | **234,942** | 179,117 |
| **Equity** | | | |
| Contributed equity | 6 | **196,864** | 196,536 |
| Retained profits/(losses) | 8 | **38,078** | (17,419) |
| **Total equity** | | **234,942** | 179,117 |

The Balance Sheet should be read in conjunction with the accompanying notes.

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

| | NOTE | CONTRIBUTED EQUITY $'000 | RETAINED PROFITS $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Balance at 30 June 2011** | | **195,885** | **3,261** | **199,146** |
| **Total comprehensive income/(loss) for the year** | | – | (17,546) | (17,546) |
| Transactions with equity holders in their capacity as equity owners: | | | | |
| Contributions of equity, net of transactions costs | | 770 | – | 770 |
| Buy-back of shares under the capital management programme | | (119) | – | (119) |
| Dividends paid | 13 | – | (3,134) | (3,134) |
| **Balance at 30 June 2012** | | **196,536** | **(17,419)** | **179,117** |
| **Total comprehensive income/(loss) for the year** | | – | 58,802 | 58,802 |
| Transactions with equity holders in their capacity as equity owners: | | | | |
| Contributions of equity, net of transactions costs | | 697 | – | 697 |
| Buy-back of shares under the capital management programme | | (369) | – | (369) |
| Dividends paid | 13 | – | (3,305) | (3,305) |
| **Balance at 30 June 2013** | | **196,864** | **38,078** | **234,942** |

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

| | NOTE | 2013 $'000 INFLOWS (OUTFLOWS) | 2012 $'000 INFLOWS (OUTFLOWS) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments for purchases of financial assets | | **(96,798)** | (101,735) |
| Proceeds from sale of financial assets | | **97,922** | 101,356 |
| Dividends received | | **3,595** | 6,053 |
| Interest received | | **3** | 24 |
| Management fees paid | | **(2,994)** | (2,741) |
| Other expenses | | **(1,690)** | (1,503) |
| Income tax received/(paid) | | **435** | (435) |
| **Net cash from operating activities** | 9(b) | **473** | 1,019 |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(3,268)** | (3,191) |
| Proceeds from issue of shares | | **697** | 770 |
| Purchase of shares under the share buy-back programme | | **(369)** | (119) |
| **Net cash from financing activities** | | **(2,940)** | (2,540) |
| Net increase/(decrease) in cash and cash equivalents | | **(2,467)** | (1,521) |
| Cash and cash equivalents held at the beginning of the financial year | | **19,642** | 20,204 |
| Effects of exchange rate changes on cash and cash equivalents | | **2,014** | 959 |
| **Cash and cash equivalents held at the end of the financial year** | 9(a) | **19,189** | 19,642 |

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 1. Summary of Significant Accounting Policies
The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

The financial report was authorised for issue by the Directors of the Company on 13 August 2013. The Directors have the power to amend the financial report after issue.

### (a) Basis of Preparation of the Financial Statements
The financial statements have been prepared in accordance with the requirements of the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Company is a for-profit entity for the purpose of preparing the financial statements.

The financial statements have been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The Balance Sheet is presented on a liquidity basis. Specifically, assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current assets and liabilities. The majority of receivables and payables are expected to be recovered or settled within 12 months, whereas tax and investment balances may be recovered after 12 months.

#### Compliance with International Financial Reporting Standards (IFRS)
The financial statements of the Company also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The preparation of the financial statements requires the use of certain critical accounting estimates and judgements, which are included on the following page.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 1. Summary of Significant Accounting Policies CONTINUED

### (b) Income Tax

The income tax expense for the period is the tax payable on the current period taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses. Under AASB 112: *Income Taxes*, deferred tax balances are determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. The Company exercises judgement in determining the extent of recognition of deferred tax assets in relation to any applicable realised and/or unrealised tax losses and whether future realised taxable profits are expected to be sufficient to allow recovery of these losses.

### (c) Financial Assets and Liabilities at Fair Value through Profit or Loss

Under AASB 139, marketable equity securities are classified in the Balance Sheet as "financial assets at fair value through profit or loss". These include financial assets that have quoted prices in active markets and can be reliably measured. This designation is consistent with Platinum Asset Management's general stock selection policy of selecting investments that are liquid and actively traded. These investments are initially recognised at fair value, excluding transaction costs, which are expensed as incurred. Investments are valued based on quoted "bid" prices on long securities. Gains and losses arising from changes in the fair value of the financial assets are included in the Statement of Comprehensive Income in the period they arise.

In accordance with Australian Accounting Standards, derivative financial instruments are categorised as "financial assets/liabilities held for trading" and are accounted for at fair value with changes to such values recognised through the Statement of Comprehensive Income in the period they arise. Derivative financial instruments are valued based on quoted "bid" prices for long equity swaps and long futures. Short equity swaps and short futures are valued based on quoted "ask" prices. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the Statement of Comprehensive Income in the period they arise.

Forward currency contracts are categorised as "financial assets/liabilities held for trading" and are initially recognised at fair value on the date contracts are entered into and are subsequently remeasured at each reporting date. The fair value is the unrealised profit or loss on the foreign currency position (in Australian dollars).

## 1. Summary of Significant Accounting Policies CONTINUED

### (c) Financial Assets and Liabilities at Fair Value through Profit or Loss CONTINUED

#### Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at reporting date without any deduction for estimated future selling costs. Long securities, long equity swaps and long futures are priced at "bid" prices, while short equity swaps and short futures are priced at "ask" 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 are determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. Options are valued with reference to the the quoted price of the underlying index or share. If there is no liquid market available, the options are valued based on option prices provided by an arm's length broker. These valuations are based on option pricing models.

#### Recognition/derecognition

The Company recognises financial assets and liabilities on the date they become party to the purchase contractual agreement (trade date) and recognises changes in fair value of the financial assets and liabilities from this date. Financial assets and liabilities are no longer recognised on the date they become party to the sale contractual agreement (trade date).

### (d) Transaction Costs

Initial measurement (cost) on purchase of trading securities shall not include directly attributable transaction costs, such as fees and commissions paid to agents. Incremental transaction costs on purchases of financial assets at fair value through profit or loss are expensed immediately.

### (e) Foreign Currency Translation

The functional and presentation currency of the Company as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* will be the Australian dollar.

Transactions denominated in foreign currencies are translated into Australian currency at the rates of exchange prevailing on the date of the transaction. Foreign currency assets and liabilities existing at balance date are translated at the closing exchange rates prevailing at balance date. Resulting exchange rate differences are brought to account in determining profit and loss for the year.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 1. Summary of Significant Accounting Policies CONTINUED

### (f) Investment Income

#### Interest income

Interest income is recognised in the Statement of Comprehensive Income based on nominated interest rates available on the bank accounts held at various locations throughout the world.

#### Dividend income

Dividend income is brought to account on the applicable ex-dividend date.

### (g) Directors' Entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fee rates. Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

### (h) Earnings per Share

Basic and diluted earnings per share are determined by dividing the profit or loss after income tax by the weighted number of ordinary shares outstanding during the financial year.

### (i) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash includes deposits at call with financial institutions, cash held in margin accounts and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Margin accounts comprise cash held as collateral for derivative transactions.

Payments and receipts relating to the purchase and sale of financial assets are classified as "cash flows from operating activities" as realised and unrealised gains (and losses) on financial assets represent the Company's main operating activity.

### (j) Due to/from Brokers for Unsettled Trades

Amounts due to/from brokers represent payables for securities purchased and receivables for securities sold that have been contracted for, but not yet delivered by the reporting date. Trades are recorded on trade date. Proceeds on sale of investments are usually received between two and five days after trade date. Payables on purchase of investments are usually paid between two and five days after trade date.

## 1. Summary of Significant Accounting Policies CONTINUED

### (k) Receivables
All receivables are recognised when a right to receive payment is established. Debts that are known to be uncollectible are written off.

### (l) Payables
All payables and trade creditors are recognised as and when the Company becomes liable.

### (m) Contributed Equity
Ordinary shares are classified as equity.

### (n) Dividends
A provision is booked in the accounts if the Directors declare or determine to pay a dividend on or before balance date that has not been paid at balance date.

### (o) Segment Reporting
Under AASB 8: *Operating Segments*, the Company is considered to have a single operating segment. However, the standard requires certain entity-wide disclosures. Refer to Note 17 for further information.

### (p) Rounding of Amounts
The Company is of a kind referred to in the Australian Securities & Investments Commission's Class Order 98/100 issued by Australian Securities & Investments Commission and consequently, amounts in the financial report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### (q) Goods and Services Tax (GST)
Revenue, expenses, receivables and payables are recognised net of the amount of any associated GST, unless the GST is not recoverable from the tax authority. In this case, it is recognised as part of the cost of the acquisition of the asset or has been expensed.

### (r) New Accounting Standards and Interpretations
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. The accounting standards of relevance to the Company are discussed below, as is the assessment of their impact.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 1. Summary of Significant Accounting Policies CONTINUED

### (r) New Accounting Standards and Interpretations CONTINUED

(i) Revised AASB 9: *Financial Instruments (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities)*, AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective for annual reporting periods beginning on or after 1 January 2015).

The revised standard defers the operative date of AASB 9: *Financial Instruments* from 1 January 2013 to 1 January 2015. AASB 9 provides guidance on the classification and measurement of financial assets and this standard was assessed at 30 June 2012 as not having a significant impact on the Company.

(ii) AASB 13: *Fair Value Measurement* and AASB 2011-8: *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013).

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. The Company has yet to determine if any of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the precise impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Company does not intend to adopt the new standard before its operative date, which means that it will be first applied in the annual reporting period beginning 1 July 2013.

(iii) AASB 2011-4: *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective for annual reporting periods beginning on or after 1 July 2013).

The revised standard removes the individual key management personnel (KMP) disclosure requirements from AASB 124: *Related Party Disclosures*, for all disclosing entities to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the future.

## 1. Summary of Significant Accounting Policies CONTINUED

### (r) New Accounting Standards and Interpretations CONTINUED

(iv) *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)* (effective for annual reporting periods beginning on or after 1 July 2014).

These amendments clarify some of the requirements for offsetting financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has legally enforceable right to set off" and also clarifies the application of IAS 32 offsetting criteria to settlement systems. This standard would not have a significant impact on the disclosures contained in the financial report. The Company will apply the standard from 1 July 2014.

(v) Disclosures – *Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7 Financial Instruments: Disclosures)* (effective for annual reporting periods beginning on or after 1 July 2013).

These disclosures introduce more extensive disclosure requirements into IFRS 7 which focus on quantitative information about recognising financial instruments that are offset in the Statement of Financial Position, as well as those recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard would not have a significant impact on the disclosures already made. The Company will apply the standard from 1 July 2013.

There are no other standards that are not yet effective, that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|

## 2. Income Tax

### (a) Income tax expense

| | | |
|---|---|---|
| The income tax expense attributable to the profit/(loss) comprises: | | |
| Current income tax provision | **660** | – |
| Deferred tax liabilities | **12,410** | 390 |
| Deferred tax assets | **2,976** | 1,892 |
| **Income tax expense** | **16,046** | 2,282 |
| The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit/(loss). The difference is reconciled as follows: | | |
| Profit/(loss) before income tax expense | **74,848** | (15,264) |
| Prima facie income tax on profit/(loss) at 30% | **22,454** | (4,579) |
| *Increase/(reduce) tax payable* | | |
| – Allowable credits for foreign tax paid | **(294)** | (318) |
| – Deferred tax benefit on realised losses from prior year | **(30)** | 596 |
| – Current year income tax receivable not recognised | **–** | 499 |
| – Deferred tax benefit (recognised)/not recognised on prior year unrealised investment losses | **(6,084)** | 6,084 |
| **Income tax expense** | **16,046** | 2,282 |

## 2. Income Tax CONTINUED

### (b) Net Deferred tax assets/(liabilities)

In line with our existing accounting policy, the Company has exercised judgement in determining the extent of recognition of deferred tax balances. Due to the strong performance over the course of the last 12 months, the unrealised losses on financial assets of $22,042,000 at 30 June 2012 have now moved to a position of unrealised gains on financial assets of $41,139,000 at 30 June 2013, which results in a net deferred tax liability. The net deferred tax assets/liabilities figure in the Balance Sheet is comprised of:

#### (i) Deferred tax assets

The balance comprises temporary differences attributable to:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Audit fees | **19** | 13 |
| Taxation services | **9** | 8 |
| Shareholder communication and reporting | **39** | 31 |
| Capital expenditure not immediately deductible | **9** | 26 |
| Realised tax losses which may be utilised | **–** | 2,405 |
| Unrealised losses on financial assets | **–** | 569 |
| Deferred tax assets | **76** | 3,052 |

#### (ii) Deferred tax liabilities

The balance comprises temporary differences attributable to:

| | | |
|---|---|---|
| Dividends receivable | **61** | 20 |
| Accounting/tax cost on investments | **1,308** | 1,502 |
| Unrealised gains on financial assets | **12,559** | – |
| Financial asset payments | **4** | – |
| Deferred tax liabilities | **13,932** | 1,522 |
| **Net deferred tax assets/(liabilities)** | **(13,856)** | 1,530 |

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|

## 3. Financial Assets and Liabilities at Fair Value through Profit or Loss

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| *Financial assets* | | |
| Equity securities | **230,337** | 157,817 |
| Derivatives | **360** | 114 |
| Foreign currency contracts | **1,359** | 2,423 |
| **Financial assets** | **232,056** | 160,354 |
| *Financial liabilities* | | |
| Derivatives | **280** | 795 |
| Foreign currency contracts | **555** | 1,944 |
| Financial liabilities | **835** | 2,739 |
| **Financial assets less liabilities** | **231,221** | 157,615 |

Refer to Note 1(c) for the accounting policy concerning fair value measurement.

