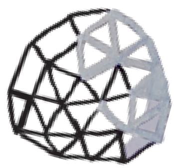
Platinum®
ASSET MANAGEMENT

ANNUAL REPORT 2012



PLATINUM ASSET MANAGEMENT LIMITED ABN 13 050 064 287

Directors

Michael Cole
Margaret Towers
Philip Howard
Bruce Coleman
Kerr Neilson

Company Secretary

Philip Howard

Shareholder Liaison

Liz Norman

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Auditor and Taxation Advisor

PricewaterhouseCoopers
201 Sussex Street
Sydney NSW 2000

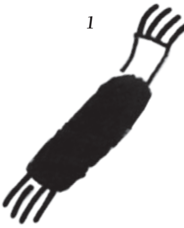
Securities Exchange Listing

Ordinary shares listed on the Australian Securities Exchange
ASX Code: **PTM**

Website

http://www.platinum.com.au/paml_shares.htm

Platinum Asset Management® does not guarantee the repayment of capital or the investment performance of the Investment Manager.



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CHAIRMAN'S REPORT

Performance

The Company's profit performance for the financial year was disappointing and this was primarily due to the weak state of global share markets.

Net profit after tax was $126.4 million (2011: $150.1 million), a decrease of 15.8%. This translated to diluted earnings per share of 22.51 cents compared to 26.32 cents in 2011.

The decrease in profit can be primarily attributed to a decrease in management fees of 13.5%. The decrease in profits was largely driven by a decline in Funds Under Management (FUM) of the Platinum Trust Funds, which is discussed below.

Expenses incurred by Platinum continued to be closely monitored and decreased by 7%.

Funds Under Management (FUM)

The opening FUM for the year was $17.8 billion and this decreased to $14.9 billion at 30 June 2012. This represents a decrease of 16.5% year on year.

The major contributor to the decrease in the closing FUM over the period was a decline in capital flows of $1.7 billion together with a decline in investment performance of approximately $1.1 billion.

Whilst the investment performance was disappointing over the past year, clients' long-term investment returns and performance remain strong.

Dividend

A fully franked dividend of 13 cents per share will be paid on 21 September 2012. The dividend payout is broadly in line with the Dividend Policy (of paying out 80-90% of net profit after tax) and consistent with our working capital needs.

A fully franked dividend of 8 cents per share was paid on 12 March 2012.

The Directors are confident that future dividends will be fully franked.

Whilst the Company has a Dividend Reinvestment Plan in place, it is has not been activated or likely to be activated in the near term.

Remuneration Matters

Despite the low "no" vote of less than 5% of total votes cast against the 2011 Remuneration Report, at the 2011 AGM, the Company has taken the opportunity to better explain the basis and structure of remuneration paid to its Key Management Personnel ("KMP").

The Remuneration Report is presented on pages 17 to 27 of the Financial Report and I encourage all shareholders to read the report.

Key remuneration outcomes during the year were:

1) there has been no increase in base salary paid to any of the KMP;
2) only two out of the six KMP received a bonus in 2012;
3) there were no options granted or exercised during the year; and
4) the Managing Director waived his right to receive a bonus in 2012 and this has been ratified by the Remuneration Committee.

The Board and its Committees

Both the Remuneration and Audit Committees had a productive year dealing with a number of material issues that impact the Company's performance and compliance obligations.

Environment

Your Company remains carbon neutral, having purchased carbon credits to offset its carbon emissions.

Conclusion

In last year's Chairman's Report, I noted that "the current extreme volatility in global investment markets and the competitive landscape makes it difficult to forecast what will happen to investment fees and profits in the next year." This continues to be the case.

The Managing Director's Letter to Shareholders addresses the challenges that are being confronted in order to achieve the best performance outcome for investors, which remains our primary focus.

Michael Cole

Chairman
16 August 2012

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

As a shareholder you will appreciate that the principal driver of our business is the level of Funds Under Management (FUM). One of the key determinants of this is our performance.

Investment Performance

We are aware that we have done a poor job over the last two years in managing some of our funds. However, it is important that we keep perspective and remind ourselves that over the period from June 2008 to June 2009, the depth of the financial crisis, the Platinum International Fund, rose by 18% while the MSCI World Index fell by 16%; this represents a 34% relative outperformance.

We have attempted to describe fully the reasons behind our shortfall of the last two years in our investors' June quarterly report; in essence it relates to being significantly underexposed to the one market that went up, which was the US and as a consequence our having high exposure to other markets which, with few exceptions, all went down, and some by a lot.

We have heard comments from some that we may have changed the way we pick stocks or that our approach to investing is no longer efficacious. As you can imagine, after a period of poor performance we have considered these various factors and others that might contribute to disappointing performance. We can assure you, our internal assessment is that there is no deterioration in the efficacy of stock picking, neither as a concept nor as a practice in Platinum Asset Management. We have clearly made some mistakes, in particular by not applying sufficiently large discounts to take into account the great economic uncertainty besetting the world economy. In an environment where investors have been tending to reduce their exposure to equities in favour of cash and bonds, cyclicality has been tossed aside in favour of predictability and steady growth.

We are not unduly perturbed by this recent poor performance because there have been several episodes in the past where our performance has veered significantly away from the averages, both to the positive and to the negative. As I pointed out earlier, the 2008/9 period is an example of huge positive skewing while back in 1997/98 we were trailing the index. Further, in a market such as Japan which has endured low growth for some 20 years, we have outperformed the market by 13.6% compound pa since inception of the Platinum Japan Fund. Even with two years of poor performance, the Platinum International Fund has outperformed the index by over 5% compound pa the last five years, though admittedly producing a negative outcome of 0.8% pa point to point (to 30 June 2012). Lastly, we find it reassuring that in several instances, real-world buyers have been prepared to pay between 30% and 90% more than our cost price in bids for companies we appraised that were selling well-below their intrinsic worth. This has applied to six of our holdings in the last 12 months.

The obvious temptation is to move away from a traditional stock picking approach and participate in momentum investing. The problem with this is that we simply do not believe that one can systematically add value by being with the in-crowd. Within Platinum we have a natural aversion to paying-up for certainty, particularly when the surveys and stock price actions indicate that this is the most crowded trade of the day. Yes, it feels more secure to follow the latest trend but as we keep saying, the arbitrage lies in complexity and uncertainty not the other way around!

So why should clients entrust us with their funds over the next few years? Firstly, the record of our *commentary* suggests that we understand the inherent issues that risk assets face. Secondly, the process of *neglected stock picking* demonstrably works even though we were guilty of overpaying in the sharply declining market of 2011 but we are re-calibrating to try to take account of the prevailing level of fear. Thirdly, in a world of slow growth and periodic panics, we see a number of industries that *'have to grow'*. In particular, global energy exploration and the exploitation of cheap shale gas in the US; digital mobility and the supporting infrastructure; and health care. The latter is not just a Western ageing play but also an emerging market access play.

The Investment Team

Last year we gave a fairly detailed account of the way the responsibilities of individual analysts are structured and rewarded. We also described the grouping of analysts into industry specialist teams and how this helps to filter ideas and assist with the cross-fertilisation of knowledge and insights. These arrangements are working satisfactorily; there are some teams that are working very-well together and others that are still trying to refine their coordination. The quant team is providing global support in profiling the characteristics that are in and out of favour and identifying where the greatest anomalies are to be found.

It is, however, a difficult environment for investing with periodic and significant swings of investor sentiment. This creates the risk of falling out of step at inflection points. There are now plenty of relatively cheaply priced companies but this has to be calibrated both against the economic backdrop and the relative attraction of predictable earnings growth which is the favoured characteristic of the moment.

Costs

Costs have moved down led by a diminution of the investment team's total rewards (-7%). As has been highlighted in the past, bonuses can add significantly to the annual salaries of analysts though there is a smoothing that takes account of their recent, as well as their three year, rolling contributions. There is, however, an upward bias to our staffing costs which reflects general wage inflation but in addition, the rise of seniority among our analytical staff. Other costs were relatively well-contained.

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

CONTINUED

Income

Success in signing up profit sharing investment accounts continues to build our performance fee potential. The proportion of our FUM with performance-related fees is $1.8 billion. Our traditional retail base has remained loyal, though the lure of assured returns from term deposits, as well as our current poor short-term returns, is resulting in a pattern of retail redemptions.

Fund Under Management ($mn, to 30 June 2012)

FUND	OPENING BALANCE (30 JUNE 2011)	FLOWS	DISTRIBUTION	INVESTMENT PERFORMANCE	CLOSING BALANCE (30 JUNE 2012)
Platinum Trust Funds	13,042	(1,530)	(140)	(783)	10,589
MLC Platinum Global Fund	1,239	(258)	–	(63)	918
Management Fee Mandates	1,726	(45)	–	(113)	1,568
"Relative" Performance Fee Mandates	1,277	67	–	(108)	1,236
"Absolute" Performance Fee Mandates	531	69	–	(42)	558
TOTAL	17,815	(1,697)	(140)	(1,109)	14,869

Source: Platinum

With performance fees there is a trade-off: the modest flat fee is complemented by a performance component that will share in the degree to which we are able to outperform the benchmark (MSCI Index). For these fees to give us a yield equivalent to the standard flat fee, Platinum needs to outperform by approximately 5% pa. Our historic outperformance over the last 17 years has averaged approximately 8% pa compound with great variances in between. It is important to note that these performance mandates carry so-called high water marks: in order to earn performance fees we must first recover by approximately 11% relative to the benchmark across these global mandates.

FUM Retention

It is a fact that stock markets are cyclical; reflecting both changes in corporate profitability and changing valuations attributed to those profits. In times of great uncertainty, both come under pressure. We are indeed at such a juncture now and observe that investors have a predilection for certainty and an aversion to risk. So while we believe we will make good returns over the next few years, the uncertainties of the moment are resulting in some loss of funds. Even so, we actively presented to our unit holders at our last unit holder meeting in May and were delighted at the response both in terms of attendance levels and a genuine interest in our commentary.

We have also been active in communicating with the financial advisory community both via on-going individual presentations to groups and with the formal presentations that accompanied our road show to unit holders. While clearly some are disappointed with our recent performance, many are mindful that we run index unaware portfolios and see real benefits in using our funds, with their broad range of specialities, alongside others in the construction of balanced portfolios. On account of perceived business risk, there are few fund managers prepared to manage benchmark-agnostic portfolios. Consequently we bring real diversification benefits to investors.

FUM Growth

There is a discernible loss of enthusiasm for equities among private investors. This is not confined to the Australian market with a pattern of mutual fund redemptions in the US over the last five years and the clear preference investors have for fixed interest securities and bond funds in particular. In Australia, however, the superannuation levy and DIY super schemes are still supportive of new flows to international equities.