## 4. Receivables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Proceeds on sale of financial assets | **232** | 286 |
| Goods and Services Tax | **38** | 29 |
| Dividends receivable | **205** | 66 |
| Indian Capital Gains Tax receivable | **35** | 7 |
| Prepayments | **88** | – |
| | **598** | 388 |

Proceeds on sale of financial assets are usually received between two and five days after trade date. Dividends are usually received within approximately 30 days of the ex-dividend date. Information relating to the ageing of receivables is shown in Note 12.

## 5. Payables

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Payables on purchase of financial assets | **923** | 23 |
| Trade creditors (unsecured) | **575** | 455 |
| Unclaimed dividends payable to shareholders | **52** | 15 |
| | **1,550** | 493 |

Payables on purchase of financial assets are usually paid between two and five days after trade date. Trade creditors are unsecured and payable between seven and 30 days after being incurred. These current payables are non-interest bearing. Information relating to the Company's exposure of payables to liquidity risk is shown in Note 12.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

| | | 2013 QUANTITY | 2013 $'000 | 2012 QUANTITY | 2012 $'000 |
|---|---|---|---|---|---|
| **6. Contributed Equity** | | | | | |
| Opening balance | | **165,655,317** | **196,536** | 164,959,415 | 195,885 |
| Dividend reinvestment plan | 1-Sep-11 (a) | **–** | **–** | 769,006 | 723 |
| Reinvestment of unclaimed dividends | 14-Sep-11 (b) | **–** | **–** | 28,462 | 28 |
| Reinvestment of unclaimed dividends | 8-Mar-12 (b) | **–** | **–** | 19,361 | 19 |
| Buy-back of shares | 2-Apr-12 to (c) 25-May-12 | **–** | **–** | (120,927) | (119) |
| Buy-back of shares | 8-Aug-12 to (c) 6-Sep-12 | **(385,748)** | **(369)** | – | – |
| Dividend reinvestment plan | 11-Mar-13 (a) | **590,709** | **697** | – | – |
| **Closing balance** | | **165,860,278** | **196,864** | 165,655,317 | 196,536 |

(a) Shares were issued under the Dividend Reinvestment Plan at a 5% discount to the market price. For future dividends paid after 30 June 2013, the discount will be 2.5%.

(b) For reinvestment of unclaimed dividends, additional shares are issued at the last sale price of the Company's shares on the first business day following the expiration six months from the date of payment of the relevant dividend.

(c) The Company implemented an on-market share buy-back programme between 2 April 2012 and 28 March 2013. In total, 506,675 shares were bought-back and this represented 0.31% of issued shares.

### Ordinary Shares

At 30 June 2013, ordinary shares on issue totalled 165,860,273 shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

| | 2013 | 2012 |
|---|---|---|
| **7. Earnings per Share** | | |
| Basic earnings per share – cents per share | **35.53** | (10.59) |
| Diluted earnings per share – cents per share | **35.53** | (10.59) |
| Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share | **165,503,691** | 165,612,373 |
| | **$'000** | $'000 |
| **Earnings used in the calculation of basic and diluted earnings per share** | **58,802** | (17,546) |

There have been no conversions to, calls of, or subscriptions for Ordinary Shares during 2012/2013, other than those issued under the Dividend Reinvestment Plan and those shares bought-back under the share buy-back programme. As there are no potential Ordinary Shares, diluted earnings per share equals basic earnings per share.

| | NOTE | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **8. Retained Profits** | | | |
| Retained profits at the beginning of the financial year | | **(17,419)** | 3,261 |
| Net profit/(loss) | | **58,802** | (17,546) |
| Dividends paid | 13 | **(3,305)** | (3,134) |
| **Retained profits at the end of the financial year** | | **38,078** | (17,419) |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|

## 9. Notes to the Statement of Cash Flows

### (a) Reconciliation of Cash

| | | |
|---|---|---|
| Cash at bank* | **62** | 25 |
| Cash on deposit** | **19,127** | 19,617 |
| | **19,189** | 19,642 |

* Includes $48,000 (2012: $11,000) held in respect of unclaimed dividends on behalf of shareholders.

** Includes $7,750,000 (2012: $4,925,000) on deposit to "cash cover" derivative contracts' deposits and margin calls. These amounts are held by the relevant derivative exchanges and counterparties as security. If losses are realised on the close out of derivative contracts, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions.

All accounts are at call and the majority bears floating interest rates in the range of 0.00% to 3.40% (2012: 0.00% to 4.65%).

## 9. Notes to the Statement of Cash Flows CONTINUED

### (b) Reconciliation of Net Cash from Operating Activities to Profit after Income Tax

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit/(loss) after income tax | **58,802** | (17,546) |
| Decrease/(increase) in investment securities and forward currency contracts | **(73,606)** | 20,017 |
| (Increase)/decrease in cash due to exchange rate movements | **(2,014)** | (959) |
| Decrease/(increase) in settlements receivable | **54** | (190) |
| Decrease/(increase) in dividends receivable | **(139)** | 309 |
| Decrease/(increase) in interest receivable | **–** | 2 |
| Decrease/(increase) in Goods and Services Tax receivable | **(9)** | 6 |
| Decrease/(increase) in Indian Capital Gains Tax receivable | **(28)** | 1 |
| Decrease/(increase) in prepayments | **(88)** | 88 |
| Decrease/(increase) in income tax receivable | **435** | (435) |
| (Decrease)/increase in accrued expenses | **120** | (45) |
| (Decrease)/increase in settlements payable | **900** | (2,511) |
| (Decrease)/increase in income tax payable | **660** | – |
| Decrease/(increase) in deferred tax assets | **2,976** | 1,892 |
| (Decrease)/increase in deferred tax liabilities | **12,410** | 390 |
| **Net cash from operating activities** | **473** | 1,019 |

### (c) Non-Cash Financing Activities

During the year, 590,709 (2012: 769,006) shares were issued under the Dividend Reinvestment Plan. Dividends settled in shares rather than cash under the Dividend Reinvestment Plan during the year totalled $697,037 (2012: $722,866).

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 10. Statement of Net Asset Value

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Reconciling Net Asset Value in accordance with Australian Accounting Standards to that reported to the ASX*** | | |
| Net Asset Value per Balance Sheet | **234,942** | 179,117 |
| Add: | | |
| Difference between bid price under Australian Accounting Standards and last sale price | **229** | 362 |
| Less: | | |
| Deferred income tax liability on difference under Australian Accounting Standards and last sale price | **(69)** | (109) |
| Net deferred income tax asset/(liability) in respect of investments and unused tax losses | **27** | (1,422) |
| Net Asset Value | **235,129** | 177,948 |
| **Net Asset Value – cents per share** | **141.76** | 107.42 |

* For ASX reporting, financial assets and liabilities are valued at last sale price with an allowance for transaction costs.

## 11. Investment Portfolio

All investments below are ordinary shares, unless stated otherwise.

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **Japan** | | |
| Aeon | 126,758 | **1,822** |
| Alpine Electronics | 105,200 | **1,155** |
| Canon | 47,443 | **1,650** |
| CyberAgent | 157 | **329** |
| Denso | 36,032 | **1,804** |
| Hamamatsu Photonics | 12,859 | **508** |
| Hitachi | 283,602 | **1,988** |
| Horiba | 3,675 | **147** |
| Hoya | 50,374 | **1,139** |
| Ibiden | 27,055 | **462** |
| Inpex | 140 | **638** |
| Japan Exchange | 13,775 | **1,472** |
| JSR | 61,118 | **1,353** |
| Konami | 8,455 | **196** |
| Mitsubishi Electric | 51,153 | **523** |
| Mitsubishi UFJ Financial Group | 407,990 | **2,751** |
| Nagano Bank | 2,033 | **4** |
| Nippon | 14,137 | **772** |
| Obic | 2,643 | **755** |
| Pal | 76,600 | **2,419** |
| Shin-Etsu Chemical | 13,911 | **1,009** |
| Sumitomo Chemical | 609,833 | **2,093** |
| Sumitomo Electric Industries | 91,998 | **1,201** |
| Sumitomo Heavy Industries | 87,100 | **400** |
| T&D | 130,544 | **1,915** |
| Tokyo Electron | 14,937 | **826** |
| Toyota Industries | 88,108 | **3,944** |
| Toyota Motor | 43,693 | **2,817** |
| Ushio | 123,260 | **1,778** |
| Yamanashi Chuo Bank | 44,235 | **204** |
| **Total Japan** | | **38,074** |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 11. Investment Portfolio CONTINUED

### Other Asia

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **China** | | |
| Anton Oilfield Services | 5,556,483 | **4,382** |
| Baidu | 24,366 | **2,520** |
| China Resources Enterprise | 435,189 | **1,489** |
| China Vanke – Participatory Note | 119,933 | **209** |
| EcoGreen Fine Chemicals | 10,969,682 | **2,259** |
| E-House China – American Depository Receipt | 120,000 | **566** |
| Guangzhou Automobile | 219,840 | **227** |
| Ping An Insurance – Participatory Note | 63,673 | **391** |
| Shengli Oil & Gas Pipe | 11,336,200 | **1,311** |
| Sina | 61,832 | **3,769** |
| Sohu.com | 33,176 | **2,237** |
| Trina Solar – American Depository Receipt | 84,335 | **552** |
| Yonyou Software – A Shares – long equity swap | 96,827 | **(112)** |
| Yonyou Software – Participatory Note | 399,100 | **637** |
| Youku Tudou – American Depository Receipt | 50,725 | **1,065** |
| | | **21,502** |
| **Hong Kong** | | |
| China Resources Logic | 1,027,500 | **2,870** |
| Computime | 8,232,300 | **430** |
| G-Resources | 2,855,652 | **107** |
| | | **3,407** |
| **India** | | |
| Jaiprakash | 1,198,395 | **1,172** |
| Jaypee Infratech | 728,655 | **281** |
| Unitech | 1,706,841 | **664** |
| United Spirits | 23,700 | **939** |
| | | **3,056** |

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **11. Investment Portfolio** CONTINUED | | |
| **Other Asia** CONTINUED | | |
| Korea | | |
| Kangwon Land | 38,110 | **1,152** |
| Korea Investment | 35,275 | **1,403** |
| Samsung Electronics | 3,642 | **4,679** |
| | | **7,234** |
| Malaysia | | |
| Genting Bhd | 334,516 | **1,195** |
| | | **1,195** |
| Saudi Arabia | | |
| Almarai – long equity swap | 28,869 | **6** |
| | | **6** |
| Singapore | | |
| Banyan Tree | 1,470,933 | **870** |
| Ezra | 649,000 | **521** |
| Mandarin Oriental International | 300,000 | **530** |
| Petra Foods | 50,667 | **156** |
| | | **2,077** |
| Thailand | | |
| Bangkok Bank – Foreign | 114,491 | **827** |
| Bangkok Bank – Non-Voting Depository Receipt | 545,332 | **3,920** |
| | | **4,747** |
| Vietnam | | |
| Vietnam Dairy Product – long equity swap | 498,144 | **(91)** |
| Vietnam Enterprise | 537,600 | **1,265** |
| | | **1,174** |
| **Total Other Asia** | | **44,398** |

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2013

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **11. Investment Portfolio** CONTINUED | | |
| **Australia** | | |
| Inova Resources | 152,578 | **30** |
| Newcrest Mining | 60,000 | **591** |
| Vantage Goldfields | 1,000,000 | **48** |
| Vantage Goldfields – call option | 500,000 | **–** |
| **Total Australia** | | **669** |
| **Europe – Euro** | | |
| France | | |
| Casino Guichard Perrachon | 31,281 | **3,204** |
| Group FNAC | 1,670 | **39** |
| Groupe Eurotunnel | 74,813 | **621** |
| Kering | 13,339 | **2,962** |
| Pernod Ricard | 25,162 | **3,051** |
| Sanofi | 52,000 | **5,890** |
| | | **15,767** |
| Germany | | |
| Adidas | 21,200 | **2,506** |
| Bayer | 8,847 | **1,031** |
| Deutsche Boerse | 20,907 | **1,505** |
| Henkel KGAA – Vorzug | 36,710 | **3,768** |
| Hornbach Baumarkt | 73,312 | **2,484** |
| Hornbach Holding AG | 23,720 | **1,587** |
| Qiagen | 115,158 | **2,478** |
| Qiagen – American Depository Receipt | 52,469 | **1,143** |
| SMA Solar Technology | 7,471 | **244** |
| | | **16,746** |

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **11. Investment Portfolio** CONTINUED | | |
| **Europe – Euro** CONTINUED | | |
| Netherlands | | |
| Royal Dutch Shell | 74,031 | **2,587** |
| TNT Express | 96,245 | **789** |
| | | **3,376** |
| Spain | | |
| Amadeus IT | 117,121 | **4,071** |
| | | **4,071** |
| **Total Europe – Euro** | | **39,960** |
| **Europe – Other** | | |
| Sweden | | |
| Atlas Copco – short equity swap | (63,541) | **90** |
| Ericsson | 501,885 | **6,222** |
| SKFB – short equity swap | (61,000) | **(55)** |
| | | **6,257** |
| Switzerland | | |
| Meyer Burger Technology | 50,750 | **343** |
| Novartis | 30,483 | **2,367** |
| Roche | 11,000 | **2,991** |
| | | **5,701** |
| Russia | | |
| Sberbank of Russia | 88,698 | **1,105** |
| | | **1,105** |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **11. Investment Portfolio** CONTINUED | | |
| **Europe – Other** CONTINUED | | |
| United Kingdom | | |
| AstraZeneca | 26,943 | **1,396** |
| Carnival | 111,247 | **4,174** |
| Reed Elsevier | 61,011 | **759** |
| Vodafone Group | 970,057 | **3,033** |
| Weir Group – short equity swap | (50,665) | **105** |
| | | **9,467** |
| **Total Europe – Other** | | **22,530** |
| **North America** | | |
| Canada | | |
| Ballard Power Systems | 517,500 | **1,014** |
| Banro | 229,894 | **189** |
| Canadian Oil Sands | 11,000 | **223** |
| Canfor Pulp Products | 53,628 | **474** |
| Domtar | 12,857 | **935** |
| Great Basin Gold | 192,636 | **–** |
| | | **2,835** |
| United States | | |
| Baker Hughes | 73,814 | **3,725** |
| Bank of America | 594,816 | **8,364** |
| Barrick Gold | 27,941 | **481** |
| Capstone Turbine | 878,797 | **1,125** |
| Ciena | 126,671 | **2,692** |
| Cisco Systems | 145,806 | **3,879** |
| Cummins – short equity swap | (2,943) | **–** |
| Electronic Arts | 11,647 | **293** |
| FedEx | 19,789 | **2,136** |
| Finisar | 20,280 | **376** |

## 11. Investment Portfolio CONTINUED

### North America CONTINUED

#### United States CONTINUED

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| Foster Wheeler | 157,670 | **3,746** |
| Google | 5,733 | **5,519** |
| HCP – short equity swap | (8,009) | **10** |
| Infinera | 64,412 | **751** |
| Intel | 158,450 | **4,200** |
| Jacobs Engineering | 73,700 | **4,445** |
| Johnson & Johnson | 46,400 | **4,360** |
| KBR | 30,058 | **1,069** |
| Las Vegas Sands | 33,000 | **1,909** |
| Marvell Technology | 81,314 | **1,042** |
| Mercer International | 141,000 | **1,003** |
| MGIC Investment | 162,128 | **1,077** |
| Micron Technology | 278,320 | **4,365** |
| Microsoft | 199,000 | **7,520** |
| Newmont Mining | 8,000 | **262** |
| Pepsico | 35,882 | **3,212** |
| Retail Basket – short equity swap | (27,359) | **20** |
| Russell 2000 Mini Index Sep 2013 – index future | (80) | **96** |
| S&P 500 E-Mini Future Sep 2013 – index future | (100) | **17** |
| Salesforce.com – short equity swap | (72,139) | **9** |
| Smurfit Stone | 225,000 | **–** |
| Sothebys | 24,104 | **1,000** |
| S&P Retail – Exchange Traded Fund Short | (16,000) | **(16)** |
| Stillwater Mining | 163,097 | **1,915** |
| Veeco Instruments | 3,264 | **126** |
| | | **70,728** |
| **Total North America** | | **73,563** |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **11. Investment Portfolio** CONTINUED | | |
| **South America** | | |
| Brazil | | |
| PDG Realty | 680,267 | **704** |
| | | **704** |
| Peru | | |
| Bayer Peru – Trabajo | 77,287 | 395 |
| Peru Holding De Turismo – Trabajo | 1,667,523 | 58 |
| | | **453** |
| **Total South America** | | **1,157** |
| **Africa** | | |
| South Africa | | |
| AngloGold Ashanti – American Depository Receipt | 26,741 | **419** |
| | | **419** |
| Zambia | | |
| Zambeef Products | 237,637 | **170** |
| | | **170** |
| Zimbabwe | | |
| Dawn Properties | 1,806,672 | **20** |
| Delta | 1,308,755 | **1,934** |
| Econet Wireless | 3,133,910 | **2,195** |
| Innscor Africa | 1,545,692 | **1,539** |
| Masimba | 6,879,563 | **903** |
| Padenga | 1,297,989 | **98** |
| Pearl Properties | 7,421,412 | **268** |
| Riozim | 48,989 | **24** |
| | | **6,981** |

## 11. Investment Portfolio CONTINUED

| | QUANTITY | 2013 FAIR VALUE $'000 |
|---|---|---|
| **Africa** CONTINUED | | |
| Kenya | | |
| British American Investments | 2,729,300 | **278** |
| Safaricom | 8,000,000 | **612** |
| | | **890** |
| Nigeria | | |
| Union Bank of Nigeria | 19,198,940 | **1,606** |
| | | **1,606** |
| **Total Africa** | | **10,066** |
| **Liquids** | | |
| Outstanding settlements | | **(486)** |
| Forward currency contracts | | **804** |
| Cash on deposit | | **19,127** |
| **Total Liquids** | | **19,445** |
| **Total Investment Portfolio reconciles to Note 12(c)** | | **249,862** |
| Accounted for in payables (payables on purchase of investments) | | **923** |
| Accounted for in receivables (proceeds on sale of investments) | | **(232)** |
| Accounted for in receivables (dividends receivable) | | **(205)** |
| **Accounted for in Financial Assets and Liabilities ($231,221,000 as per Note 3) and Cash on Deposit ($19,127,000 as per Note 9(a))** | | **250,348** |

The total number of securities transactions entered into during the reporting period, together with total brokerage paid during the reporting period:

Number of transactions – 1,493

Total brokerage paid – $457,828
($221,243 on purchases and $236,585 on sales)

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 12. Financial Risk Management

### (a) Financial Risk Management Objectives, Policies and Processes

The Company's primary risks are related to the investment activities undertaken on its behalf by Platinum Asset Management. The risks that Platinum Asset Management is exposed to include: market risk (including currency and price risk), credit risk and liquidity risk.

Platinum Asset Management's investment style:

(i) adopts a bottom-up stock selection methodology, through which long-term capital growth is sought by investing in undervalued securities across the world;

(ii) seeks absolute returns and not returns relative to any index;

(iii) invests excess funds in cash when undervalued stocks cannot be found; and

(iv) actively manages currency.

Derivatives (which include equity swaps, futures and options) are utilised for risk management purposes and to take opportunities to increase returns.

The underlying value of derivatives held by the Company may not exceed 100% of the portfolio value. The underlying value of long stocks and derivative contracts may not exceed 150% of the portfolio value. Where options are employed, the underlying value will be delta-adjusted exposure. Compliance with these limits is reviewed by the Board and the Audit and Risk Committee on a monthly basis. The Company does not generally enter or trade derivatives for speculative purposes.

## 12. Financial Risk Management CONTINUED

### (b) Investments at Fair Value and Derivative Exposure

| **2013** | **PHYSICAL $'000** | **LONG DERIVATIVE CONTRACTS $'000** | **SHORT DERIVATIVE CONTRACTS $'000** | **NET EXPOSURE $'000** |
|---|---|---|---|---|
| Japan | **38,074** | **–** | **–** | **38,074** |
| Other Asia | **44,595** | **4,135** | **–** | **48,730** |
| Australia | **669** | **–** | **–** | **669** |
| Europe – Euro | **39,960** | **–** | **–** | **39,960** |
| Europe – Other | **22,390** | **–** | **(5,054)** | **17,336** |
| North America | **73,426** | **–** | **(28,067)** | **45,359** |
| South America | **1,157** | **–** | **–** | **1,157** |
| Africa | **10,066** | **–** | **–** | **10,066** |
| | **230,337** | **4,135** | **(33,121)** | **201,351** |

| 2012 | PHYSICAL $'000 | LONG DERIVATIVE CONTRACTS $'000 | SHORT DERIVATIVE CONTRACTS $'000 | NET EXPOSURE $'000 |
|---|---|---|---|---|
| Japan | 25,890 | – | – | 25,890 |
| Other Asia | 33,800 | 1,994 | – | 35,794 |
| Australia | 927 | – | – | 927 |
| Europe – Euro | 35,091 | – | – | 35,091 |
| Europe – Other | 8,281 | – | (1,023) | 7,258 |
| North America | 49,314 | – | (20,971) | 28,343 |
| South America | 1,611 | – | (1,081) | 530 |
| Africa | 2,903 | – | – | 2,903 |
| | 157,817 | 1,994 | (23,075) | 136,736 |

The "Physical" column represents the location of the Company's investments.
The Investments shown above in the "Physical" column (totalling $230,337,000 for 2013) reconcile to the fair value of equity securities disclosed in Note 3.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 12. Financial Risk Management CONTINUED

### (b) Investments at Fair Value and Derivative Exposure CONTINUED

The "Long/Short Derivative Contracts" columns include the notional value of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the Investment Portfolio's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the principal notional amount of any short (sold) positions. For example, if 5% of the Portfolio was invested in Japan, but there was a 2% short position in Nikkei futures, then the net exposure column would show 3%. Conceivably, the figure could show a negative exposure, which would indicate that the Portfolio was net short the Japanese market.

### (c) Market Risk

#### (i) Foreign Exchange Risk

Foreign exchange risk is the risk the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from buying, selling and holding investments denominated in foreign currency. Platinum Asset Management selects stocks based on value regardless of geographic location.

Currency hedging is an integral part of the management of currency risk. Platinum Asset Management may position the Company's Portfolio in what it believes will be a stronger currency(ies). At 30 June 2013, the Company's principal currency exposures were: US Dollar and Hong Kong Dollar 57%, Euro and other European currencies 31%, Asian currencies excluding Japanese Yen 11% and Japanese Yen 1%. The Company's exposure to the Australian Dollar was negative 2%, representing an overall short position.

Throughout 2012/13, the Company maintained significant exposure to the United States Dollar and European currencies, whilst maintaining a minimal exposure to the Japanese Yen and the Australian Dollar.

Platinum Asset Management may use forward foreign exchange contracts, and futures and option contracts on foreign exchange rate contracts, to position the Portfolio in the desired currencies. A currency exposure may be hedged into a different currency from which the exposure is maintained (for example, US Dollar hedges may be used to hedge the currency risk of holding investments in the Japanese Yen).

## 12. Financial Risk Management CONTINUED

### (c) Market Risk CONTINUED

### (i) Foreign Exchange Risk CONTINUED

Where there have been major currency movements or where currencies are perceived to be over or undervalued, Platinum Asset Management may look for investments whose operating environment has been distorted by the lower currency as part of the search for undervalued stocks. There may be even opportunities to invest in stocks impacted by a lower currency (for example, export-oriented stocks).

The table below summarises the Company's investment exposure at fair value to foreign exchange risk. The total physical and net exposure reconciles to the total investment portfolio in Note 11.

| **2013** | **PHYSICAL $'000** | **BOUGHT $'000** | **SOLD $'000** | **NET EXPOSURE $'000** |
|---|---|---|---|---|
| Japan | **42,715** | **–** | **(41,454)** | **1,261** |
| Other Asia | **32,679** | **7,223** | **–** | **39,902** |
| Australia | **2,215** | **–** | **(8,004)** | **(5,789)** |
| Europe – Euro | **42,093** | **15,189** | **–** | **57,282** |
| Europe – Other | **19,229** | **3,553** | **–** | **22,782** |
| North America | **107,278** | **47,812** | **(24,319)** | **130,771** |
| South America | **1,157** | **–** | **–** | **1,157** |
| Africa | **2,496** | **–** | **–** | **2,496** |
| | **249,862** | **73,777** | **(73,777)** | **249,862** |

| 2012 | PHYSICAL $'000 | BOUGHT $'000 | SOLD $'000 | NET EXPOSURE $'000 |
|---|---|---|---|---|
| Japan | 29,176 | – | (30,423) | (1,247) |
| Other Asia | 32,165 | 2,229 | – | 34,394 |
| Australia | 1,492 | 15,642 | (10,950) | 6,184 |
| Europe – Euro | 35,922 | 1,141 | (17,026) | 20,037 |
| Europe – Other | 6,581 | 7,497 | – | 14,078 |
| North America | 70,614 | 45,525 | (13,635) | 102,504 |
| South America | 1,611 | – | – | 1,611 |
| Africa | – | – | – | – |
| | 177,561 | 72,034 | (72,034) | 177,561 |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 12. Financial Risk Management CONTINUED

### (c) Market Risk CONTINUED

#### (i) Foreign Exchange Risk CONTINUED

Forward foreign currency contracts and options on forward currency contracts are adjusted against the "Physical" column to arrive at a "Net Exposure" for each currency grouping. The Company generally utilises short dated (90 day maturity) currency agreements with high-credit rated counterparties. The existing forward currency contract positions' maturity dates range from 15 days to 75 days.

*Foreign exchange risk sensitivity analysis*

The sensitivity analysis below shows what impact a 10% movement in foreign currency at reporting date would have on the Company's profit on monetary and non-monetary assets and liabilities such as cash, forward contracts and equities.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements.

The table presents the foreign currency or currencies with the largest impact on profit of the Company.

| | **2013 +10% $'000** | **2013 –10% $'000** | 2012 +10% $'000 | 2012 –10% $'000 |
|---|---|---|---|---|
| United States Dollar | **(11,837)** | **14,467** | (8,329) | 10,179 |
| Euro | **(5,104)** | **6,238** | (1,821) | 2,226 |

The sensitivity analysis shows that the Company is materially affected by exchange rate movements (other things being equal), given the global nature of the investments held.

#### (ii) Interest Rate Risk

Interest rate risk is the possibility the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The overwhelming majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Therefore, there is minimal liability exposure to interest rate risk.

Interest rate risk indirectly affects the Company as interest rate movements will affect forward points used in determining gains or losses on forward contracts.

## 12. Financial Risk Management CONTINUED

### (c) Market Risk CONTINUED

### (ii) Interest Rate Risk CONTINUED

The impact of interest rate movements on our investments is not capable of precise estimation.

At 30 June 2013 and 2012, if interest rates had changed by –/+ 100 basis points with all other variables held constant, the direct impact on interest receivable would not be significant for the Company.