In addition, we remain active in promoting our approach to professional investors. It is important that one develops a close understanding with asset consultants as they, in most cases, act as gatekeepers for access to superannuation clients. We have not confined our activities solely to the Australian environment and have developed a good working relationship with asset consultants abroad which may in time lead to our gaining access to family offices, wealth funds as well as traditional superannuation clients. Apart from a demonstrable record of long-term performance, these practitioners are attracted to Platinum Asset Management for its size and durability in different market conditions. Short-term performance plays a relatively minor role in selection by these experts but nevertheless does have a subliminal influence.

Outlook

As noted last year, there are many issues facing the world economy. The concerns are widespread, varying from the aggression with which the European Central Bank monetises, to uncertainty about the fiscal deficiency in the US, and lastly the timing and nature of stimulation that can be expected in China. We sense that there is a changing tone in world stock markets. In particular, shares are not as highly correlated as they have in recent times. This should assist us as a stock picking house. We have the resources and the understanding to considerably improve our performance. This will lead to improved profitability for the company.

Kerr Neilson
Managing Director

FINANCIAL STATEMENTS 2012

PLATINUM ASSET MANAGEMENT

SHAREHOLDER INFORMATION

Substantial Shareholders

The following parties notified the Company that they have a substantial relevant interest in ordinary shares of Platinum Asset Management Limited as at 14 August 2012:

	NUMBER OF SHARES	%
J Neilson, K Neilson	323,074,841	57.55
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.85
Hyperion Asset Management	28,861,644	5.14

Distribution of Securities

(i) DISTRIBUTION SCHEDULE OF HOLDINGS	CLASS OF EQUITY SECURITY ORDINARY
1 – 1,000	4,171
1,001 – 5,000	11,048
5,001 – 10,000	2,374
10,001 – 100,000	1,237
100,001 and over	57
Total number of holders	18,887
(ii) Number of holders of less than a marketable parcel	212
(iii) Percentage held by the 20 largest holders	85.04%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of listed equity securities as at 14 August 2012 are listed below:

	NUMBER OF SHARES	%
Platinum Investment Management Limited	216,279,451	38.53
J Neilson	136,250,000	24.27
JP Morgan Nominees Australia Limited	28,196,145	5.02
Citicorp Nominees Pty Limited	18,818,186	3.35
National Nominees Limited	12,466,570	2.22
HSBC Custody Nominees (Australia) Limited	12,076,630	2.15
Charmfair Pty Limited	10,000,000	1.78
Jilliby Pty Limited	9,000,000	1.61
Charmfair Pty Limited	6,938,475	1.24
JP Morgan Nominees Australia Limited	5,624,979	1.00
J Clifford	5,000,000	0.89
Citicorp Nominees Pty Limited	4,036,293	0.72
Xetrov Pty Limited	4,000,000	0.71
BNP Paribas Nominees Pty Limited	3,818,365	0.68
HSBC Custody Nominees (Australia) Limited	1,065,693	0.19
Jilliby Pty Limited	1,000,000	0.18
AMP Life Limited	843,923	0.15
HSBC Custody Nominees (Australia) Limited	755,126	0.14
HSBC Custody Nominees (Australia) Limited	688,271	0.12
Queensland Investment Corporation	500,029	0.09

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.

Other Securities on Issue

The Company has other securities on issue in the form of options. As at 14 August 2012, the Company issued 25,331,022 options to 23 holders, with each holder being granted over 100,000 options. Further details on the grant of these options are contained in Note 6 of the Notes to the Financial Statements. No voting rights attach to the options, however any ordinary shares that are allotted to the option holders upon exercise will have the same voting rights as all other ordinary shares.

Platinum's Commitment to Carbon Neutrality

Platinum Asset Management remains carbon neutral, having purchased carbon credits to offset its 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 who have "opted in".

Financial Calendar

Ordinary shares trade ex-dividend	21 August 2012
Record (books close) date for dividend	27 August 2012
Dividend paid	21 September 2012
Annual General Meeting	5 November 2012

These dates are indicative and may be changed.

Questions for the 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.

DIRECTORS' REPORT

The Directors present the following report on the consolidated entity consisting of Platinum Asset Management Limited (the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2012.

Directors

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

Michael Cole	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Margaret Towers	Non-Executive Director
Kerr Neilson	Managing Director
Philip Howard	Executive Director and Company Secretary

Principal Activity

The Company is the non-operating holding company of Platinum Investment Management Limited. Platinum Investment Management Limited, trading as Platinum Asset Management, operates a funds management business.

Trading Results

The profit after tax of the consolidated entity for the year was $126,378,000 (2011: $150,059,000) after income tax expense of $53,070,000 (2011: $63,697,000).

Dividends

Since the end of the financial year, the Directors have declared a 13 cents per share ($72,975,000) fully franked dividend payable to shareholders on 21 September 2012.

A fully franked dividend of 8 cents per share ($44,908,000) was paid on 12 March 2012.

A fully franked dividend of 15 cents per share ($84,202,000) was paid on 22 September 2011.

Review of Operations

The consolidated profit before tax was $179,448,000 (2011: $213,756,000).

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.

DIRECTORS' REPORT
CONTINUED

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 continues to pursue its business objectives by continuing to be the holding company of the Platinum Asset Management funds management business. The methods of operating the consolidated entity are not expected to change in the foreseeable future.

Rounding of Amounts
The consolidated entity 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 consolidated entity 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 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*.

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.

	2012 **$**	2011 $
Audit services – statutory	**277,800**	254,865
Taxation services – compliance	**520,331**	474,413
Taxation services – foreign tax agent	**24,146**	26,525
Other audit and assurance services	**13,119**	23,828
Advisory services – legal costs	**27,389**	18,651
Total	**862,785**	798,282

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 29.

Information on Directors

Michael Cole BECON, MECON, FFIN

Independent Non-Executive Director, Chairman and member of the Audit and Remuneration Committees since 10 April 2007. (Age 64)

Mr Cole has over 34 years' experience in the investment banking and funds management industry. He was an Executive Director/Executive Vice President at Bankers Trust Australia for over 10 years. Mr Cole is Chairman of Ironbark Capital Limited and IMB Limited. Mr Cole is the Chairman and Director of Challenger Listed Investments Limited.

Bruce Coleman BSC, BCOM, CA, FFIN

Independent Non-Executive Director, Chair of the Remuneration Committee and member of the Audit Committee since 10 April 2007. (Age 62)

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 National Australia Banking groups. Mr Coleman is a Director of Platinum Capital Limited.

DIRECTORS' REPORT
CONTINUED

Margaret Towers CA, GAICD
Independent Non-Executive Director, Chair of the Audit Committee and member of the Remuneration Committee since 10 April 2007. (Age 54)

Ms Towers is a Chartered Accountant with over 30 years' experience in financial markets. She was formerly an Executive Vice President at Bankers Trust Australia and worked at Price Waterhouse. Ms Towers currently acts as an independent consultant to a number of Australian Financial Institutions. In May 2011, Ms Towers was appointed a Director of IMB Limited.

Kerr Neilson BCOM, ASIP
Managing Director since 12 July 1993. (Age 62)

Mr Neilson was appointed as Managing Director upon incorporation. He is the Managing Director of Platinum Investment Management Limited and Platinum Capital Limited. Prior to Platinum, Mr Neilson was an Executive Vice President at Bankers Trust Australia. Previously he worked in both the UK and South Africa as an investment analyst and fund manager.

Philip Howard BCOM, CA
Finance Director and Company Secretary since March 2011. (Age 51)

Mr Howard was also appointed Director of Platinum Investment Management Limited and Platinum Capital Limited in March 2011. Mr Howard has been Platinum's Chief Operating Officer since his appointment to that role in September 2001. Mr Howard is a Chartered Accountant with over 26 years' experience in the financial services industry. Prior to Platinum, Mr Howard held senior roles in finance, operations and management with State Street Australia, Bankers Trust Australia and Price Waterhouse, Sydney.

Directors' Meetings
The number of meetings held and attended by the Company's Directors during the year ended 30 June 2012 was as follows.

NAME	BOARD MEETINGS HELD WHILE A DIRECTOR	BOARD MEETINGS ATTENDED	AUDIT COMMITTEE MEETINGS HELD WHILE A MEMBER	AUDIT COMMITTEE MEETINGS ATTENDED	REMUNERATION COMMITTEE MEETINGS HELD WHILE A MEMBER	REMUNERATION COMMITTEE MEETINGS ATTENDED
Michael Cole	4	4	4	4	3	3
Bruce Coleman	4	4	4	4	3	3
Margaret Towers	4	4	4	4	3	3
Kerr Neilson	4	4	–	–	–	–
Philip Howard	4	4	–	–	–	–

Remuneration Report (audited)

Summary of remuneration outcomes for 2012

- There has been no increase in base salary paid to any of the Key Management Personnel ("KMP").
- Only two out of the six KMP received a bonus in 2012. The aggregate amount in bonuses paid to these two KMP decreased because of the reduction in investment returns by the Platinum Trust Funds and decreased Funds Under Management for the consolidated entity.
- There have been no options granted or exercised during the year.
- The Managing Director waived his right to receive a bonus in 2012 and this has been ratified by the Remuneration Committee.

Introduction

The Company's Directors present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and consolidated entity for the year ended 30 June 2012.

The information provided in this Remuneration Report has been audited by the Company's auditor, PricewaterhouseCoopers, to confirm that it complies with section 300A of the *Corporations Act 2001*.

Key management personnel ("KMP")

For the purposes of this report, KMP of the consolidated entity in office at any time during the financial year were:

NAME	POSITION
Michael Cole	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Margaret Towers	Non-Executive Director
Kerr Neilson	Managing Director
Philip Howard	Executive Director and Company Secretary
Andrew Clifford	Executive Director of Platinum Investment Management Limited

Other than those disclosed above, there are no employees that hold an executive position within the Company or consolidated entity.

DIRECTORS' REPORT
CONTINUED

Shareholders' Approval of the 2011 Remuneration Report
Following the introduction of 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 3.86% of the total votes cast at that meeting. Despite this low "no" vote, Platinum has taken the opportunity to amend its 2012 Remuneration Report to better explain the basis and structure of remuneration paid to its KMP.

Guiding Principles of KMP and Staff Remuneration
Platinum attracts, retains and motivates team members by providing incentives and working conditions that enable them to achieve above-average performance.

Structure of Remuneration for Executives and all Platinum staff
Fixed remuneration in the form of salary and compulsory contributions to superannuation funds. Salaries approximate current market rates and are augmented by performance incentives.

Variable remuneration in the form of performance-based bonuses. Bonuses are discretionary and are only paid if a person exceeds his/her pre-determined and individually set targets. Bonuses take the form of an annual cash payment and are designed to reward superior performance. The Platinum Group has established two Short-Term Incentive Plans (STIP) that set out the specific criteria used as a basis for paying bonuses.

Short-Term Incentive Plans
There are two short-term variable incentive plans that operate with specific participation determined by whether the employee is a member of the investment analyst team or otherwise. A member of the investment analyst team is defined as anyone that researches stocks and provides stock selection services. The plans are discussed below.

Investment Analyst Plan
Each portfolio manager/analyst has pre-defined weightings set by the Managing Director and ratified by the Remuneration Committee. These weightings are applied to three tiered elements of investment performance within the investment funds of the Platinum Trust.

(a) Performance of the main funds, usually the Platinum International Fund and calculated on a one-year and three-year performance versus the MSCI Index, where performance must be greater than 0% and there are pre-determined relative performance difference hurdles to beat.

(b) Performance of the individual analyst's stocks within the main funds, usually Platinum International Fund or Platinum Asia Fund calculated on a one year or three year relative performance versus the applicable MSCI benchmark and dollars invested, where performance must be greater than 5% and there are pre-determined relative performance difference hurdles to beat.

(c) Performance of the analyst's own stocks within a portfolio of stocks calculated on a one year and three year relative performance versus the relative sector benchmark, where performance must be greater than 5% and there are set relative performance difference hurdles to beat.

General Employee Plan
For all other employees, performance is assessed against pre-determined operational benchmarks relevant to each employee as assessed by the Executives of the Platinum Group and ratified by the Remuneration Committee. The bonus pool is dependent upon the overall performance of the consolidated entity during the year.

Impact of these Plans on the Executives
The bonus of Andrew Clifford was determined according to the Investment Analyst Plan. The bonus of Philip Howard was determined according to the General Employee Plan.

Kerr Neilson continues to waive his right to receive a bonus. This has been ratified by the Remuneration Committee.

Long-Term Incentive Plans
The Platinum Group has two long-term incentive plans in place, which are discussed below.

Options and Performance Rights Plan (OPRP)
In 2007, the Platinum Group established an Options and Performance Rights Plan (OPRP). Options were only granted to certain highly skilled staff based on their specific and unique skill set within the funds management industry. Performance rights were also granted to staff members. The purpose of the OPRP was to provide these staff members with an incentive to remain at Platinum for the duration of the vesting period of four years continuous employment from the date the options and performance rights were granted.

DIRECTORS' REPORT
CONTINUED

Should a staff member cease employment at any time prior to the vesting of these options or performance rights, then all options or performance rights granted are cancelled.

All options have a four year vesting period, and once vested, have a two year exercise period. Options were granted to staff under this plan in 2007 and 2009. Performance rights had a three year vesting period and once vested, had a further two year exercise period. Performance rights were only granted in 2007.

In order to exercise the option, the staff member must pay the exercise price ($5 per option for the 2007 grant or $4.50 per option for the 2009 grant). The consolidated entity does not provide loans to any KMP or staff member to exercise their options. In addition, no KMP have margin loans secured over the Company's shares. The strike price for the performance rights is $nil. No KMP has ever received performance rights.

Directors or KMP do not receive and have never received any dividends on unvested or unexercised options.

No terms of the OPRP have been changed or modified during the reporting period.

Fund Appreciation Rights Plan (FARP)
The Group established a Fund Appreciation Rights Plan (FARP) on 1 April 2009 to assist with the retention and motivation of the Group's investment analysts. Under the FARP, short-term incentives over a limit of approximately 200% of base pay may be converted to notional investments in Platinum Trust Funds that are intended to align the interest of the analyst with the shareholder in deriving greater value over time. The operation of the FARP is explained in Note 6.

Andrew Clifford is eligible to participate in the FARP, but has never had any Fund Appreciation Rights granted to him.

Actual Remuneration Outcomes for Executives

The table below presents the remuneration received by the Executives of the consolidated entity.

NAME	CASH SALARY $	OTHER[1] $	SHORT-TERM INCENTIVES BONUS[2] $	LONG-TERM INCENTIVES RECEIVED OR EXERCISED[3] $	TOTAL $
Kerr Neilson					
FY 2012[5]	400,000	48,062	–	–	448,062
FY 2011[5]	400,000	17,081	–	–	417,081
Philip Howard					
FY 2012[4]	400,000	35,814	244,000	–	679,814
FY 2011 (appointed 31 March 2011)	100,000	47,556	257,500	–	405,056
Andrew Clifford					
FY 2012	350,000	15,248	170,000	–	535,248
FY 2011	350,000	10,196	177,000	–	537,196
Total remuneration					
FY 2012	1,150,000	99,124	414,000	–	1,663,124
FY 2011	850,000	74,833	434,500	–	1,359,333

(1) Includes superannuation and the movement in the provision for annual and long service leave.
(2) See the Short-Term Incentive Plan section above for further details.
(3) See the Long-Term Incentive Plan section above for further details. No Executive exercised any options or received any Fund Appreciation Rights in 2012 or 2011.
(4) For the 2011 (prior) year, Philip Howard's base salary has been disclosed as $100,000, as this represents what he was paid for the three months between the date of his appointment as a Director on 31 March 2011 and 30 June 2011. The equivalent annualised figure is $400,000 and this is what he was paid in 2012 as he was a Director for the full year.
(5) The Managing Director, Kerr Neilson, waived his right to receive a bonus and this has been ratified by the Remuneration Committee.

The actual remuneration outcomes in the above table are not based on the disclosure requirements of the accounting standards. However, the table on the following page presents remuneration measured in accordance with the accounting standards.

DIRECTORS' REPORT
CONTINUED

Details of remuneration of Executives presented in accordance with accounting standards

The table below presents the remuneration provided by the consolidated entity to the Executives of the consolidated entity, in accordance with accounting standards.

NAME	CASH SALARY $	OTHER[(1)] $	SHORT-TERM INCENTIVES BONUS[(2)] $	POST-EMPLOYMENT BENEFITS SUPER-ANNUATION $	SHARE-BASED PAYMENTS[(3)] $	TOTAL $
Kerr Neilson						
FY 2012[(5)]	400,000	32,287	–	15,775	–	448,062
FY 2011[(5)]	400,000	1,882	–	15,199	–	417,081
Philip Howard						
FY 2012[(4)]	400,000	20,039	244,000	15,775	243,359	923,173
FY 2011 (appointed 31 March 2011)	100,000	43,756	257,500	3,800	396,594	801,650
Andrew Clifford						
FY 2012	350,000	(527)	170,000	15,775	1,091,795	1,627,043
FY 2011	350,000	(5,003)	177,000	15,199	1,091,795	1,628,991
Total remuneration						
FY 2012	1,150,000	51,799	414,000	47,325	1,335,154	2,998,278
FY 2011	850,000	40,635	434,500	34,198	1,488,389	2,847,722

(1) Represents the increase/(decrease) in the provision for annual and long service leave.

(2) See the Short-Term Incentive Plan note above for further details.

(3) See the Long-Term Incentive Plan note above for further details. The amounts shown in the share-based payments column represent the accounting fair value amortisation cost to the consolidated entity for the year. This does not represent the actual value or benefit received by the Executive during the year, which was $nil, as no Executive exercised any options or received any Fund Appreciation Rights.

(4) For the 2011 (prior) year, Philip Howard's base salary has been disclosed as $100,000, as this represents what he was paid for the three months between the date of his appointment as a Director on 31 March 2011 and 30 June 2011. The equivalent annualised figure is $400,000 and this is what he was paid in 2012 as he was a Director for the full year.

(5) The Managing Director, Kerr Neilson, waived his right to receive a bonus and this has been ratified by the Remuneration Committee.

Components of Remuneration

The table below illustrates the relative proportions of fixed and variable remuneration as a percentage of total remuneration extrapolated from the "Details of remuneration of Executives presented in accordance with accounting standards" table on the previous page. We have included as part of "variable remuneration", the accounting cost relating to share-based payments as per the requirements prescribed in the *Corporations Law Regulations*. We note that these share-based payments in the form of options were granted in 2007 and 2009 and remain "out of the money" and as a result have not resulted in any actual benefit or remuneration payment to the Executives.

NAME	FIXED REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION(1)	VARIABLE REMUNERATION AS A PERCENTAGE OF TOTAL REMUNERATION(2)
Kerr Neilson		
FY 2012	100%	0%
FY 2011	100%	0%
Philip Howard(3)		
FY 2012	47%	53%
FY 2011 (appointed 31 March 2011)	18%	82%
Andrew Clifford		
FY 2012	22%	78%
FY 2011	22%	78%

(1) Fixed remuneration refers to salary, superannuation and provisions made for annual and long service leave.

(2) Variable remuneration refers to bonuses received and the accounting cost relating to share-based payments.

(3) Philip Howard was appointed as Finance Director and Company Secretary on 31 March 2011. He received $100,000 as salary between the date of appointment and 30 June 2011. His bonus of $257,500 is disclosed as KMP remuneration, as it was received after his appointment as a KMP. The bonus itself relates to performance for the period before being appointed a KMP.

DIRECTORS' REPORT
CONTINUED

Options and Performance Rights Plan (OPRP)

The table below provides details of options that were granted to the Executives in 2007 and/or 2009 and details about any options that have vested.

NAME	GRANT DATE	NO. OF OPTIONS GRANTED	FAIR VALUE PER OPTION (ROUNDED) ($)	FAIR VALUE AT GRANT DATE[1] ($)	VESTING DATE	EXPIRY DATE	NO. OF OPTIONS VESTED	NO. OF OPTIONS EXERCISED	ACCOUNTING EXPENSE[2] ($)
Kerr Neilson	N/A	Nil	Nil	Nil	N/A	N/A	Nil	Nil	Nil
Philip Howard	22/05/07	841,500	0.82	688,263	22/05/11	22/05/13	841,500	Nil	Nil
	17/06/09	856,898	1.14	973,436	17/06/13	17/06/15	Nil	Nil	243,359
Andrew Clifford	17/06/09	3,844,350	1.14	4,367,181	17/06/13	17/06/15	Nil	Nil	1,091,795
Vested				688,263			841,500		
Outstanding (unvested)				5,340,617			4,701,248		

(1) Independently determined using an appropriate option pricing model, in accordance with AASB 2: *Share-Based Payments*. For further details, refer to accounting policy note 1(m).

(2) Relates to instances where the options vest over a number of years and some of the vesting period fell in 2012. Under the accounting standards, we are required to show the portion of the expense relating to 2012. The amount expensed for accounting purposes was not received by the Executives during the year.

No options were granted to, or exercised by, any of the Executives during the year, or since year end.

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 the Non-Executive Directors.

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at a general meeting in April 2007, is $2 million per annum (including superannuation).

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.

Principles, Policy and Components of Non-Executive Directors' 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 payments that are made in accordance with legislative requirements. 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.