### (iii) Price Risk

Market prices fluctuate due to a range of factors specific to the individual investments, or factors affecting the market in general.

Platinum Asset Management's stock selection process is core to the management of price risk. Platinum adopts a thematic stock selection approach and is referred to as being an "active manager". Platinum Asset Management seeks a broad range of investments whose businesses and growth prospects, it believes, are being undervalued by the market. Accordingly, holdings in the Company may vary considerably from the make-up of a general index. Investment Managers such as Platinum Asset Management seek to outperform the market as represented by an appropriate index.

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2013, the Company maintained short positions against company specific stocks and market indices. The use of index derivatives allows the Company to invest in specific companies, whilst providing some degree of protection against more general adverse market price movements.

*Price risk sensitivity analysis*

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. The two markets that the Company has the biggest investment exposure to are Japan and the United States of America. The effect on profit due to a possible change in market factors, as represented by a -/+5% movement in these two markets with all other variables held constant, is illustrated in the table below:

| | **2013 +5% $'000** | **2013 –5% $'000** | 2012 +5% $'000 | 2012 –5% $'000 |
|---|---|---|---|---|
| Japanese Nikkei 225 | **1,904** | **(1,904)** | 1,294 | (1,294) |
| S&P index | **2,999** | **(2,999)** | 1,748 | (1,748) |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 12. Financial Risk Management CONTINUED

### (c) Market Risk CONTINUED

#### (iii) Price Risk CONTINUED

The two indices listed on page 69 have been used as proxies for the Company's physical exposure in those markets.

If all other share market indices that the Company invests moved by +/-5%, then the Company's profit would increase/(decrease) by A$5,164,000 (2012: A$3,736,000). A sensitivity of 5% has been selected as this is considered reasonably possible. However, given the present volatility of global markets, increases or decreases greater than this are possible.

The above analysis is based on the assumption the Company's investments move in correlation with the indices. The indices are a reference point only. Actual movements in stock prices may vary significantly to movements in the index.

The sensitivity analysis for price risk is unrepresentative of the market exposure for the Company as Platinum Asset Management does not invest by reference to the weighting or inclusion of a security in a specific index. An investment management style where the composition of the portfolio is by reference to global share index weightings is often referred to as an "index manager". An "index manager" tries to match a particular index by investing in securities that are representative of that index.

### (d) Credit Risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the Company (typically "non-equity" financial instruments).

The exposure to credit risk for futures, equity swaps, and forward currency contracts is any unrealised profit, margins and collateral paid on the positions (the money the Company would lose if the counterparty defaulted) at reporting date.

The table below shows the Company's counterparty credit risk exposure by credit rating:

Ratings

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| A+ | **11,588** | 16,262 |
| A | **4,006** | 3,801 |
| A– | **6,541** | 1,842 |
| AA– | **100** | – |
| **Total** | **22,235** | 21,905 |

Source: Platinum and Standard & Poor's

## 12. Financial Risk Management CONTINUED

### (d) Credit Risk CONTINUED

Platinum Asset Management regularly monitors the Company's credit risk exposure to counterparties and seeks to manage the risk by spreading exposure over a number of counterparties by signing standard ISDA (International Swaps and Derivatives Association) master agreements and net settlement contracts, employing two-way symmetrical margining of unrealised profits and losses and by controlling the duration of contracts to be short-term.

Transactions in listed securities and investments are entered into with approved brokers. Payment is only made once a broker has received securities and delivery of securities sold only occurs once the broker receives payment.

#### Ageing analysis

The Company's ageing analysis of receivables (disclosed in Note 4 and the Balance Sheet) at 30 June 2013 is as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| 0 – 30 days | **351** | 336 |
| 31 – 60 days | **115** | 29 |
| 61 – 90 days | **31** | – |
| 90+ days | **101** | 458 |
| | **598** | 823 |

Amounts receivable after 60 days are past due, but no amounts are impaired.

### (e) Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with financial liabilities. This includes the risk that the Company:

(i) will not have sufficient funds to settle a transaction on the due date; and

(ii) will be forced to sell financial assets at a value which is less than they are worth.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 12. Financial Risk Management CONTINUED

### (e) Liquidity Risk CONTINUED

#### Financial and Non-Financial Liabilities

All financial and non-financial liabilities (excluding net deferred tax liabilities) are payable within six months.

*Non-Financial Liabilities*

At 30 June 2013 the contractual maturity for non-financial amounts payable (disclosed in Note 5 and the Balance Sheet) is as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Payable within three months** | | |
| Unsettled trades | **923** | 23 |
| Trade creditors and dividends payable | **627** | 470 |
| | **1,550** | 493 |
| **Payable between three to six months** | | |
| Income tax payable | **660** | – |
| | **2,210** | 493 |

*Financial Liabilities*

As at 30 June 2013, contractual maturity of financial liabilities (disclosed in Note 3) is as follows:

| | | |
|---|---|---|
| **Payable within three months** | | |
| Derivative contractual outflows | **280** | 795 |
| Foreign currency contracts | **555** | 1,944 |
| | **835** | 2,739 |

At 30 June 2013, there are no other contractual amounts payable after six months.

The Company has sufficient funds to meet these liabilities as the value of total assets realisable in one year or less is $251,808,000 (2012: $178,073,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

## 12. Financial Risk Management CONTINUED

### (e) Liquidity Risk CONTINUED

#### Financial and Non-Financial Liabilities CONTINUED

Except for equity swaps and futures, the maximum capital risk resulting from financial instruments is determined by the fair value of financial instruments. Potential losses from equity swaps and futures are limited to available capital.

The risk management guidelines adopted are designed to minimise liquidity risk through:

(i) ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and

(ii) applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

Platinum Asset Management prepares daily cash forecasts for the Company and maintains sufficient cash to meet normal operating requirements. The Company has a policy of not borrowing money, other than on a short-term basis for settlement, trading and like purposes.

### (f) Fair Value Hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) (level 2); and

(iii) inputs for the assets or liability that are not based on observable market data (unobservable inputs) (level 3).

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 12. Financial Risk Management CONTINUED

### (f) Fair Value Hierarchy CONTINUED

The following table summarises the levels within the fair value hierarchy that the Company's investments are classified as at 30 June 2013 and 30 June 2012. The Company has no assets or liabilities that are classified as Level 3.

| 2013 | LEVEL 1 $'000 | LEVEL 2 $'000 | TOTAL $'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Equity securities | **229,072** | **1,265** | **230,337** |
| Derivatives | **340** | **20** | **360** |
| Foreign currency contracts | **–** | **1,359** | **1,359** |
| Financial assets | **229,412** | **2,644** | **232,056** |
| **Financial liabilities** | | | |
| Derivatives | **189** | **91** | **280** |
| Foreign currency contracts | **–** | **555** | **555** |
| Financial liabilities | **189** | **646** | **835** |

| 2012 | LEVEL 1 $'000 | LEVEL 2 $'000 | TOTAL $'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Equity securities | 156,756 | 1,061 | 157,817 |
| Derivatives | 114 | – | 114 |
| Foreign currency contracts | – | 2,423 | 2,423 |
| Financial assets | 156,870 | 3,484 | 160,354 |
| **Financial liabilities** | | | |
| Derivatives | 795 | – | 795 |
| Foreign currency contracts | – | 1,944 | 1,944 |
| Financial liabilities | 795 | 1,944 | 2,739 |

The above totals reconcile to the total of financial assets and liabilities presented in Note 3.

Foreign exchange contracts have been re-classified as Level 2 even though forward points are quoted and sourced from an active and liquid market. The forward points themselves are based on interest rate differentials.

## 12. Financial Risk Management CONTINUED

### (g) Capital Risk Management

The Company considers its capital to comprise ordinary share capital and accumulated retained profits.

The Company's objective is to seek long-term capital growth by investing in undervalued securities across the world, so to continue to provide returns to shareholders. Under the capital management programme approved by shareholders, the Company may adjust its capital structure via rights issues and share buy-backs. The Company implemented a share buy-back programme between 2 April 2012 and 28 March 2013. The discount between the share price and its underlying NAV per share was 0.01% when the programme was concluded. The decision to terminate the programme does not affect the operation of the Company's capital management policy. The Company may announce a new share buy-back programme or commence a rights issue at a future point in time, if the premium or discount widens beyond the range of –10% (discount) or +15% (premium).

The Company is an ASX-listed investment company and is subject to various ASX Listing Rules requirements. For example, the Company must report its net asset value (NAV) to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

| | **2013 CPS** | **2013 $'000** | 2012 CPS | 2012 $'000 |
|---|---|---|---|---|
| **13. Dividends (Fully Franked)** | | | | |
| Paid – 1 September 2011 | **–** | **–** | 1.90 | 3,134 |
| Paid – 11 March 2013 | **2.00** | **3,305** | – | – |
| | | **3,305** | | 3,134 |

### Dividends not recognised at year-end

In addition to the above dividends paid, since year-end, the Directors have declared the payment of a dividend of 5 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the dividend expected to be paid on 9 September 2013, but not recognised as a liability at year-end, is $8,293,000.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **14. Franking Accounts** | | |
| Opening balance based on tax paid and franking credits attached to dividends paid – converted @ 30% | **7,048** | 7,956 |
| Franking credits/(debits) arising from tax paid/(refunded) during the year | **(435)** | 435 |
| Franking credits arising from tax payable at 30 June 2013 | **660** | – |
| Franking (debits) arising from dividends paid during the year | **(1,417)** | (1,343) |
| | **5,856** | 7,048 |
| Impact on franking account of the final dividend declared but not recognised as a liability at the end of the financial year | **(3,554)** | – |
| | **2,302** | 7,048 |

The franking account balance would allow the Company to frank additional dividend payments up to an amount of $5,371,000.

## 15. Investment Manager

The Investment Manager, Platinum Asset Management, receives a monthly management fee for investment services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.5% per annum of the Portfolio Value (which includes cash and deposits).

A performance fee is payable at 10% of the amount by which the Portfolio's annual performance exceeds the return achieved by the MSCI plus 5% (MSCI is the Morgan Stanley Capital International All Country World Net Index in A$). Where the Portfolio's annual performance is less than the MSCI, the amount of the underperformance is aggregated, carried forward and deducted from the annual performance in the subsequent year before calculating any performance fee for that year. The aggregate of underperformance is carried forward until a performance fee becomes payable.

## 15. Investment Manager CONTINUED

At 30 June 2013, the annual pre-tax performance of the Portfolio was 42.00% and the corresponding MSCI was 30.54%. Even though there is an outperformance of 11.46% against the MSCI, there is a brought forward net underperformance amount of 11.63%. Accordingly, a Performance fee has not been accrued.

Platinum Asset Management is to be paid a lump sum termination fee of 1.5%, calculated on the value of the Portfolio on the first day of the month in which termination is effective. The fee is not payable if the termination results from the default or insolvency of Platinum Asset Management. Additionally, a performance fee is payable for the period from the last calculation of the performance fee to the date of termination.

Fees paid and payable to Platinum Asset Management for the year is shown in the table below:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Management fee | **3,084** | 2,719 |

A summary of the salient provisions of the Investment Management Agreement ("Agreement") is contained below:

(a) The terms of the Agreement require Platinum Asset Management to:

(i) invest and manage the Portfolio in accordance with the Agreement;

(ii) confer with the Board of the Company at regular intervals in respect of the investment and management of the Portfolio;

(iii) exercise all due diligence and vigilance in carrying out its functions, powers and duties under the Agreement;

(iv) promptly notify the Board of any instructions given to it by the Company which have not been complied with; and

(v) appoint Mr Neilson as Managing Director of the Company.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 15. Investment Manager CONTINUED

(b) Each party is to provide three months notice to terminate the Agreement. The Company may immediately terminate the Agreement where Platinum Asset Management:

(i) becomes subject to a receiver, receiver and manager, administrative receiver or similar person;

(ii) goes into liquidation;

(iii) ceases to carry on business in relation to its activities as an Investment Manager;

(iv) breaches a material provision of the Agreement, or fails to observe or perform any representation, warranty or undertaking given by the Investment Manager under the Agreement; or

(v) sells or transfers or makes any agreement for the sale or transfer of the main business and undertaking of the Investment Manager or beneficial interest therein, other than to a related body corporate for purposes of corporate reconstruction on terms previously approved in writing by the Company.

The Agreement was entered into to (a) codify changes made to the ASX Listing Rules and (b) codify the range of services provided by Platinum Asset Management to the Company.

## 16. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2013 and 30 June 2012. The Company has no commitments for uncalled share capital on investments.

## 17. Segment Information

The Company is organised into one main operating segment with the one key function of the investment of funds internationally. AASB 8 requires the disclosure of revenue by geographical location and investment type which is outlined below:

### (a) Revenue by geographical location

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Japan | **13,737** | (1,684) |
| Other Asia | **17,913** | (669) |
| Australia | **(853)** | (324) |
| Europe – Euro | **13,531** | (2,265) |
| Europe – Other | **4,051** | 1,112 |
| North America | **21,786** | (5,073) |
| South America | **289** | 104 |
| South Africa | **3,389** | (819) |
| Unallocated revenue – Net gains/(losses) on forward currency contracts | **5,712** | (1,352) |
| **Total** | **79,555** | (10,970) |

### (b) Revenue by investment type

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Equity securities | **72,250** | (11,906) |
| Derivatives | **(90)** | 2,196 |
| Foreign currency contracts | **5,712** | (1,352) |
| Bank accounts | **1,683** | 92 |
| **Total** | **79,555** | (10,970) |

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 18. Events Occurring After Balance Sheet Date
Since the end of year, the Directors have declared a fully franked final dividend of 5 cents per share payable on 9 September 2013.