DIRECTORS' REPORT
CONTINUED

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 $
Michael Cole					
FY 2012	200,000	15,775	–	–	215,775
FY 2011	200,000	15,199	–	–	215,199
Margaret Towers					
FY 2012	175,000	15,775	–	–	190,775
FY 2011	175,000	15,199	–	–	190,199
Bruce Coleman					
FY 2012	175,000	15,775	–	–	190,775
FY 2011	175,000	15,199	–	–	190,199
Total Non-Executive remuneration					
FY 2012	550,000	47,325	–	–	597,325
FY 2011	550,000	45,597	–	–	595,597

Employment Arrangements

The key aspects of the KMP contracts are outlined below:

- Remuneration and other terms of employment for Non-Executive Directors are formalised in service agreements. Remuneration and other terms of employment for Executives are formalised in employment contracts with Platinum Investment Management Limited.
- All contracts (both Executive and Non-Executive) 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 entitled to receive their statutory leave entitlements and superannuation benefits. In relation to incentive plans, upon termination, where an Executive resigns, short-term incentives are only paid if the Executive is employed at the date of payment. The Board retains discretion to make pro-rated short-term incentive payments in special circumstances, such as retirement.

	2012	2011	2010	2009	2008[3]
Link between performance and remuneration paid by the consolidated entity					
Revenue ($'000)	226,727	264,619	248,355	219,484	283,131
Expenses ($'000)	47,279	50,863	49,963	38,072	44,430
Operating profit/(loss) after tax ($'000)	126,378	150,059	136,852	126,145	161,952
Basic earnings per share (cents per share)	22.51	26.73	24.39	22.49	28.87
Dividends (cents per share)	21	25	22	20	24
Closing share price ($) (30 June)	3.89	4.12	4.68	4.12	3.11
Total aggregate fixed remuneration paid ($)[1]	1,794,650	1,845,820	1,736,766	1,732,469	1,728,774
Total aggregate variable remuneration paid ($)[2]	414,000	434,500	630,000	–	–

(1) Aggregate fixed remuneration refers to the aggregate total of salaries and superannuation paid to all Executive and Non-Executive Directors. Included in the aggregate fixed remuneration paid for 2008 to 2011 is remuneration paid to Malcolm Halstead, who retired as a Director in March 2011.

(2) Total aggregate variable remuneration paid includes short-term incentives but excludes the accounting cost relating to share-based payments. No variable compensation was paid prior to 2010 as the Investment Analyst Plan was only established in 2010.

(3) 2008 represented the first full year that the Company operated after the float of the Company in May 2007.

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:

	2012 QUANTITY
Michael Cole	300,000
Bruce Coleman	200,000
Margaret Towers	20,000
Kerr Neilson	322,074,841
Philip Howard	104,281

No Director bought or sold shares during the year.

DIRECTORS' REPORT
CONTINUED

Directors' Interests in Contracts

The Directors receive remuneration and dividends that are ultimately derived from the net income arising from Platinum Investment Management Limited's investment management contracts.

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.

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

Michael Cole
Chairman

Kerr Neilson
Director

Sydney, 16 August 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead Auditor for the audit of Platinum Asset Management Limited and its controlled entities for the year ended 30 June 2012, 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 Asset Management Limited and its controlled entities during the period.

A J Loveridge

Partner

PricewaterhouseCoopers

Sydney, 16 August 2012

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CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement provides a summary of the main corporate governance practices adopted by the Board, and exercised throughout the year, for Platinum Asset Management Limited ABN 13 050 064 287 (the "Company").

The Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* ("Governance Principles"), except where indicated.

Company policies, charters and codes referred to in this Statement are provided in the "Shareholder Corporate Governance" section of the Company's website at www.platinum.com.au ("Company's website").

The Company and its controlled entities together are referred to as "the Group" in this Statement.

1. The Board of Directors

Members: M Cole (Chair), B Coleman, M Towers, K Neilson and P Howard.

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

1.1 Role of the Board

The role of the Board is to oversee the activities of the Executive Directors, ensuring the Company operates in compliance with its regulatory environment and good corporate governance practices are adopted.

1.2 Responsibilities of the Board

The principal responsibilities of the Board include:

- considering and approving the strategy of the Company;
- monitoring the performance and financial position of the Company;
- overseeing the integrity of the Group's financial accounts and reporting;
- monitoring for significant risks to the Company;
- appointing and reviewing the performance of the Managing Director;
- appointing the Chair and Board Committee members;
- assessing the performance of Management and itself;
- reviewing the operations and findings of the Company's risk management, compliance and control frameworks;
- monitoring the Company's compliance with regulatory, legal and ethical standards;

- considering the diversity in the workplace; and
- considering and approving key policies of the Company (including the business rules of conduct).

1.3 Structure of the Board

The Board currently comprises five Directors: three Non-Executive Directors (M Cole, B Coleman and M Towers) and two Executive Directors (K Neilson and P Howard).

Details on the background, experience and professional skills of each Director are set out on pages 15 to 16 of the Directors' Report.

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

The Chair is responsible for leading the Board, ensuring that the Board's activities are organised and efficiently conducted and ensuring Directors are properly briefed for meetings.

The Managing Director is responsible for the management and operation of the Company. Those powers not specifically reserved to the Board under its Charter, and which are required for the management and operation of the Company, are conferred on the Managing Director.

1.4 Director Independence

The Non-Executive Directors of the Company have been assessed as independent. In reaching its decision, the Board has taken into account the factors outlined below.

The Board regularly assesses the independence of each Director. For this purpose, 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.

Directors must disclose any person 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. Each Director is involved with other companies or professional firms that may from time to time have dealings with the Company.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

Details of offices held by Directors with other organisations are set out on pages 15 to 16 of the Directors' Report. Full details of related party dealings are set out in the notes to the Company's accounts as required by law.

In assessing whether Directors are independent, the Board takes into account (in addition to the matters set out above):
- the specific disclosures made by each Director as referred to above;
- where applicable, the related party dealings referrable to each Director, noting whether those dealings are "material";
- whether a Director is (or is associated directly with) a substantial shareholder of the Company;
- whether the Director has ever been employed by the Group;
- whether the Director is (or is associated with) a "material" professional adviser, consultant, supplier, or customer of the Group; and
- whether the Director personally carries on any role for the Group 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 a 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.

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

1.5 Selection and Appointment of Directors
Recommendation 2.4 of the Governance Principles provides that "[t]he Board should establish a nomination committee".

Given the size of the Company and the Board, 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.

When evaluating, selecting and appointing Directors, the Board considers:
- the candidate's competencies, qualifications and expertise 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.

1.6 Access to Information and Independent Advice
All Directors have unrestricted access to records and information of the Group.

Non-Executive Directors receive regular updates and reports from Management.

The Board of Directors' Charter provides that the Directors may (in connection with their duties and responsibilities) 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.

1.7 Performance Assessment
The Board of Directors' Charter requires:
- the Board to review its performance (at least annually) against previously agreed measurable and qualitative indicators;

CORPORATE GOVERNANCE STATEMENT
CONTINUED

- 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.

These assessments were undertaken.

As a result of these assessments, the Board may implement changes to improve the effectiveness of the Board and corporate governance structures.

2. Board Committees
The Board has established a number of committees to assist in the execution of its duties and (from time to time) to deal with matters of special importance.

Each Committee operates under an approved Charter.

2.1 Audit Committee
Members: M Towers (Chair), M Cole and B Coleman.

The purpose of the 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 the financial information presented by Management;
- consider the adequacy and effectiveness of the Company's administrative, operating and accounting controls as a means of ensuring the Company's affairs are being conducted by Management in compliance with legal, regulatory and policy requirements;
- review any significant compliance issues affecting the Company and monitor actions taken by management;
- review recommendations from the Finance Director and/or external Auditor on key financial and accounting principles to be adopted by the Company; and
- recommend to the Board the appointment of external auditors and monitor the conduct of audits.

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

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

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

Attendance at Committee meetings is provided in the Directors' Report on page 16.

2.2 Remuneration Committee
Members: B Coleman (Chair), M Cole and M Towers.

The Committee advises the Board on remuneration and incentive policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Members of the Remuneration Committee have access to the Company's officers and advisers and may consult independent experts, where the Committee considers it necessary to carry out its duties.

Attendance at Remuneration Committee meetings is provided in the Directors' Report on page 16.

Remuneration Policies
Remuneration for the Executive Directors consists of salary, bonuses or other elements. Any equity-based remuneration for Executive Directors will be subject to shareholder approval, where required by law or ASX Listing Rules.

Remuneration for Non-Executive Directors must not exceed in aggregate a maximum sum that shareholders fix in a general meeting. The current maximum aggregate amount fixed by shareholders is $2 million per annum (including superannuation contributions). This amount was fixed by shareholders at the 10 April 2007 general meeting.

Executive and Non-Executive Directors may also be reimbursed for their expenses properly incurred as Directors.

Further information is provided in the Remuneration Report.

Remuneration Paid
Remuneration paid to the Executive and Non-Executive Directors for the 2011/2012 reporting year is set out on pages 21 to 27 of the Directors' Report.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

3. 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 Auditor in 2007. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every five years.

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 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.

4. Company Policies

4.1 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.

4.2 Trading in Company Securities

All Directors and staff of the Group must comply with the Company's Trading Policy.
In summary, the policy prohibits trading in Company securities:

- when aware of unpublished price-sensitive information;
- from the first day of the month until announcement of the Company's monthly funds under management figure to the ASX;
- from 1 January (each year) until announcement of the Company's half-yearly financial results to the ASX;
- from 1 July (each year) until announcement of the Company's annual financial results to the ASX; and
- during any other black-out period (as notified).

Directors and staff are prohibited from entering into transactions in associated products that operate to limit the economic risk of holding Platinum Asset Management Limited shares over unvested entitlements.

4.3 Financial Reporting

In respect of the year ended 30 June 2012, the Managing Director and Finance Director have made the following certifications to the Board:

- 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 the Group 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.

4.4 Continuous Disclosure

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.

4.5 Shareholder Communication

The Board has adopted a Communications Plan that describes the Board's policy for ensuring that 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 Financial 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.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

4.6 Risk Management and Compliance
The Board, through the Audit Committee, is responsible for ensuring that:
– there are effective systems in place to identify, assess, monitor and manage the risks of the Company; and
– internal controls and arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

The Group has implemented risk management and compliance frameworks based on AS/NZS ISO 31000:2009 *Risk Management – Principles and Guidelines* and AS 3806-2006 *Compliance Programs*. These frameworks (together with the Group'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 laws (applicable to the Company) and the Group's policies (including business rules of conduct) is communicated and demonstrated.

Management reports periodically to the Audit Committee and the Board on the effectiveness of the Group's risk management and compliance frameworks.

4.7 Business Rules of Conduct
Platinum's Business Rules of Conduct ("BROC") apply to all staff of the Group. They communicate the appropriate standards of behaviour, provide a framework for the workplace, and inform staff of their responsibilities with respect to legal compliance, confidentiality and privacy, conflicts of interest, investment activities and operational processes.

Compliance is monitored by the Compliance team. All employees are required to sign an annual declaration confirming their compliance with the BROC and the Group's policies.

4.8 Diversity

The Company promotes a culture of equal opportunity and has the principles of meritocracy, fairness, equality and contribution to commercial success at all levels within the Company. The Company recognises and values the blend of skills, perspectives, styles and attitudes available to the Company through a diverse workforce. Different perspectives in the investment selection process and stronger problem-solving capabilities flow from a diverse workforce.

Workplace diversity in this context includes, but is not limited to, gender, age, ethnicity and cultural background.

Workplace flexibility involves developing people management strategies that accommodate differences in background, perspectives and family responsibilities of staff.

The Board has developed the following objectives:

- to provide maximum flexibility to all staff members;
- to include in the interview process for vacant positions at Platinum Asset Management, a diversified group (including gender diversity) of staff;
- to include in the interview process for vacant positions on the Company Board, a diversified group of Board members;
- to only utilise recruitment firms that have in place a written diversity policy with respect to their hiring practices that demonstrates their ongoing commitment to meeting our diversity objectives;
- to provide training opportunities with the aim of bringing through the underlying potential of staff;
- to review annually salaries for pay equity and against prevailing market benchmarks for existing and new staff;
- to assess annually these objectives and the progress toward achieving them through Board review; and
- to establish a diversity committee comprising representatives from each business area. The diversity committee will meet periodically. The diversity committee will monitor progress on Board-recommended diversity strategies and make recommendations to the Board for further diversity opportunities at least annually. The diversity committee will review this policy annually.

CORPORATE GOVERNANCE STATEMENT
CONTINUED

4.9 Diversity Statistics

DIVERSITY CRITERIA	PLATINUM (%)	AUSTRALIA (%)
Women on the Board	20.0 (1 of 5)	14.3[1]
Women in senior executive positions	0.0	8.0[2]
Women in the workforce	35.0 (28 of 80)	45.6[3]
Women in line roles	20.0 (3 of 15)	4.1[4]
Women employed on a part-time basis	46.4 (13 of 28)	20.5[5]
Workforce over 55 years of age	6.3 (5 of 80)	16.9[6]
Workforce made up of people born outside of Australia	40.0 (32 of 80)	9.1[7]
Workforce made up of people with tertiary qualifications	80.0 (64 of 80)	28.5[8]
Workforce made up of people identified as Aboriginal or Torres Strait Islander people	0.0	1.8[9]

(1) Australian Institute of Company Directors, June 2012
(2) Equal Opportunity for Women in the Workplace Agency ("EOWA"), Australian Census of Women in Leadership 2010, Women Executive Key Management Personnel
(3) EOWA Gender Statistics at a glance, April 2012
(4) EOWA Gender Statistics at a glance, April 2012
(5) EOWA Gender Statistics at a glance, April 2012
(6) Australian Bureau of Statistics ("ABS"), Cat. 6291.0.55.001, Labour Force, Australia, April 2012
(7) ABS, Cat. 3416.0, Perspectives on Migrants, November 2011
(8) ABS, Cat. 6227.0, Education and Work, Australia, May 2011
(9) ABS Cat 4704.0 The Health & Welfare of Aust. Aboriginal and Torres Strait Islander people 2008

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $'000	2011 $'000
Income			
Management fees		**204,133**	236,021
Performance fees		**247**	5,638
Administration fees		**10,627**	11,866
Interest		**11,891**	11,940
Net (losses) on financial assets at fair value through profit or loss		**(280)**	(552)
Net gains/(losses) on foreign currency contracts		**4**	(8)
Net gains/(losses) on foreign currency bank accounts		**70**	(416)
Other investments		**35**	130
Total income		**226,727**	264,619
Expenses			
Staff		**20,748**	19,997
Custody and unit registry		**10,476**	12,155
Business development		**4,264**	4,473
Share-based payments	6	**3,205**	5,975
Technology		**1,633**	1,641
Rent and other occupancy		**1,598**	1,493
Research		**1,467**	1,490
Good value claims		**782**	19
Other professional		**639**	667
Depreciation		**580**	493
Legal and compliance		**470**	1,004
Share registry		**383**	405
Miscellaneous		**381**	402
Statutory audit fee	17	**278**	255
Mail house		**252**	263
Periodic reporting		**123**	131
Total expenses		**47,279**	50,863
Profit before income tax expense		**179,448**	213,756
Income tax expense	2(a)	**53,070**	63,697
Profit after income tax expense		**126,378**	150,059
Other comprehensive income		**–**	–
Total comprehensive income for the year		**126,378**	150,059
Basic earnings per share (cents per share)	8	**22.51**	26.73
Diluted earnings per share (cents per share)	8	**22.51**	26.32

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

	NOTE	2012 $'000	2011 $'000
Current assets			
Financial assets at fair value through profit or loss		**1,882**	7,468
Cash and cash equivalents	12(a)	**11,879**	232,761
Term deposits		**225,713**	813
Trade receivables		**18,645**	21,114
Interest receivable		**2,620**	1,823
Prepayments		**865**	1,112
Total current assets		**261,604**	265,091
Non-current assets			
Deferred tax assets	2(b)	**1,369**	1,506
Fixed assets	3	**2,318**	2,421
Total non-current assets		**3,687**	3,927
Total assets		**265,291**	269,018
Current liabilities			
Payables	4	**4,706**	5,216
Current tax payable		**11,431**	14,653
Provisions	5	**2,179**	1,704
Total current liabilities		**18,316**	21,573
Non-current liabilities			
Deferred tax liabilities	2(c)	**458**	687
Provisions	5	**18**	50
Total non-current liabilities		**476**	737
Total liabilities		**18,792**	22,310
Net assets		**246,499**	246,708
Equity			
Contributed equity	7(a)	**629,091**	629,091
Reserves	7(b)	**(564,628)**	(567,151)
		64,463	61,940
Retained profits	9	**182,036**	184,768
Total equity		**246,499**	246,708

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	CONTRIBUTED EQUITY $'000	RESERVES $'000	RETAINED PROFITS $'000	TOTAL $'000
Balance at 1 July 2010		**629,091**	**(573,126)**	**169,433**	**225,398**
Total comprehensive income for the year		–	–	150,059	150,059
Transactions with equity holders in their capacity as equity owners:					
Share-based payments	7(b)	–	5,975	–	5,975
Dividends paid	10	–	–	(134,724)	(134,724)
Balance at 30 June 2011		**629,091**	**(567,151)**	**184,768**	**246,708**
Total comprehensive income for the year		–	–	126,378	126,378
Transactions with equity holders in their capacity as equity owners:					
Share-based payments	7(b)	–	2,523	–	2,523
Dividends paid	10	–	–	(129,110)	(129,110)
Balance at 30 June 2012		**629,091**	**(564,628)**	**182,036**	**246,499**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	2012 $'000	2011 $'000
Cash flow from operating activities			
Interest received		**11,095**	13,178
Receipts from operating activities		**217,656**	253,987
Payments for operating activities		**(44,185)**	(50,724)
Income taxes paid		**(56,385)**	(63,959)
Cash flow from operating activities	12(b)	**128,181**	152,482
Cash flow from investing activities			
Receipts from sale of investments		**8,417**	4,067
Payments for purchases of investments		**(3,085)**	(11,420)
Purchase of fixed assets		**(486)**	(367)
Proceeds on maturity of term deposits		**198,625**	194,940
Purchases of term deposits		**(423,525)**	(1,625)
Cash flow from investing activities		**(220,054)**	185,595
Cash flow from financing activities			
Dividends paid		**(129,057)**	(134,646)
Cash flow from financing activities		**(129,057)**	(134,646)
Net increase/(decrease) in cash and cash equivalents		**(220,930)**	203,431
Cash and cash equivalents held at the beginning of the financial year		**232,761**	29,758
Effects of exchange rate changes on cash and cash equivalents		**48**	(428)
Cash and cash equivalents held at the end of the financial year	12(a)	**11,879**	232,761

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

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

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 includes the financial statements for Platinum Asset Management Limited as a consolidated entity, consisting of Platinum Asset Management Limited and its subsidiaries. The *Corporations Amendment (Corporate Reporting Reform) Act 2010* provides entities that present consolidated financial statements with the option of not having to present separate parent entity financial statements (and instead present key financial disclosures relating to the parent entity in a separate note to the accounts). The parent entity financial disclosures have been prepared based on the same accounting policies used to prepare the consolidated financial report, with the exception of investments in subsidiaries. The financial report was authorised for issue by the Directors of the Company on 16 August 2012. The Directors have the power to amend the financial statements after issue.

(a) Basis of Preparation
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* in Australia. 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.

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

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates and judgements, which are included below.

(b) Principles of Consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by Platinum Asset Management Limited (the "Company") and the results of all controlled entities for the year ended 30 June 2012. Platinum Asset Management Limited and its subsidiaries together are referred to in this financial report as "the consolidated entity" or "Group".

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(b) Principles of Consolidation CONTINUED

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of voting rights. The existence or effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Where control of an entity is obtained during the financial year, its results are included in the consolidated Balance Sheet from the date control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which control existed.

The effects of all transactions between entities in the consolidated entity are eliminated in full. Accounting policies of various companies within the consolidated entity have been changed to ensure consistency with those policies adopted by the consolidated entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Comprehensive Income and Balance Sheet. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The Group's policy is to treat transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from minority interests the difference between any consideration paid and the relevant share acquired of the carrying net assets of the subsidiary is deducted from equity.

(c) 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 unused tax losses.

Under AASB 112: *Income Taxes*, deferred tax balances are determined using the Balance Sheet method that calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. Deferred tax assets are recognised as deductible temporary differences if it is probable that future taxable amounts will be available to utilise those temporary differences.

1. Summary of Significant Accounting Policies CONTINUED

(c) Income Tax CONTINUED

Tax Consolidation Legislation

In accordance with the (Australian) *Income Tax Assessment Act 1997*, Platinum Asset Management Limited is the head entity of the tax consolidated group that includes Platinum Asset Management Limited, Platinum Asset Pty Limited, Platinum Investment Management Limited and McRae Pty Limited.

Any current tax liabilities of the consolidated group are accounted for by Platinum Asset Management Limited. Current tax expense and deferred tax assets and liabilities are determined on a consolidated basis and recognised by the consolidated entity. In June 2010, the Australian Taxation Office declared that the consolidated group is an Offshore Banking Unit (OBU) under Australian Taxation Law. This allows the consolidated group to apply a concessional tax rate of 10% to net income it derives offshore. The concession was applied from 1 July 2010.