No other matters have occurred since balance date that would impact the operations or results of the Company, or the state of affairs of the Company in future financial years.

## 19. Key Management Personnel Disclosures
### (a) Details of Remuneration
The table below presents actual amounts received by the Non-Executive Directors.

| NAME | CASH SALARY $ | SUPER-ANNUATION $ | SHORT-TERM INCENTIVES $ | LONG-TERM INCENTIVES $ | TOTAL $ |
|---|---|---|---|---|---|
| Bruce Phillips | | | | | |
| FY 2013 | 55,000 | 4,950 | – | – | 59,950 |
| FY 2012 | 55,000 | 4,950 | – | – | 59,950 |
| Bruce Coleman | | | | | |
| FY 2013 | 50,000 | 4,500 | – | – | 54,500 |
| FY 2012 | 50,000 | 4,500 | – | – | 54,500 |
| Richard Morath | | | | | |
| FY 2013 | 50,000 | 4,500 | – | – | 54,500 |
| FY 2012 | 50,000 | 4,500 | – | – | 54,500 |
| Total Non-Executive remuneration | | | | | |
| FY 2013 | 155,000 | 13,950 | – | – | 168,950 |
| FY 2012 | 155,000 | 13,950 | – | – | 168,950 |

### Executive Director Remuneration
The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are employees of the Investment Manager, Platinum Investment Management Limited. The responsibilities that each of the Executive (and Non-Executive) Director performs are outlined in the Corporate Governance Statement on pages 23 to 24. The Executive Directors continue to waive their right to any fee and as a result the Company does not pay the Executive Directors any remuneration. The Company has never paid any remuneration to the Executive Directors and this waiver is consistent with the practice adopted in the past.

## 19. Key Management Personnel Disclosures CONTINUED

### (b) Interests of Non-Executive and Executive Directors in shares

The relevant interest in Ordinary Shares of the Company that each Director held at balance date were:

| NAME | 2013 QUANTITY | 2012 QUANTITY |
|---|---|---|
| Bruce Phillips | **429,985** | 429,985 |
| Bruce Coleman | **200,000** | 200,000 |
| Richard Morath | **27,000** | 27,000 |
| Kerr Neilson | **1,648,039** | 1,648,039 |
| Andrew Clifford | **1,412,006** | 1,412,006 |
| Philip Howard | **–** | – |

No Director bought or sold shares during the year.

## 20. Related Party Dealings

### Management fees

Disclosures relating to management fees paid and payable to the related party, Platinum Asset Management, are set out in Note 15.

### Administration fees

Under the Administrative Services Agreement, Platinum Asset Management provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services. In consideration for providing these services, Platinum Asset Management received a payment of $1 from the Company.

# NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2013

## 20. Related Party Dealings CONTINUED

### Key Management Personnel – Executive Directors

The Executive Directors (Kerr Neilson, Andrew Clifford and Philip Howard) are related parties of the Company, on the basis that:

(1) they are employees of the Investment Manager, Platinum Asset Management, and the Executive Directors receive a portion of the management fee received by the Investment Manager, in their capacity as Directors for the Investment Manager.

(2) the Executive Directors are members of the Board of the Company and consequently carry out various responsibilities which are outlined in the Corporate Governance Statement on pages 23 to 24. The Executive Directors waive their right to any fee or remuneration and as a consequence the Company does not pay the Executive Directors any remuneration.

### Key Management Personnel – Non-Executive Directors

Details of remuneration paid to the Non-Executive Directors are outlined in Note 19.

## 21. The Company

Platinum Capital Limited is a company limited by shares, incorporated and domiciled in New South Wales. Its current registered office and principal place of business is:

Level 8, 7 Macquarie Place
Sydney NSW 2000

A description of the nature of the Company's operations and its principal activities is included in the review of operations and activities in the Directors' Report.

# DIRECTORS' DECLARATION

In the Directors' opinion,

(a) the financial statements and notes set out on pages 35 to 82 are in accordance with the *Corporations Act 2001* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

(ii) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

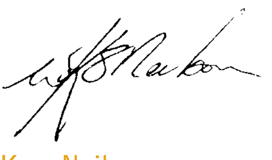
(b) there are reasonable grounds to believe that Platinum Capital Limited will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration required by section 295A of the *Corporations Act 2001* by the Managing Director and Finance Director.

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

Bruce Phillips
*Chairman*



Kerr Neilson
*Director*

Sydney, 13 August 2013

# INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

pwc

## Report on the financial report
We have audited the accompanying financial report of Platinum Capital Limited (the Company), which comprises the Balance Sheet as at 30 June 2013, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

### Directors' responsibility for the financial report
The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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

*PricewaterhouseCoopers, ABN 52 780 433 757*
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*DX 77 Sydney, Australia*
*T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au*

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

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

## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## Auditor's opinion

In our opinion:

(a) the financial report of Platinum Capital Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

(b) the Company's financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM CAPITAL LIMITED

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 20 of the Directors' report for the year ended 30 June 2013. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's opinion**

In our opinion, the Remuneration Report of Platinum Capital Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Joe Sheeran
*Partner*

Sydney, 13 August 2013

# THE BEAT of a DIFFERENT DRUM

Design and production by: 3C Creative Agency, ***3c.com.au***
Illustrations by: Carole Hénaff, Marlena Agency NYC

# The BEAT of A DIFFERENT DRUM

Mobile phones are changing the way we live, and nowhere is this more evident than in Africa. The impact of Information and Communication Technologies (ICTs) on African social and economic landscape is explored in an article produced by the World Bank and the African Development Bank, with the support of the African Union.

# PREFACE

While some talk in terms of Japan's lost decades since its financial crisis in 1990, an even stronger case can be made for Africa's lost half century since throwing-off the yoke of colonialism beginning in the 1960s through to the 1970s. Ask a room full of experts as to the origins of this lost opportunity and the responses would absorb gigabytes of memory.

Without wishing to add my opinion to causes, it has always struck me how astonishingly large and diverse the continent of Africa is with a land area of over 30 million $km^2$, about the combined size of the US, China and Canada, and with a population of some one billion people. It always concerned me that the cost of providing adequate infrastructure was so prohibitive that Africa was doomed to a long period of slow growth.

Another factor that has borne heavily on the shoulders of Africans is the prevalence of graft, or to use the jargon of the not-for-profit donors, rent-seeking behaviour. It would be unfair to pick out Africa as unique in this way, but with a relatively poor record of representative government, many African states have seen their institutions wither with a corresponding rise of a sense of entitlement by those in charge which has cascaded down the command structure to the lowest of poorly paid enforcers.

At times, one could have become progressively more pessimistic as the cycle of maladministration and protectionism spiralled into a deteriorating tax base which in turn diminished the opportunity for self-help, culminating in inertia, the abandonment of hope and the ultimate declaration that, "it has always been thus!"

It is therefore with delight that we can now point to the origins of change that will break this cycle of despair and dark thoughts. The emergence of the internet and in particular its application on mobile devices has been a game changer for Africa and for that matter, the world. However, what is so significant for countries that suffer from the poor ordering and allocation of resources is that the *network effect* created by communications and data mobility circumvents the dead hand of government. Moreover, the extraordinary leaps in technology and falls in equipment costs have made this change possible in even the poorest countries.

To think that at the turn of *this century* there were fewer than 10 million fixed lines in all of Africa, mostly in a single country, and there are now more than 700 million mobile subscribers!

This gives one a hint of the information revolution that is evolving. Imagine the changes to come as smart handsets become available for say $50 to $70 each.

In the accompanying edited article produced by The World Bank and the African Development Bank, with the support of the African Union, there are some fascinating insights as to how mobile devices are changing communications, commerce and even government in Africa. As we have seen in other parts of the world this is a self-feeding process and is exponential in nature. To have reliable information about anticipated weather conditions and prices of agricultural products, to be able to transmit funds to relatives in remote and distant villages, to be able to access healthcare advice on one's mobile phone, are huge breakthroughs.

It can have a disproportional impact on productivity in the creation, and flow of goods and services as it removes ignorance and wasted effort. Having the ability to pay one's water and electricity bills and even government taxes by mobile phone not only eliminates queuing but also improves the balance of power between the ruled and the rulers. This is even before one gets into the realm of political change where mobile communication has been so evident in movements like the Arab Spring in both galvanising action and publicly recording the subsequent outcomes.

In February I wrote a short piece titled "Africa Rising" that is available on the Platinum Asset Management website (www.platinum.com.au) but the article that follows here highlights some of the services and effects of the digital revolution.

Optimists among us can extrapolate and realistically make a case for the gradual reductions of rent-seeking behaviour. We can also envisage how the empowering of the individual that is the consequence of radio-based internet connectivity can lead to a more just and prosperous society.

While the accompanying piece may not give you direct investment ideas, it may trigger thoughts that will impinge on your investment thinking.

**Kerr Neilson**

*Managing Director*
August 2013


200/-
Per unit
VODACOM

# The TRANSFORMATIONAL use of INFORMATION & COMMUNICATION TECHNOLOGIES IN AFRICA

The World Bank and the African Development Bank,
with the support of the African Union.

Edited by Enock Yonazi, Tim Kelly,
Naomi Halewood and Colin Blackman.

# THE TRANSFORMATIONAL POWER OF ICTs

**ICTs, especially mobile phones, have revolutionized communications in Africa. The explosive growth of mobile phones in Africa over the past decade demonstrates the appetite for change across the continent.**

In the year 2000 there were fewer than 10 million fixed-line phones across Africa, a number that had accumulated slowly over a century, and a waiting list of a further 3.5 million.

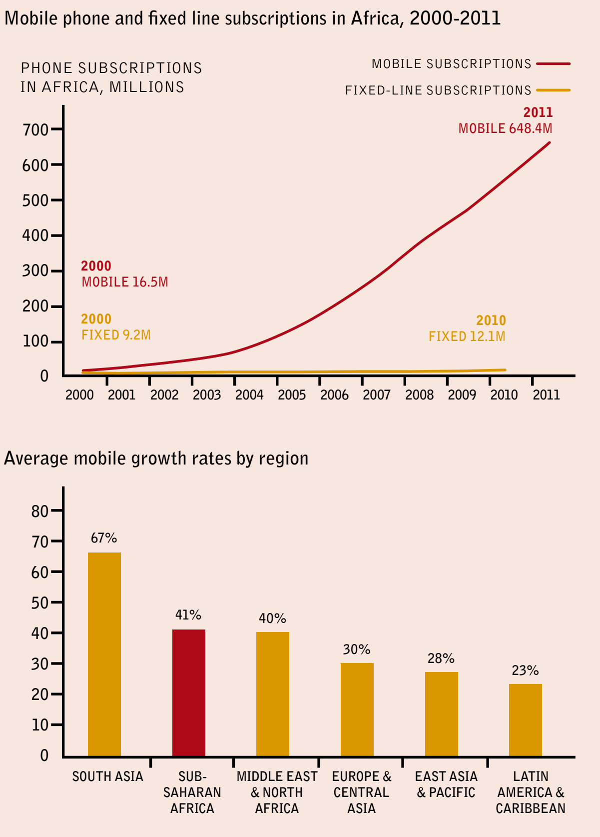
With a penetration rate of just over 1 per cent, phones were to be found only in offices and the richest households. But the coming of the mobile phone has transformed communications access.

By the start of 2012, there were almost 650 million mobile subscriptions in Africa (A. T. Kearney, 2011), more than in the United States or the European Union[1], making Africa the second fastest growing region in the world, after South Asia *(Figure 1.1)*.

At the start of the decade, few imagined that such demand existed, let alone that it could be afforded. In some African countries, more people have access to a mobile phone than to clean water, a bank account or even electricity. Mobile phones are now being used as a platform to provide access to the internet, to applications and to government services[2].

The direct contribution of ICTs to Africa's economy and its growth is impressive.

**FIGURE 1.1: AFRICA'S MOBILE REVOLUTION**




Source: World Bank, Wireless Intelligence and ITU.
Note: Regions in the chart above include developing countries only.

In 2011, the mobile phone ecosystem provided more than five million jobs and contributed around US$15 billion directly to government revenues in sales and import taxes and regulatory fees (A.T. Kearney, 2011, p 21).

Unlike the traditional fixed-line telecommunications sector, the mobile industry in Africa has always been competitive in most African economies, with Nigeria having as many as nine licensees, and most countries having three or more operators[3].


Settlite Shop
589

Even South Sudan, which has one of the lowest levels of cellular penetration in the world at about 12 per 100 inhabitants, supports five separate operators, soon to be six (Kelly and Minges, 2011).

The industry has gone through several waves of expansion and consolidation, and some of the largest African-based groups have recently been sold to foreign owners[4]. Nevertheless, African-owned mobile phone operators, like MTN Group, have grown to become major players on the world stage.

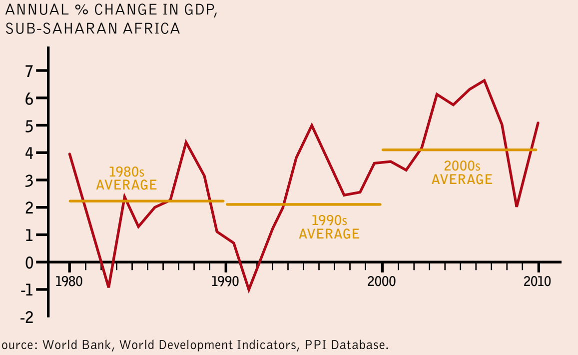
But the significance of the direct contribution of ICTs to the African economy is secondary to their indirect contribution, in driving growth in other sectors.

**Africa's "mobile decade" has driven its economic growth. World Bank research has indicated that, between 2000 and 2008, Africa's early reformers enjoyed an extra 1.2 percentage point boost to GDP compared to those that only liberalized their telecom sectors later** (Williams *et al*, 2011, p 111).