(d) Financial Assets at Fair Value through Profit or Loss

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the Balance Sheet as "financial assets at fair value through profit or loss". These financial assets, that represent investments in unlisted related party unit trusts, are initially recognised at fair value.

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 in which they arise. An assessment is made at the end of each reporting period of whether there is objective evidence that a financial asset is impaired.

(e) Transaction Costs

Initial measurement (cost) on acquisition 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 as incurred.

(f) Foreign Currency Translation

The functional and presentation currency of the consolidated entity in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* is 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 exchange rates prevailing at balance date. Resulting exchange differences are brought to account in determining profit and loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(g) Revenue Recognition

Management, Administration and Performance Fees

Management, Administration and Performance fees are included as part of operating income and are recognised as they are earned. The majority of management fees are derived from the Platinum Trust Funds. This fee is calculated at 1.44% per annum (GST inclusive) of each Fund's daily Net Asset Value and is payable monthly. A Performance fee is recognised as income at the end of the fee period to which it relates, when the Group's entitlement to the fee becomes certain.

Interest Income

Interest income is recognised in the Statement of Comprehensive Income based on the nominated interest rate available on the bank accounts and term deposits held.

Dividend Income

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

(h) Directors' Entitlements

Liabilities for Directors' entitlements to fees are accrued at nominal amounts calculated on the basis of current fees rates.

Contributions to Directors' superannuation plans are charged as an expense as the contributions are paid or become payable.

(i) Cash and Cash Equivalents

In accordance with AASB 107: *Statement of Cash Flows*, cash includes deposits at call and cash at bank that are used to meet short-term cash requirements. Cash equivalents includes short-term deposits of three months or less from the date of acquisition that are readily convertible into cash. Cash and cash equivalents at the end of the financial year, as shown in the Statement of Cash Flows, are reconciled to the related item in the Balance Sheet.

At 30 June 2012, nearly all of the Group's term deposits have maturities of more than three months from the date of acquisition. Under AASB 107, deposits that have maturities of more than three months are not included as part of "cash and cash equivalents" and have been disclosed separately in the Balance Sheet. All term deposits are held with licensed Australian banks.

Receipts from operating activities include management, administration and performance fees receipts. Payments for operating activities include payments to suppliers and employees.

1. Summary of Significant Accounting Policies CONTINUED

(j) Receivables

All receivables are recognised when a right to receive payment is established.

Debts that are known to be uncollectible are written off.

(k) Payables

All payables and trade creditors are recognised as and when the Group becomes liable.

(l) Provision for Employee Entitlements

A provision for employee entitlements is recognised by the Group when there is an obligation to the employee. This is consistent with the legal position of the parties to the employment contract. Provision for employee entitlements to salaries, salary-related costs, annual leave and sick leave are accrued at nominal amounts calculated on the basis of current salary rates. Provision for long service leave that are not to be paid or settled within 12 months of balance date, are accrued at the present values of future payments. Contributions to employee superannuation plans are charged as an expense as the contributions are paid or become payable.

(m) Share-Based Payments

The Group operates share-based remuneration plans that may include the granting of options and performance rights. The Group also operates a Fund Appreciation Rights Plan (FARP) whereby it may purchase shares in Platinum Asset Management Limited on behalf of employees, if the employee satisfies, principally, a time-based vesting condition. The value of shares that may be purchased under the FARP will be equivalent to a notional value in the Platinum Trust Funds, notionally allocated to employees and adjusted for the accumulated performance of the Funds over the vesting period.

Options, performance rights or fund appreciation rights are granted to some employees of the Company's operating subsidiary, Platinum Investment Management Limited.

Details relating to share-based payments are set out in Note 6.

AASB 2009-8: *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions* (AASB 2) addresses whether certain types of share-based payment transactions should be accounted for as equity-settled or as cash-settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The Group applies this Standard with the impact that the expense related to grants made during the year is recognised in the employing entity.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(m) Share-Based Payments CONTINUED

The fair value of share-based payments granted is recognised in the consolidated accounts as an expense with a corresponding increase in equity. The fair value is measured at grant date and amortised on a straight-line basis over the period that the employees become unconditionally entitled to the share.

For options and performance rights, the fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option or right, the impact of dilution, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the options or performance rights.

For any shares to be purchased under the FARP on behalf of employees, the fair value is measured based on the notional investment in the Platinum Trust Funds. The fair value is subsequently amortised on a straight-line basis over the applicable vesting period. The amount to be expensed is adjusted at each balance date to reflect the estimated number of shares that are expected to vest based on the accumulated investment performance of the underlying Platinum Trust Funds.

At each balance date, the Group revises its estimates of the number of options (and performance rights) exercisable and shares to be purchased on behalf of employees. The share-based payments expense recognised each period takes into account the most recent estimate. The impact of any revision to the original estimate (e.g. forfeitures) will be recognised in the Statement of Comprehensive Income with the corresponding adjustment to equity.

(n) Contributed Equity

Ordinary shares are classified as equity.

(o) Earnings per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the profit attributable to equity holders by the weighted average number of shares outstanding during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the weighted average number of shares used to determine basic earnings per share to take into account options and performance rights issued, but not exercised, under the Options and Performance Rights Plan (OPRP) (see Note 8).

1. Summary of Significant Accounting Policies CONTINUED

(p) Depreciation

Fixed assets are stated at historical cost less depreciation. Fixed assets (other than in-house software) are depreciated over their estimated useful lives using the diminishing balance method.

The expected useful lives are as follows:

Computer Equipment	4 years
Software	2.5 years
In-house Software	4 years
Communications Equipment	4 – 20 years
Office Fit Out	5 – 13⅓ years
Office Furniture and Equipment	5 – 13⅓ years

Gains and losses on disposals are included in the Statement of Comprehensive Income.

(q) Operating Leases

Platinum Investment Management Limited has entered into a lease agreement for the premises it occupies and pays rent on a monthly basis. Payments made under the operating lease are charged to the Income Statement. Details of the financial commitments relating to the lease are included in Note 16.

(r) Rounding of Amounts

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

(s) Goods and Services Tax (GST)

Revenue, expenses, receivables and payables are recognised net of the amount of 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.

Cash flows are presented on a gross basis.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(t) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. The Company's and consolidated entity's assessment of the impact of these new standards and interpretations are set out below:

(i) AASB 10: *Consolidated Financial Statements* and revised AASB 127: *Separate Financial Statements* (effective 1 January 2013).

AASB 10 replaces all of the guidance on control and consolidation stipulated in AASB 127: *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The consolidated entity does not expect the new standard to have an impact on its composition. The Standard will not have any impact on the Company or consolidated entity's financial statements.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Company or consolidated entity will not affect any of the amounts recognised in the financial statements.

The Company or consolidated entity does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements from the annual reporting period beginning 1 July 2013.

(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 or consolidated entity has yet to determine if 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 should not have a

1. Summary of Significant Accounting Policies CONTINUED

(t) New Accounting Standards and Interpretations CONTINUED

significant impact on the type of information disclosed in the notes to the financial statements. The Company or consolidated entity does not intend to adopt the new standard before its operative date, which is the annual reporting period beginning 1 July 2013.

(iii) AASB 9: *Financial instruments* and AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) (effective for annual periods beginning on or after 1 January 2015).

AASB 9: *Financial Instruments* provides revised guidance on the classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements of AASB 139 in respect of financial assets. The Standard contains two primary measurement categories of financial assets: amortised cost and fair value. The standard eliminates the existing AASB 139 categories of held to maturity, available for sale and loans and receivables. Equity instruments will be measured at fair value with fair value changes in traded equity investments taken to the profit or loss. The standard would not have a significant impact on the Company or consolidated entity as its equity instruments are already recognised at fair value. The Company and consolidated entity will apply the revised standard from 1 July 2015.

(iv) Revised AASB 119: *Employee Benefits*, AASB 2011-10: *Amendments to Australian Accounting Standards arising from AASB 119* (September 2011) and AASB 2011-11: *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective for annual periods beginning on or after 1 July 2013).

The revised standard introduces a number of changes to the accounting of employee benefits. The change of relevance to the Company or consolidated entity is that the classification and measurement for all employee benefits, within the short-term and other long-term employee benefit categories will be revised so that the distinction between the two will depend on whether the entity expects the benefit to be wholly settled within 12 months. Discounting will apply to any benefits classified as other long-term benefits. The revised standard will not have a significant effect on the classification and measurement of disclosures contained in the Company or consolidated entity's statement of financial position. The Company and consolidated entity will apply the revised standard from 1 July 2013.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

1. Summary of Significant Accounting Policies CONTINUED

(t) New Accounting Standards and Interpretations CONTINUED

(v) 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.

2. Income Tax

	2012 $'000	2011 $'000
(a) The income tax expense attributable to profit comprises:		
Current income tax provision	**53,247**	63,323
Deferred tax assets	**137**	524
Deferred tax liabilities	**(229)**	(234)
(Over)/under provision of prior period tax	**(85)**	84
Income tax expense	**53,070**	63,697
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit. The difference is reconciled as follows:		
Profit before income tax expense	**179,448**	213,756
Prima facie income tax on profit at 30%	**53,834**	64,127
Tax effect on amounts that:		
Reduce tax payable:		
– Tax rate differential on offshore business income	**(1,658)**	(2,317)
– Allowable credits for foreign tax paid	**–**	(8)
– Non-assessable income	**(9)**	(14)
Tax-effect of amounts that are non-deductible		
Increase tax payable:		
– Share-based payments	**961**	1,793
– Depreciation	**26**	30
– Other non-deductible expenses	**1**	2
(Over)/under provision of prior period tax	**(85)**	84
Income tax expense	**53,070**	63,697

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

2. Income Tax CONTINUED

(b) Deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Capital expenditure not immediately deductible	**231**	413
Employee entitlements:		
– Long service leave	**370**	265
– Annual leave	**274**	246
Unrealised foreign exchange losses	**203**	235
Tax fees	**91**	85
Periodic reporting	**27**	26
Audit and accounting	**54**	56
Printing and mail house	**25**	25
Fringe benefits tax	**2**	2
Unrealised capital losses	**76**	138
Payroll tax	**16**	15
Deferred tax assets	**1,369**	1,506

(c) Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2012 $'000	2011 $'000
Interest not assessable	**458**	687
Deferred tax liabilities	**458**	687

Given the nature of the items disclosed above as deferred tax balances, it is estimated that most of the deferred tax balances will be recovered or settled within 12 months.