Africa's economy has enjoyed a renaissance in the 2000s (OECD *et al*, 2011) with the average rate of economic growth of almost 5 per cent, which is higher than anything achieved since the 1970s *(Figure 1.2)*.

**FIGURE 1.2: ICT DRIVING AFRICA'S RENAISSANCE**

Africa's economic growth, by decade, 1990-2010




Source: World Bank, World Development Indicators, PPI Database.

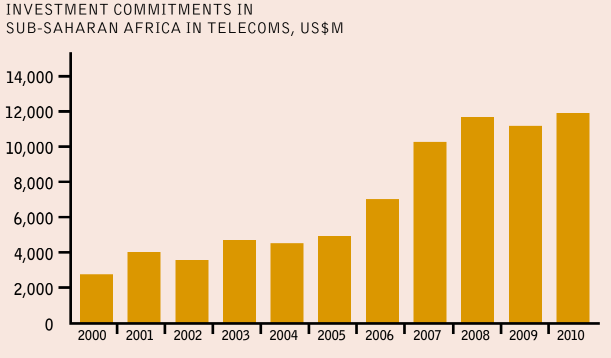
Many factors have contributed to this, including increasing political stability, higher commodity prices and reforms in other sectors of the economy. But it is not too fanciful to believe that the wider availability of ICTs has also contributed greatly to this African renaissance.

Foreign Direct Investment is also booming, increasing almost fivefold between 2000 (US$27 billion) and 2010 (US$122 billion), though it has declined in the north of the continent recently owing to the fall-out from the Arab Spring (OECD *et al*, 2011).

In the telecommunication sector, private investment, much of it from foreign sources, is growing and contributed some US$77m between 2000 and 2010 for Sub-Saharan Africa (*Figure 1.3*).

**FIGURE 1.3: ICT DRIVING AFRICA'S RENAISSANCE**

Africa's private investment in telecoms, 2000-2010




Source: World Bank, World Development Indicators, PPI Database.

Africa is now a much easier place to do business, thanks to its much-improved connectivity. ICTs directly contribute around 7 per cent of Africa's GDP, which is higher than the global average. That's because, in Africa, mobile phones are also substitutes for many other types of service, such as financial credit, newspapers, games and entertainment so the value of a mobile phone may be higher in Africa than elsewhere.

> **We are now seeing the rapid development of mobile broadband with smartphones and affordable tablets across Africa. This will bring even greater social and economic impacts over the next decade.**

ICTs can empower the lives of Africans and are driving entrepreneurship, innovation and income growth. The effect of ICTs on the African economy is impressive, but it is the way they are changing the everyday lives of Africans that is genuinely transformational.

The eTransform Africa report contains more than 20 detailed case studies of ICTs in action.

The case studies show, for instance, how mobile phones are being used to provide financial services in Kenya (M-PESA) and agricultural market information services in Ghana *(Esoko, see Box 1.1)*, how electronic filing of taxes in South Africa or sensor-based irrigation systems in Egypt are revolutionizing traditional practices, and how ICT tools are helping Africans face up to new challenges, like climate change, or tackle ongoing issues, such as HIV /AIDS.

Furthermore, the wider use of ICTs in government is bringing more transparency and openness, for instance through Kenya's Open Data initiative (Rahemtulla *et al*, 2012) or the use of Twitter and Facebook to coordinate protests and inform international opinion as part of the Arab Spring (Dubai School of Government, 2011).

This growing social and economic dependence on ICTs brings new challenges, not least the need for infrastructure to become more robust and resilient, and for services to become more reliable.

Issues of cybersecurity and data protection will also come to the fore as security and trust become increasingly important.

### **BOX 1.1:** ESOKO, A MOBILE PLATFORM TO SUPPORT FARMERS

Esoko is a pioneering mobile tool, developed first in Ghana and now being used in some 15 different countries in West and East Africa.

The application provides users with agricultural market information service (AMIS) such as up to date prices and their recent trends, weather forecasts and alerts, and crop production levels in order to help farmers to improve their productivity and sell their products at the right price, the right place and the right time.

Esoko has proved to have a significant impact on farmer's businesses. For example in Ghana, a randomized trial survey of farmers using the system compared with those not using it has shown 10 percent increases in revenues for maize, nuts and cassava. It also shows that only 14 per cent of Esoko users report not having access to credit compared to 47 per cent for non users.

Esoko also reached its sustainability threshold of 10,000 subscribers overall or 2,000 subscribers in any country in most of the markets it serves, sometimes in as little as one year.

But the market for AMIS is becoming crowded with mFarm (in Kenya) and Manobi (primarily in francophone West Africa among Esoko's African competitors (Kelly and Pehu, 2011).

Currently Esoko has an edge over other entrants due to its early start, its wider coverage and its user-friendly interface. Because it uses standard mobile services that are available on even the cheapest handset, like Short Message Service (SMS) and Unstructured Supplementary Service Data (USSD) rather than mobile applications, that are specific to particular operating systems and devices, it currently has a wider reach.

But this may prove a limiting factor as more smartphones enter the market and users demand visual applications that work on touch screen devices.

Source: Esoko (www.esoko.com) and Subervie, 2011.

# FROM ACCESS to APPS

## It's not about the phone or the computer; it's about the applications and the information they deliver.

ICTs now offer major opportunities to advance human development – from providing basic access to education or health information to making cash payments and stimulating citizen involvement in the democratic process.

Phones, computers and websites are powerful tools but it is individuals, communities and firms that are driving change. Mobile phones and the internet are helping to release the dynamism of African society.

State-owned monopoly telephone companies were, for too long, a barrier to African ingenuity – owing to waiting lists, high prices and unreliable services – but now a thriving local ICT sector is part of the solution, not the problem.

In many of Africa's largest cities, smartphones can now be obtained for under US$100, and fake phones, sold under-the-counter, are even cheaper. Today's smartphones have the equivalent computer power of a PC that would have cost over US$3,000 a decade ago. With cheap data packages and free Wi-Fi, smartphones can be used to start a business, or to find a job.

Africa's mobile phone subscriptions will grow to over a billion well before the end of this decade, and the actual phones themselves will be replaced and upgraded.

Few phones are thrown away and there is a thriving second-hand market, which partly explains why mobile phone subscriptions (i.e. SIM cards) outnumber actual users. But the phones in use in Africa are becoming more powerful and the uses to which they are put are becoming more sophisticated (Rao, 2012).

One indication of this is the wide range of mobile applications now being developed locally *(see Box 1.2).*

**BOX 1.2:** IT'S NOT JUST M-PESA: A SELECTION OF AWARD-WINNING AFRICA-DEVELOPED ICT APPLICATIONS

Although Safaricom's M-PESA mobile money application continues to gain a lot of international press attention, there are a number of other locally developed ICT applications that have been winning awards recently.

Those shown below are just a sample.

| Application (country / website) | Short description |
|---|---|
| AkiraChix (Kenya)<br>www.akirachix.com | AkiraChix is an association that inspires and develops women in technology through networking, training and mentoring. Among the applications it has developed is Magme, an open source project for visual accessibility, developed for Computer Aid International. |
| mFARM (Kenya)<br>www.mFarm.co.ke | An agribusiness company and mobile agricultural information service, incubated by infoDev's m:Lab East Africa. M-Farm provides price information over SMS and provides a bulk buying service for farmers. |
| Etisalat Mobile Baby (Tanzania)<br>www.etisalat.ae | First launched in Tanzania, and now in the process of being rolled out more widely, the Mobile Baby application helps to combat maternal mortality by creating an ecosystem of medical healthcare professionals, NGOs, pharmaceutical and insurance companies, and government agencies to support pregnant mothers. |
| MafutaGo (Uganda)<br>http://mafutago.appspot.com | A mobile application that displays the locations, prices, and special offers or nearby gas stations. |
| MedAfrica (Kenya)<br>http://m.medafrica.org | A mobile health platform that provides symptom checkers, first-aid information, doctor and hospital directories together with relevant alert services. |
| Horticultural Remote Irrigation system (Niger)<br>www.tele-irrigation.net | Remote control of irrigation system from mobile handset. |

Source: Author compilation based on country case studies at www.eTransformAfrica.org.

What's more, innovations that begin in Africa are now spreading elsewhere. M-PESA is being used in at least six countries outside Kenya and the Etisalat Mobile Baby service, pioneered in Tanzania, is now being rolled out in nine other countries during 2012. Ideas that originate in Africa are also spreading.

For instance, several African operators, including Safaricom in Kenya have made the informal practice of "flashing" (i.e. making an outgoing call but hanging up before it is answered, as a way of triggering a return call) into a service by making free "call me back" SMS messages available to subscribers.

As the spread of mobile phones begins to exceed the scope of electrification, paid recharging services are also becoming more widely available.

**The growing popularity of mobile phones in Africa is driving demand for bandwidth. At the start of the new millennium, the entire continent of Africa had less international internet bandwidth than the tiny country of Luxembourg** (ITU, 2000).

As recently as five years ago, the situation did not look promising, but a new generation of international cable projects has transformed the situation, at least for international connectivity, as more than a dozen submarine cable projects have connected Africa to the other rest of the world.

Some 68,000 km of submarine cables had been rolled out by, and a further 92,000 km are planned.

**The World Bank is involved in a number of these investments through its US$0.5 billion Regional Communication Infrastructure Program (RCIP). The available capacity has increased rapidly from 80 Gbps in 2008 to about 15.7 Tbps projected by 2012 in Sub-Saharan Africa alone** (ITU, 2010).

This infrastructure represents the beginning of a new era of connectivity for the continent, promising greater international bandwidth and more reliable connectivity, as seen in Mauritius where the second connection to a submarine cable in 2009 led to an 83 per cent increase in international bandwidth capacity in just one year (Mauritius National Computer Board, 2011).

Getting the cables to the shoreline helps, but more investment is required to bring connectivity to users. Some 676,739 km of backbone infrastructure had been rolled out by September 2011, with new fibre being laid at a rate of 138 km per day[5], using fibre to establish national backbones and to connect landlocked countries with the submarine cables as well.

## Numerous African countries are now seeing rapid development of their national backbone networks through private sector investment, public finance or a mixture of both.

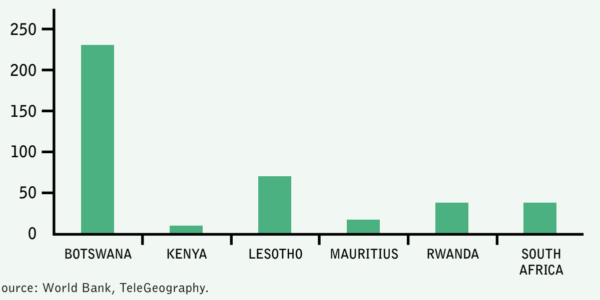
For example, Rwanda is connected to two cable landing stations through Tanzania to Dar es Salaam and also to Mombasa in Kenya. East African states are to spend US$400m on an optical fibre backbone to link Tanzania, Uganda, Kenya, Rwanda and Burundi with more than 15,000km of cable[6].

But not everywhere is benefitting. The world's newest state, South Sudan still has no fibre access to international cables and must rely upon very small apertures terminals (VSATs) for satellite access to the rest of the world. Plans to lay cable are hindered by the slow pace of demining, the lack of paved roads and an uncertain regulatory situation.

Even when both international and national connectivity is in place, the impact on users is only noticeable if there are improvements in broadband speed and reliability and a reduction in the price paid per MB. Kenya is a striking example: the connection to the TEAMS, EASSy and SEACOM cables in 2009-10 led to a wholesale price decrease of almost 70 per cent in one year (ITU, 2010) *(Figure 1.4)*.

**FIGURE 1.4:** UNEQUAL BROADBAND

Cost for 1GB/Month in USD (October 2011)




Source: World Bank, TeleGeography.

Lower retail prices for consumers are also filtering through as seen with the announcements of tariffs reduction for broadband by Airtel and MTN (Rao, 2012) and, with help from the regulator, in South Africa[7].

Broadband speeds are improving too. Ghana ranks as Africa's broadband speed star with an average household download speed of 5.29 Mbps in April 2012. Although this ranks only 70th among global economies, and is only slightly over half the global average of 10.17 Mbps, it is still a noticeable improvement on recent years.

Behind Ghana, Libya, ranks 75th with 5.13 Mbps, while Angola, Kenya, Zimbabwe and Madagascar also make the global top 100[8].