3. Fixed Assets

	2012 $'000	2011 $'000
Computer equipment (at cost)	**1,079**	934
Less: Accumulated depreciation	**(780)**	(675)
	299	259
Purchased and capitalised software (at cost)	**2,701**	2,500
Less: Accumulated depreciation	**(2,242)**	(1,948)
	459	552
Communication equipment (at cost)	**122**	102
Less: Accumulated depreciation	**(90)**	(76)
	32	26
Office premises fit out (at cost)	**1,722**	1,696
Less: Accumulated depreciation	**(379)**	(322)
	1,343	1,374
Office furniture and equipment (at cost)	**481**	476
Less: Accumulated depreciation	**(296)**	(266)
	185	210
	2,318	2,421

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

	COMPUTER EQUIPMENT 2012 $'000	COMPUTER EQUIPMENT 2011 $'000	**PURCHASED AND CAPITALISED SOFTWARE 2012 $'000**	PURCHASED AND CAPITALISED SOFTWARE 2011 $'000
3. Fixed Assets CONTINUED				
Asset Movements during the year				
Opening balance	**259**	172	**552**	676
Additions	**204**	215	**229**	142
Disposals	**(9)**	(1)	**–**	–
Depreciation expense	**(155)**	(127)	**(322)**	(266)
Closing balance	**299**	259	**459**	552

	COMMUNI-CATIONS EQUIPMENT 2012 $'000	COMMUNI-CATIONS EQUIPMENT 2011 $'000	**OFFICE PREMISES FIT OUT 2012 $'000**	OFFICE PREMISES FIT OUT 2011 $'000
Opening balance	**26**	35	**1,374**	1,427
Additions	**23**	9	**26**	–
Disposals	**–**	(2)	**–**	–
Depreciation expense	**(17)**	(16)	**(57)**	(53)
Closing balance	**32**	26	**1,343**	1,374

	OFFICE FURNITURE AND EQUIPMENT 2012 $'000	OFFICE FURNITURE AND EQUIPMENT 2011 $'000
Opening balance	**210**	240
Additions	**4**	1
Disposals	**–**	–
Depreciation expense	**(29)**	(31)
Closing balance	**185**	210

The closing balance of purchased and capitalised software disclosed above includes amounts recognised in relation to software in the course of construction and development of $142,000 at 30 June 2012 (2011: $11,000).

	2012 $'000	2011 $'000

4. Payables

	2012 $'000	2011 $'000
Current		
Trade creditors	**3,010**	3,382
Goods and Services Tax (GST)	**1,419**	1,609
Unclaimed dividends payable to shareholders	**277**	225
	4,706	5,216

Trade creditors are unsecured and payable between seven and 30 days after the consolidated entity becomes liable. Information relating to the consolidated entity's exposure of payables to liquidity risk is shown in Note 18.

5. Provisions

	2012 $'000	2011 $'000
Current		
Long service leave	**1,234**	883
Annual leave	**911**	821
Payroll tax payable within 12 months	**34**	–
	2,179	1,704
Non-Current		
Payroll tax payable beyond 12 months	**18**	50
	18	50

NOTES TO THE FINANCIAL STATEMENTS
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6. Share-Based Payments

(a) Options and Performance Rights Plan (OPRP)

On 22 May 2007, the Group established an OPRP to assist with the retention and motivation of employees. Options were granted under this plan on 22 May 2007 and 17 June 2009. Since June 2009, no options have been granted.

Options

On 22 May 2007, some employees were initially granted 27,010,467 options under the OPRP, to take up shares in Platinum Asset Management Limited at a strike price of $5.00. The options (net of forfeitures) vested on 22 May 2011 and have a further two year exercise period.

On 17 June 2009, some employees were granted 8,783,205 options under the OPRP to take up shares in Platinum Asset Management Limited at a strike price of $4.50. The options vest after four years and have a further two year exercise period.

Performance Rights

On 22 May 2007, employees who were not granted options under the OPRP, were granted performance rights to take up Platinum Asset Management Limited shares at a strike price of $nil. These performance rights vested after three years and had a further two year exercise period. Employees were initially granted 372,703 performance rights. No performance rights have been granted since 2007. All performance rights that were granted to employees (net of forfeitures) have now vested.

Options on issue are as follows:

	2012 QUANTITY	2011 QUANTITY
Options Granted on 22 May 2007		
Opening balance	**–**	16,547,817
Vested – 22 May 2011	**–**	(16,547,817)
Closing balance – unvested	**–**	–
Options Granted on 17 June 2009		
Opening balance	**8,783,205**	8,783,205
Movement	**–**	–
Closing balance – unvested	**8,783,205**	8,783,205
Closing balance of unvested options	**8,783,205**	8,783,205

At 30 June 2012, 16,547,817 options granted on 22 May 2007 have vested, but remain unexercised and 8,783,205 options granted on 17 June 2009 remain unvested.

6. Share-Based Payments CONTINUED

	OPTIONS 22-MAY-07	OPTIONS 17-JUN-09
Model inputs for options granted included:		
(a) Exercise price:	$5.00	$4.50
(b) Grant date:	22 May 2007	17 June 2009
(c) Expiry date:	22 May 2013	17 June 2015
(d) Days to expiry (mid-point) at grant date:	1,825 days	1,825 days
(e) Share price at grant date:	$5.00	$4.10
(f) Assumed volatility of the Company's shares:	22.50%	42.00%
(g) Assumed dividend yield:	5.35%	4.30%
(h) Risk-free interest rate:	6.11%	5.01%

In relation to the options granted in May 2007, there was no historical basis to work out the assumed price volatility of the Company's shares. Therefore, the volatility was based on an analysis of comparable listed funds management companies. For options granted on 17 June 2009, the volatility was based on the Company's share price movement since December 2008.

Fair Value of Options

The assessed fair value of options granted on 22 May 2007 was $0.82 per option.

The assessed fair value of options granted on 17 June 2009 was $1.14 per option.

(b) Fund Appreciation Rights Plan (FARP)

On 1 April 2009, the Group established the FARP to assist with the retention and motivation of the Group's investment analysts.

Under the FARP, shares in Platinum Asset Management Limited may be purchased by the Group on behalf of employees, if they satisfy a time-based vesting period requirement of three years continuous employment with the Group.

The total number of shares ultimately purchased by the Group is equivalent to the notional investment in the Platinum Trust Funds, notionally allocated to employees, adjusted for the accumulated performance of the Funds over the vesting period. This interest is "notional" only, meaning employees have no entitlement to units in the Platinum Trust Funds. Notional investment in the Platinum Trust Funds occurred on 1 April 2009, 1 April 2010 and 1 April 2011. No FARs were granted in 2012.

NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2012

6. Share-Based Payments CONTINUED

(b) Fund Appreciation Rights Plan (FARP) CONTINUED

Fair Value of the Fund Appreciation Rights (FARs) Granted

The assessed fair value of FARs at 30 June 2012 is based on the notional market value of the investment in the Platinum Trust Funds at the three grant dates (i.e. 1 April 2009, 1 April 2010 and 1 April 2011 respectively). The movement in notional value of units to 30 June 2012 (or 31 March 2012 for the FARs that vested on that date) are recognised in the Statement of Comprehensive Income with a corresponding adjustment to equity for any unvested FARs.

The fair value of FARs granted on 1 April 2009, amortised over a three year vesting period, was $550,000. The notional value of these FARs on 31 March 2012 was $682,512. On 16 April 2012, shares to the value of $682,512 were purchased by the Group on behalf of the employees and allocated to these employees. The movement in the notional value of units between 1 July 2011 and the vesting date of 31 March 2012 was $10,425 (2011: ($30,525) from 1 July 2010 to 30 June 2011).

The fair value of FARs granted on 1 April 2010, to be amortised over a three year vesting period was $1,015,000. The movement in the notional value of units between 1 July 2011 and 30 June 2012 was ($60,465) (2011: ($71,176)).

The fair value of FARs granted on 1 April 2011, to be amortised over a three year vesting period was $1,050,000. The movement in the notional value of units between 1 July 2011 and 30 June 2012 was ($65,312) (2011: ($39,654) from 1 April 2011 to 30 June 2011).

	2012 $'000	2011 $'000
Expenses Arising from Share-Based Payment Transactions		
Total expenses arising from share-based payment transactions were as follows:		
Options granted on 22 May 2007 and vested on 22 May 2011	–	3,013
Options granted on 17 June 2009	**2,494**	2,494
Fund appreciation rights granted on 1 April 2009 and vested on 31 March 2012	**148**	153
Fund appreciation rights granted on 1 April 2010	**278**	267
Fund appreciation rights granted on 1 April 2011	**285**	48
Total share-based payments expense	**3,205**	5,975
Associated payroll tax expense on fund appreciation rights*	**2**	25
Total	**3,207**	6,000

* Amounts are included in staff expenses in the Statement of Comprehensive Income.

6. Share-Based Payments CONTINUED

(b) Fund Appreciation Rights Plan (FARP) CONTINUED

At 30 June 2012, the fair value remaining to be amortised over the remainder of the vesting period is $nil for the options granted on 22 May 2007, $2,398,885 for the options granted on 17 June 2009, $nil for the FARs granted on 1 April 2009, $254,059 for the FARs granted on 1 April 2010 and $612,819 for the FARs granted on 1 April 2011.

In order to retain and motivate employees, additional options, performance rights or FARs may be issued under the OPRP or FARP in the future, in compliance with the *Corporations Act 2001*.

7. Contributed Equity and Reserves

(a) Movement in share capital

	2012 QUANTITY 000	**2012 $'000**	2011 QUANTITY 000	2011 $'000
Ordinary shares – opening balance	**561,348**	**629,091**	561,348	629,091
Total contributed equity	**561,348**	**629,091**	561,348	629,091

Ordinary 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. All ordinary shares are issued and authorised.

(b) Movement in reserves

	2012 $'000	2011 $'000
Opening balance – Brought forward capital and share-based payments reserve	**(567,151)**	(573,126)
Vested shares – Options granted on 22 May 2007	**–**	3,013
Unvested shares – Options granted on 17 June 2009	**2,494**	2,494
Unvested shares – Fund appreciation rights granted on 1 April 2009	**148**	153
Transfer from reserves – shares purchased based on Fund appreciation rights that vested on 31 March 2012	**(682)**	–
Unvested shares – Fund appreciation rights granted on 1 April 2010	**278**	267
Unvested shares – Fund appreciation rights granted on 1 April 2011	**285**	48
	2,523	5,975
Closing Balance	**(564,628)**	(567,151)

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

7. Contributed Equity and Reserves CONTINUED

(b) Movement in reserves CONTINUED

In 2007, in preparation for listing, a restructure was undertaken in which the Company sold or transferred all of its assets, other than its beneficial interest in shares in Platinum Asset Pty Limited and sufficient cash to meet its year to date income tax liability.