**ICTs can ease cross-border communications, financial transactions, and sharing of data and information and are having a catalytic impact upon regional integration and trade facilitation.**

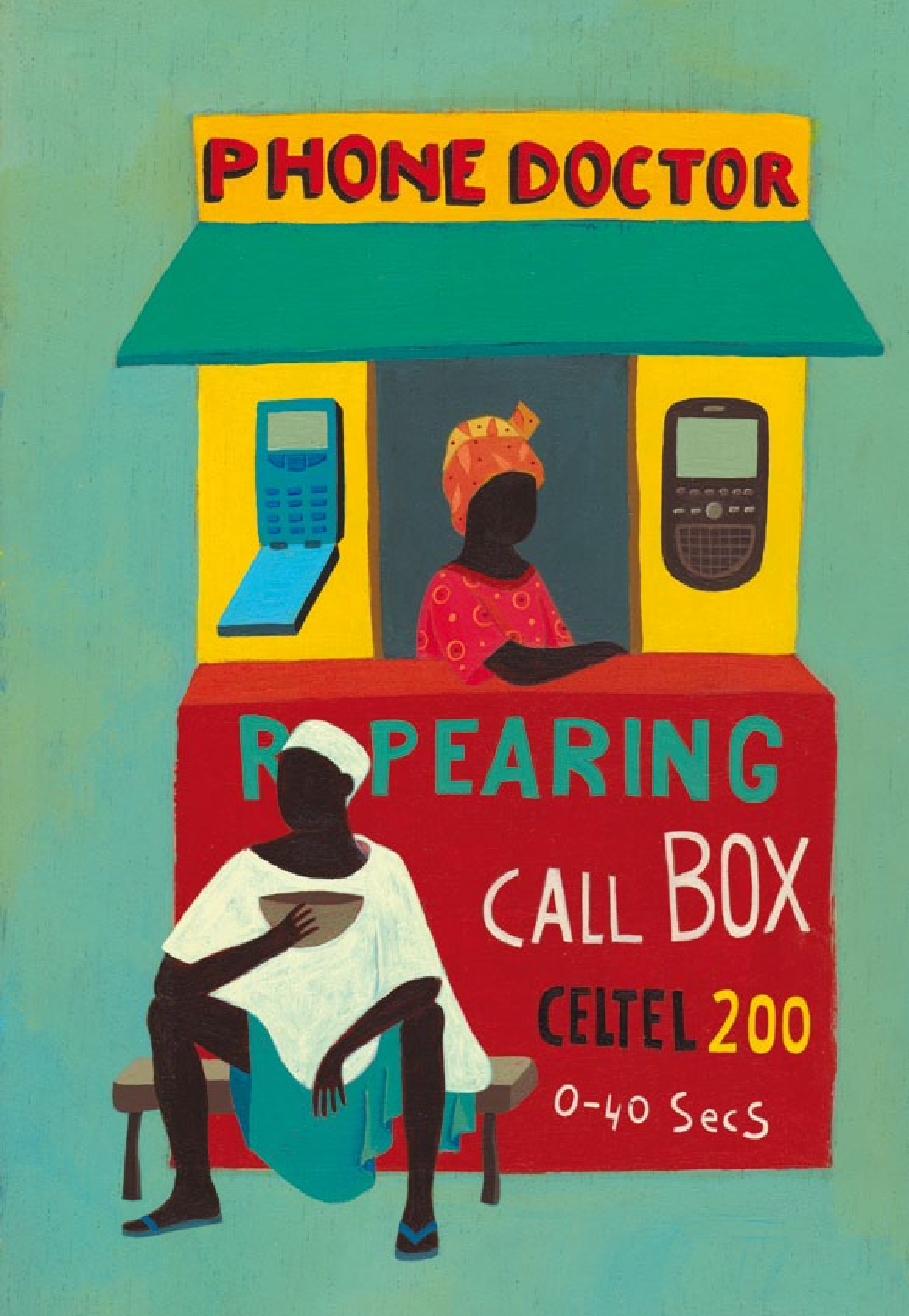
Until recently it was cheaper to call America or Europe from Africa than to call a neighbouring country. Such disparities hindered cross-border regional trade. But, as noted above, the internet bandwidth available to Africa's one billion citizens grew 20-fold between 2008 and 2012.

These electronic highways will provide the trading routes of the future supporting Africa to improve its trade performance both within the continent and between the continent and other world regions.

One consequence of this is that an increasing share of Africa's international traffic is shifting onto IP-based (Internet Protocol) networks. This is happening both as individual subscribers use popular voice over IP (VoIP) services such as Skype, even where it is not legal to do so, and as operators themselves take advantage of the lowcost transit arrangements for their international traffic.

As an increasing share of traffic travels over IP networks and terminates on mobile phones, thus bypassing the bilateral accounting rate system, the price of terminating a call will tend to be the same, irrespective of origin.

This is reducing the disparities that used to exist between interregional and international traffic. But in this new world of globalized pricing, geography and policies still matter.


PHONE DOCTOR
PEARING
CALL BOX
CELTEL 200
0-40 SecS

For instance, the Union of the Comoros is disadvantaged by geography, as its population of fewer than one million means that it is bypassed by international submarine cable systems. Thus to terminate a Skype call there costs 66 US cents per minute, almost ten times higher than in more populous South Africa.

By contrast, Djibouti is advantaged by geography, because of its situation at the entrance to the Red Sea, through which many international submarine cables pass. But it is disadvantaged by market liberalization.

Djibouti Telecom's monopoly over incoming international traffic means that to terminate a Skype call there costs 39 US cents per minute, or three times the rate of more liberal Egypt, at the other end of the Red Sea[9].

> **Such price differences matter because there is increasing competition among countries to compete for internationally footloose investment and to be the "next India" in the global market for ICT-based services, estimated at over US$500 billion** (Sudan *et al*, 2010).

Kenya, in particular, through the Kenya ICT Board, has set itself the goal of becoming "Africa's most globally-respected knowledge economy" by 2017, the end-point of its 2012-2017 National ICT Masterplan (Kenya ICT Board, 2012). It plans to create 50,000 jobs in ICT industries, development and innovation in 500 new organizations.

In particular, through a business process outsourcing (BPO) operation at Konza City, it hopes to attract increased foreign direct investment in this field. Mauritius has similarly ambitious plans.

> **In its national ICT Strategic Plan, 2011-2012 (Gilwald and Islam, 2011), the government sets outs its vision to make ICT the "fifth pillar" of the national economy, with offshore ICT services to contribute some 7 per cent of national GDP.**

The report on the competitiveness of the ICT sector carried out for this study (Excelsior and TNO, 2012, p 2) argues that reducing the cost of access for mobile and broadband is the most important single step a country can take for enhancing ICT competitiveness.

Mauritius and Kenya are better placed that most African economies to achieve this. Kenya has the lowest price and Mauritius the fifth lowest price for mobile service in Africa according to one recent survey (Research ICT Africa, 2012), with the cost of the OECD low-user mobile basket being just US$1.90 in Kenya and US$2.39 in Mauritius for a basket of 30 calls and 100 SMS per month.

In the case of Kenya, this is a result of regulatory intervention to set a mobile termination rate which is the lowest in Africa at 1.44 shillings (1.68 US cents) per minute (Communications Commission of Kenya, 2010).

**The deployment of ICTs and the development of applications must be rooted in the realities of local circumstance and diversity. Despite the optimism caused by Africa's ICT revolution, there is no one-size-fits-all model, and services that prove popular in one country may fail elsewhere.**

National ICT strategies must be developed locally, building upon consultative stakeholder processes and adapted to local circumstances. The private sector will drive the investment, and the influx of capital has been boosted recently, in particular by significant investments from Chinese equipment manufacturers.

**But this may not be enough to ensure competitive markets, or to reach rural areas. Furthermore, there are still whole countries, such as the newly independent South Sudan, that are connected to the outside world only through slow and expensive satellite links.**

One recent approach to the problem of market failure is via public private partnerships (PPPs), i.e. agreements between the government and private organizations to develop, operate, maintain and market a network by sharing risks and rewards.

The advantages to the private sector include reducing capital risk while for the government there is reduced operational risk. PPPs in Africa's ICT sector can take several forms:

- A cooperative model, such as the Burundi Backbone System (BBS), where a World Bank loan, made via the government, has been used to finance the construction of a national fibre backbone network jointly operated by 17 private operators and ISPs, operating under a self-regulation model. This scheme addresses the shortage of fixed infrastructure in Burundi which, like many African countries, is dominated by wireless operators.

- A special purpose vehicle (SPV) share ownership model, as applied in Sao Tome e Principe, Liberia, Sierra Leone and elsewhere, in which the government as well as private investors are stakeholders.
- A bulk purchase model, applied in Rwanda and Malawi, where World Bank investment has been used as an anchor tenant and to aggregate demand, without any government ownership.

An older approach to market failure in the telecommunication sector involves using universal service funds (USF), usually run by the regulator or a special body, as a way of recycling the profits of the incumbent operator or from spectrum auctions and licence fees to subsidize network roll-out and to reach rural and remote areas.

Following a push in the late 1990s and early 2000s, most African countries now have a USF or, like Botswana, are planning to create one.

> **But while USFs in Africa have proved efficient at accumulating cash, through levies on operators, they are less good at disbursing it, with as much as three-quarters remaining unspent according to one recent study** (GSMA, 2006).

In part, this is because mobile network roll-out has largely occurred without a need for subsidy (Williams *et al*, 2011). Universal Service obligations placed on private operators, when added to other taxes, such as spectrum fees, sales taxes, profits taxes, equipment import taxes and increasingly taxes on incoming international calls (A. T. Kearney, 2011), can place a high burden on the local industry.

And when funds accumulate without being spent, it can sometimes prove a temptation for fraud. An opportunity now exists to revise the mandates of these USFs so that they can be used for broadband network roll-out, both mobile and fixed, not just voice, and for encouraging the development and deployment of applications.

# THE ROLE OF GOVERNMENTS

Governments have an important role to play, in creating an enabling environment and in acting as a role model in adopting new innovations and technologies.

Creating a vibrant environment where useful information is readily available to help entrepreneurs, farmers, health workers and environmentalists, for example, make better decisions in their daily activities requires a holistic approach and several supporting inputs or pillars.

The key supporting pillars for such an environment includes adequate information and communications infrastructure, digital literacy and nurturing an ICT-skilled workforce that would propel emerging efforts to leverage ICTs to the next level to achieve sustainability and replicability. Taking a holistic view on a sector is a significant challenge for any government, regardless to how developed a country may be.

Yet, as shown in the following chapters, African governments have made significant steps in building these pillars.

In terms of infrastructure, much of Africa's investments, private and public, have been in increasing network capacity or bandwidth so that the quality of internet or broadband service is available to more countries on the African continent.

Infrastructure providing international connectivity *(see Figure 1.5)* requires large upfront investments which the private sector cannot shoulder. In these instances, public and donor funding are being leveraged. For example, in 2010 Eastern and Southern Africa was the only major region in the world not connected to the global broadband infrastructure by fibre optic cables.

Twenty countries were reliant on expensive satellite connectivity to link with each other and the rest of the world.

> African governments and development financial institutions came together with the private sector to deploy the Eastern Africa Submarine Cable System (EASSy), a submarine fibre-optic cable running 10,000 km along the east coast of Africa, connecting South Africa, Mozambique, Madagascar, Tanzania, Kenya, Somalia, Djibouti, Sudan, Comoros and Mayotte.

Governments also participate directly in infrastructure investment, as the government of Botswana did when creating an alternative fibre route to the coast via Namibia. Hence, most of the international connectivity issues are being addressed.

However, in order for ICT services to be accessible to more Africans, connectivity within the continent needs to be further improved.

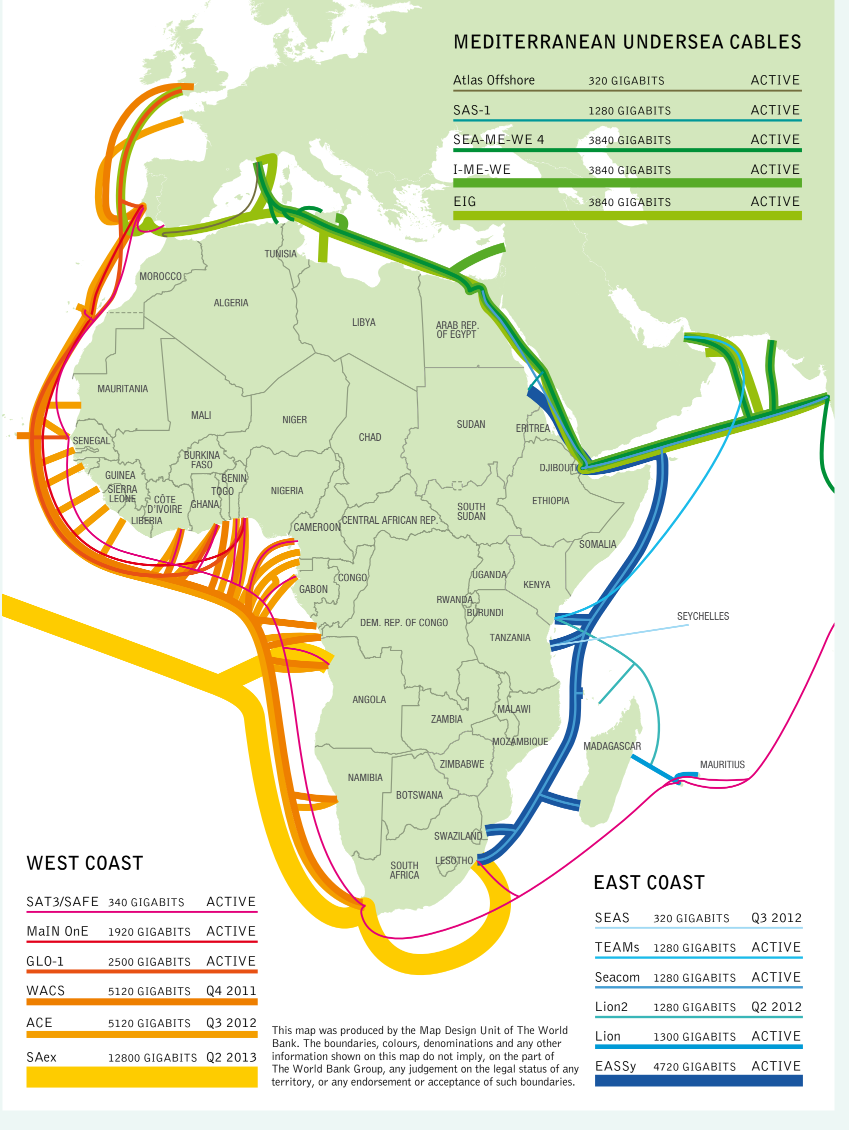
> And the government's larger role lies in creating an enabling environment – issuing licences, making available rights of way, managing spectrum, mandating infrastructure sharing and interconnection and so on – that allows a liberalized market to thrive and bring down price of service for the African consumer.

Beyond that, governments can serve as an anchor user for faster networks and migrate their own services and data online.

When the Kenyan government opened up its databases and put public data online, including exam results, poverty and census data, it provided a major demand driver for mobile broadband, and stimulated further investment in that country's networks (Rahemtulla, 2011).

**FIGURE 1.5:** RECONNECTING AFRICA

Undersea cable systems serving Africa, actual and projected, April 2012




Source: http://manypossibilities.net/african-undersea-cables.

Similarly, in Ethiopia, government and donor sponsorship of eHealth initiatives is helping to finance network investment (Vital Wave Consulting, 2012a).

**In order for people to fully leverage and benefit the new ICT capacity that is increasingly becoming accessible in Africa, attention on improving digital literacy rates and ICT skills will become more and more important. ICT can be an engine of growth when it is embedded into the daily activities of people – whether in agriculture, education, financial services, health or delivery of public services.**

The challenge to raise digital or ICT literacy is likely to be a greater challenge than deploying infrastructure and creating robust and innovative markets for private operators to thrive in. Increasing ICT skills requires a number of factors.

Throughout this report Kenya is highlighted as having many of the drivers in place including improved access to broad-based primary through to graduate level institutions, a large diaspora who return to the country pursuing opportunities in entrepreneurship, and high exposure to international institutions owing in part to its role as the African base for many multinational companies and international organizations.

**Creating an enabling environment in which the ICT sector can thrive and stimulating demand for services are important roles but, in the context of transformation, governments need to do more.**

In many of the sectors covered in this report – such as climate change adaptation, education, health or directly modernizing the operations of government – government is the leading investor and provider of services.

It is essential, therefore, that there is policy coherence between the government's objectives for the ICT sector and its objectives for the user sector (OECD and infoDev, 2009). This is also true in other areas where the government provides regulation, such as financial services.

Rules governing access to the SIM card are important in opening up and harmonizing mobile money (Makin, 2009) while financial regulations, such as those relating to money laundering, provision of interest or lending, may also need to be reviewed.

# Stakeholder COLLAB-ORATION

**Effective use of ICTs will require cross-sectoral collaboration and a multi-stakeholder approach, based on open data and open innovation.**

Valuable and sustainable ICT applications are most likely to develop within an environment that encourages experimentation and collaboration between technologists, entrepreneurs and development practitioners.

Often, stakeholders may combine their interests in communal projects, such as the creation of the Cape Town Internet Exchange. The recent flowering of local ICT development clusters (LIDs) – such as iHub and NaiLab in Kenya, Hive CoLab and AppLab in Uganda, Activspaces in Cameroon, BantaLabs in Senegal Kinu in Tanzania or *info*Dev's mLabs in Kenya and South Africa – is helping to create new spaces for collaboration, training, applications and content development, and for pre-incubation of firms *(Box 1.3)*.

Stakeholder cooperation is vital also for providing initial fund for pilot programmes and trials.

For instance, among some 92 mobile applications around the world identified in a recent World Bank study (Qiang *et al*, 2012), only 15 per cent had commercial or private funding as their primary source of income. Donors provided the primary funding source for over half the programmes, and governments and corporate social responsibility programmes provided the rest.

## BOX 1.3: LOCAL ICT DEVELOPMENT CLUSTERS

Located on the 4th floor of a modern office building in Nairobi, where a sunny balcony gives views over the bustling city, Kenya's *iHub provides a space where young entrepreneurs can network, while joining focus groups discussions, receiving mentorship, and chatting to venture capital investors.

Apart from having the best coffee shop in town, its other big attraction to the nation's digerati is that it offers a fast broadband connection, which is the quickest way to set up a business in Kenya.

Established in March 2010 by Erik Hersman, a renowned blogger, TED fellow and entrepreneur, it now has over 2,000 members benefitting from the co-working space.

It's not quite a business incubator, though there are two of those in the same building, with Nailab next door and infoDev's m:Lab East Africa one floor below. Rather, it might be described as a "pre-incubator" where good ideas come to take shape and be turned into commercial prospects.

The young technologists who crowd into the place are able to get the necessary support to develop their ideas into marketable products.

*iHub is part of a much larger technology movement in Kenya and in Africa. Two important predecessor organizations that helped shape *iHub are Skunkworks, an informal grouping of mobile applications developers, and Ushahidi, a non-profit software company co-founded by Erik Hersman, that develops free and open source software for information collection, visualization and crisis mapping.

Ushahidi was born in the aftermath of the disputed elections in early 2008 and has subsequently been used in over ten countries, primarily to map critical information to aid disaster recovery efforts such as in the Haiti earthquake in 2010 and the Japan earthquake in 2011.

*iHub is now, in turn, giving birth to other spin-offs, such as *iHub research, and Akirachix, both female-run start-ups.

*iHub's success has been widely followed elsewhere. Africa continues to see the emergence of technology labs in Kampala (Hive CoLab), Dar es Salaam (Kinu), Dakar (Bantalabs), Thswane (mLab Southern Africa) and Douala (ActiveSpaces) as well as new initiatives that are coming online in Accra and Lagos.

The labs serve as an accessible platform for bringing together technologists, investors, tech companies and hackers in the area. Each lab shares a focus on young entrepreneurs, web and mobile-phone programmers and designers.

The technology movement in Africa is being driven by the youth who, through these labs, have the means and foresight to apply new and accessible technologies to solve immediate problems and find useful solutions for common problems. Many of the youth are in tune with the problems and challenges that are faced in the communities in which they live.

The labs conduct workshops among themselves to share experiences and brainstorm ideas, and use digital technology to create tech communities that have no borders.

This approach to nurturing technology is quite different to the top-down approach that had been tried in the early 2000s of building science parks, or government run initiatives to promote business process outsourcing.

The difference this time is that these initiatives are generally bottom-up and community driven. They may receive the blessing of government but are not dependent upon it for providing opportunities for training and capacity building.

Source: Authors, and adapted from http://ihub.co.ke/pages/about.php and http://afrilabs.com/about (both accessed 20/4/2012) and White, 2011.

M-PESA, the mobile money application in Kenya, is perhaps Africa's best known mobile application, and now a huge commercial success.

**But even M-PESA required an initial boost of donor cash, from UKaid. It is now supported by a large ecosystem including the mobile operator (Safaricom), conventional banks (including Equity Bank) and a network of 27,000 agents across the country.**

In the specific case of mobile money (Vital Wave, 2012b), the study carried out for this report makes the following recommendations to donors:

- Reduce private sector risks by underwriting the risks of "first movers";
- Reduce shared costs by underwriting supporting systems that are common all financial service players; and
- Leverage limited donor resources to drive private and consumer action towards desired financial service sector goals.

Effective cooperation will require a spirit of openness and transparency on the part of all stakeholders. This is exemplified in the case of agriculture, also profiled for this report (Deloitte, 2012), where the value chain that links consumer and producer is extensive, and often crosses continents. This sector report makes the following recommendations to donors:

- Develop self-sustaining funding solutions;
- Focus on community ownership;
- Make eAgriculture technology robust and accessible;
- Focus on capacity-building; and
- Develop country-specific agriculture strategy maps.

This latter recommendation, in particular, will require transparency and data exchange between many different organizations, including those holding satellite imagery, agricultural production statistics, soil and terrain maps, agricultural market information systems and so on.

Promoting a culture of open data requires a framework, such as that provided by Kenya's Open Data Initiative, which makes available a centralized website where government departments can post data and users can easily find it (Rahemtulla, 2011).


NOKIA
Conecting Peop

Another useful data framework is provided by a national spatial data infrastructure (SDI) which provides the basic set of digital coordinates for geographical information on which specific datasets and geographical information systems (GIS) can be overlain.

Many GIS have considerable financial value, for instance for navigation or for mining. Others have great social value, for instance, data visualizations showing the impact of climate change or land use.

But without the backbone of a national SDI, the cost of constructing such overlays rises considerably and their usefulness, for the interchange of data, is diminished. A national SDI is therefore a classic example of a public good which is best created through collaboration between public and private stakeholders.

The costs are often quite modest – a feasibility study for creating a national SDI in Uganda, for instance, puts the cost at about US$3.5m, which is relatively small in comparison to government departmental budgets (Geo-Information Communication and ESRI Canada, 2011) – and the benefits can be long lasting.

But the problems of coordination can be huge as an effective SDI requires the participation of so many different stakeholders.

> **Africa is still at the beginning of its growth curve and, so far, most ICT applications have been pilot programmes. Now is the time for rigorous evaluation, replication and scaling up of best practice. The research carried out for this study has highlighted a number of success stories and has shown examples of programmes that could be scaled up and replicated elsewhere.**

But there is a lack of systematic monitoring of outcomes, and cost-benefit analyses of investments are rare *(Box 1.4)*.

Indeed, one of the surprises coming out of this study is how little systematic impact evaluation has been carried out and published.

Nevertheless, the evidence that has been marshalled in these studies, the most comprehensive carried out to date, does point to the potential for effective roll-out and a period of rapid growth ahead.

**BOX 1.4:** AFRICAN VIRTUAL UNIVERSITY

Founded in 1997, the African Virtual University (AVU) is a Pan African Intergovernmental Organization whose aim is to significantly increase access to quality higher education and training through the innovative use of Information and Communication Technologies.

It has its headquarters in Nairobi, Kenya with a regional office in Dakar, Senegal. The AVU has graduated 43,000 students across Africa and established a wide-ranging network of Open Distance and eLearning institutions in over 30 countries in Sub-Saharan Africa.

Since its inception, the AVU has benefited from donor resources and, in January 2012, AVU received US$15.6 million from the African Development Fund for the second phase of the AVU Multinational Project.

This grant is intended to enable participating African countries and institutions to improve their infrastructure and programmes, and provide technical assistance on their ICT in education policies and strategies. The grant will also support research and development, open educational resources, and gender mainstreaming through the award of scholarships to women enrolled in science programmes.

The AVU would benefit from a more rigorous evaluation to identify success stories and what programmes might be scaled up or reformed.

Source: Authors and http://www.avu.org/News/the-african-virtual-university-receives-a-grant-of-usd156-million-from-the-african-development-bank-group-to-help-increase-ict-in-education-support-to-african-countries.html.

Africa was once an ICT laggard, but is now becoming an ICT leader. In virtually every area of ICT – mobile, broadband, international bandwidth, PC penetration – Africa is closing the gap with the rest of the world and in some areas, like mobile financial services, it is setting the pace.

The studies in this report document a huge amount of local-level innovation, both in adapting applications developed in the rest of the world to African circumstances and in developing new home-grown applications. But there is insufficient south–south learning.

**It remains the case that African leaders are more likely to look outside their continent for role models than to look at the successes happening next door.**

Ironically, south–south learning is already happening in Africa, but not so much among its leaders as among its young people.

Social networks, like Twitter, Facebook and Africa's home-grown MXit *(see Box 1.5)* provide a platform for informal learning to take place in an environment of fun and experimentation.

It is a commonplace to say that Africa's greatest strength is its youth, but in this case it is really true.

> **As the generation of Africans that have grown up with mobile phones and social media enter the labour market and government, they will bring with them the habits of information sharing that they have grown up with. That will be a real eTransformation.**

**BOX 1.5:** MXIT, HOME-GROWN AFRICAN SOCIAL NETWORKING

MXit, a South African social network, has become the premier social network in its home country and has expanded to reach more than 30 million users across Africa and beyond with 40,000 new users joining every day. Overall, MXit has 50 million users registered in more than 120 countries.

In the first half of 2011, MXit registered 24 million users just in Sub-Saharan Africa compared to less than 19 million for Facebook, making MXit the biggest social media network in Sub-Saharan Africa.

Success has been enhanced by the high level of activity of its users compared to other social networks, with an average MXit user spending 45 hours per month on the site.

Source: www.mxit.com and newspaper reports.

For the complete report and a list of references used within the article, please visit: http://siteresources.worldbank.org/EXTINFORMATIONANDCOMMUNICATIONANDTECHNOLOGIES/Resources/282822-1346223280837/MainReport.pdf.

1. GSMA, "Africa now the world's second largest mobile market, reports GSMA", November 2011, http://www.gsma.com/publicpolicy/wp-content/uploads/2012/04/africamobileobservatory2011-1.pdf.
2. "Digital Africa", Intelligent Life, http://www.economist.com/node/18529875.
3. Wireless Intelligence (2012), https://www.wirelessintelligence.com.
4. For instance, Orascom Telecom of Egypt, which has holdings in seven African countries was acquired by VimpelCom of Russia, via Wind Telecom, in 2005. The African company MSI Cellular Investments, which later became known as Celtel was acquired by Zain and later by Bharti Airtel of India in 2010. MTN, with headquarters in South Africa and operations in 17 African economies, remains the largest African-based operator.
5. Hamilton Research, "Africa's fibre roll-out", http://www.africabandwidthmaps.com/?p=2572.
6. http://thecitizen.co.tz/magazines/31-business-week/11510-east-african-states-to-spend-400m-on-optical-fibre-backbone.html.
7. "What Telkom's price cut means for you", My Broadband, 14 April 2012, http://mybroadband.co.za/news/adsl/47484-what-telkoms-price-cut-means-for-you.html.
8. http://www.netindex.com/download/allcountries/, speeds retrieved on 14 April 2012, with average speeds being a rolling mean over the previous 30 days.
9. Skype Out tariffs are available at: http://www.skype.com/intl/en-us/prices/payg-rates/. Skype is used in this comparison because it publishes rates for all countries on its public website.

Source: World Bank www.worldbank.org, "The Transformational Use of Information and Communication Technologies in Africa", published in 2011.