The Company then split its issued share capital of 100 shares into 435,181,783 ordinary shares. It then took its beneficial interests in Platinum Investment Management Limited to 100%, through scrip for scrip offers, in consideration for the issue of 125,818,217 ordinary shares in the Company.

As a result of the share split and takeover offers, the Company had 561,000,000 ordinary shares on issue and beneficially held 100% of the issued share capital of Platinum Investment Management Limited. Subsequently, 140,250,000 shares on issue representing 25% of the issued shares of the Company were sold to the public by existing shareholders.

The opening brought forward capital reserve for 2011 is predominantly comprised of the difference between consideration paid for the purchase of the minority interests and the share of net assets acquired in the minority interests. This amount of ($588,127,324) was deducted from equity.

	2012	2011
8. Earnings Per Share		
Basic earnings per share – cents per share	**22.51**	26.73
Diluted earnings per share – cents per share	**22.51**	26.32
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**561,347,878**	561,347,878
Adjustment for potential ordinary shares – options that are "in the money" at balance date	**–**	8,783,205
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share	**561,347,878**	570,131,083

At 30 June 2012, 25,331,022 options (2011: 16,547,817 options) remain "out of the money".

	2012 $'000	2011 $'000
Earnings used in the calculation of basic and diluted earnings per share	**126,378**	150,059

	2012 $'000	2011 $'000

9. Retained Profits

	2012 $'000	2011 $'000
Retained earnings at the beginning of the financial year	**184,768**	169,433
Net profit	**126,378**	150,059
Dividends paid	**(129,110)**	(134,724)
Retained earnings at the end of the financial year	**182,036**	184,768

10. Dividends (Fully Franked)

	2012 CENTS PER SHARE	2012 $'000	2011 CENTS PER SHARE	2011 $'000
Paid – 22 September 2010	**–**	**–**	14.00	78,589
Paid – 15 March 2011	**–**	**–**	10.00	56,135
Paid – 22 September 2011	**15.00**	**84,202**	–	–
Paid – 12 March 2012	**8.00**	**44,908**	–	–
		129,110		134,724

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 13 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 21 September 2012, but not recognised as a liability at year-end, is $72,975,000.

11. Franking Account

	2012 $'000	2011 $'000
Opening balance based on tax paid and franking credits attached to dividends paid	**116,576**	110,907
Dividends paid – franked at 30%	**(55,333)**	(57,739)
Tax paid or payable	**53,163**	63,408
Estimated franking credits available	**114,406**	116,576

NOTES TO THE FINANCIAL STATEMENTS
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12. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash and Cash Equivalents

	2012 $'000	2011 $'000
Cash at bank	**68**	266
Cash on deposit (at call)	**11,811**	5,880
Term deposits (three months or less from date of acquisition)	**–**	226,615
	11,879	232,761

Information in relation to the consolidated entity's exposure to interest rate risk is provided in Note 18.

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

	2012 $'000	2011 $'000
Profit after income tax	**126,378**	150,059
Depreciation	**580**	493
Fixed assets scrapped	**9**	3
Share-based payments	**2,523**	5,975
(Gain)/loss on investments	**253**	548
Decrease/(Increase) in cash due to exchange rate movements	**(48)**	428
Decrease/(Increase) in trade receivables	**2,469**	332
Decrease/(Increase) in interest receivable	**(797)**	1,239
Decrease/(Increase) in prepayments	**247**	(156)
Decrease/(Increase) in deferred tax assets	**137**	524
(Decrease)/Increase in trade creditors and GST	**(562)**	(6,280)
(Decrease)/Increase in annual leave, long service leave and payroll tax provisions	**443**	102
(Decrease)/Increase in income tax payable	**(3,222)**	(551)
(Decrease)/Increase in deferred tax liabilities	**(229)**	(234)
Net Cash from Operating Activities	**128,181**	152,482

13. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2012 and 30 June 2011. The consolidated entity has no commitments for significant capital expenditure.

14. Subsequent Events

No significant events have occurred since the balance date that would impact on the financial position of the consolidated entity as at 30 June 2012 and on the results for the year ended on that date.

15. Segment Information

Under AASB 8: *Operating Segments*, the consolidated entity is considered to have a single operating segment being funds management services. However, AASB 8 requires certain entity-wide disclosures, such as source of revenue by geographic region. The consolidated entity derives management and performance fees from Australian investment vehicles and its US-based investment mandates. The geographical breakdown of revenue is as follows:

	2012 $'000	2011 $'000
Australia	**217,114**	252,311
North America	**9,613**	12,308
	226,727	264,619

16. Lease Commitments

Total lease expenditure contracted for at balance date, but not provided for in the accounts is as follows:

	2012 $'000	2011 $'000
Operating leases		
Payable not later than one year	**1,517**	1,448
Payable later than one, not later than five years	**2,556**	4,072
	4,073	5,520

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17. Auditor's Remuneration
During the year, the following fees were paid or payable for services provided by the Auditor to the consolidated entity. The fees were paid by Platinum Investment Management Limited on behalf of the consolidated entity.

	2012 $'000	2011 $'000
Statutory audit services	**278**	255
Taxation services – compliance	**520**	474
Taxation services – foreign tax agent	**24**	26
Other audit and assurance services	**13**	24
	835	779
Advisory services – legal costs	**28**	19
	863	798

18. Financial Risk Management
The consolidated entity's activities expose it to both direct and indirect financial risk, including: market risk, credit risk and liquidity risk. Direct exposure to financial risk occurs through the impact on profit of movements in funds under management ("FUM") and indirect exposure occurs because Platinum's operating subsidiary is the Investment Manager for various Platinum investment vehicles (which include investment mandates, various unit trusts, known as the Platinum Trust Funds and its ASX listed investment vehicle, Platinum Capital Limited). This note discusses the direct exposure of risk to the consolidated entity.

The Investment Manager's risk management procedures focus on managing the potential adverse effects on financial performance caused by volatility of financial markets.

The direct risks and mitigation strategies are outlined below:

(a) Market Risk
The key direct risks associated with the consolidated entity are those driven by investment and market volatility and the resulting impact on FUM or a reduction in the growth of FUM. Reduced FUM will directly impact on management fee income and profit because management fee income is calculated as a percentage of FUM. FUM can be directly impacted by a range of factors that are outlined on the following page:

18. Financial Risk Management CONTINUED

(a) Market Risk CONTINUED

(i) Poor investment performance: absolute negative investment performance will reduce FUM, and relative under performance to appropriate market benchmarks could reduce the attractiveness of Platinum's investment products to investors, which would impact on the growth of the business. Poor investment performance could also trigger the termination of Investment Mandate arrangements;

(ii) Market volatility: Platinum invests in global markets. It follows that a decline in overseas markets, adverse exchange rate or interest rate movements will all impact on FUM;

(iii) A reduction in the ability to retain and attract investors: that could be caused by a decline in investment performance, but also a range of other factors, such as the high level of competition in the funds management industry;

(iv) A loss of key personnel; and

(v) Investor allocation decisions: investors constantly re-assess and re-allocate their investments on the basis of their own preferences. Investor allocation decisions could operate independently from investment performance, such that funds outflows occur despite positive investment performance.

A decline in investment performance will also directly impact on performance share fees and performance fees earned by the consolidated entity. Historically, the amount of performance share fees earned by the consolidated entity has fluctuated significantly from year to year and can be a material source of fee revenue.

For those Investment Mandates that pay a performance share fee, the fee is based on a proportion of each Mandate's investment performance. It is calculated at the end of each calendar year and is based upon the actual performance of each Investment Mandate for the year.

Performance fees may be earned by the consolidated entity, if the investment return of a Platinum Trust Fund (or Platinum Capital Limited) exceeds a specified benchmark. Should the actual performance of a Platinum Trust Fund/Platinum Capital Limited be higher than the applicable benchmark, a performance fee would be receivable for the financial year. As at 30 June 2012 and 30 June 2011, performance fees of $nil were receivable.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

18. Financial Risk Management CONTINUED

(a) Market Risk CONTINUED

If global equity markets fell 10% over the course of the year and consequently the consolidated entity's FUM fell in line with global equity markets, it follows that management fees would fall by 10%. If there was a 10% decrease in performance of Investment Mandates over the course of the calendar year that resulted in an actual negative performance for the Investment Mandate for the year, then no performance fee would be earned.

The above analysis assumes a uniform 10% fall across all global equity markets. This is extremely unlikely as there is a large degree of variation in volatility across markets. For example, it is quite feasible for the Japanese market to fall whilst other Asian markets exhibit strong growth.

To mitigate the impact of adverse investment performance on FUM, the Investment Manager may employ hedging strategies to manage the impact of adverse market and exchange rate movements on the funds it manages. Market risk may be managed through derivative contracts, including futures, options and swaps. Currency risk may be managed through the use of foreign currency contracts.

The section below discusses the direct impact of foreign exchange risk, interest rate risk and price risk on the consolidated entity's financial instruments held at 30 June 2012.

(i) Foreign Exchange Risk

The consolidated entity has US dollar Investment Mandates and derives fees in US dollars from these mandates. In addition, the consolidated entity held US$8,351,614 (equivalent to A$8,157,466) in cash at 30 June 2012 (2011: US$1,669,772 (equivalent to A$1,557,333)). Therefore, the consolidated entity is directly exposed to foreign exchange risk arising from movements in exchange rates.

If the Australian dollar had been 10% lower/higher against the US dollar than the prevailing exchange rate used to convert the Mandate fees with all other variables held constant, then net profit after tax would have been A$741,791 higher/A$606,921 lower (2011: A$1,111,554 higher/A$909,455 lower).

(ii) Interest Rate Risk

At 30 June 2012, term deposits are the only significant asset with potential exposure to interest rate risk held by the consolidated entity. An interest rate movement of +/–1% occurring on 30 June 2012 will have no impact on profit as the interest rates on term deposits are fixed on purchase date.

18. Financial Risk Management CONTINUED

(a) Market Risk CONTINUED

(iii) Price Risk

At 30 June 2012, financial assets at fair value through profit or loss represent an immaterial amount of the consolidated entity's total assets and net profit. Accordingly, the consolidated entity does not have a significant direct exposure to price risk.

(b) Credit Risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the consolidated entity (typically "non-equity" financial instruments). Credit risk arises from the financial assets of the consolidated entity that include: cash, receivables and term deposits. All term deposits are held with licensed Australian banks.

The maximum exposure to direct credit risk at balance date is the carrying amount of financial assets recognised in the Balance Sheet. The consolidated entity may hold some collateral as security (for example, margin accounts) and the credit quality of all financial assets is consistently monitored by the consolidated entity. No financial assets are past due or impaired.

Any default in the value of a financial instrument held within any of the Platinum Trusts, Platinum Capital or the Investment Mandates, will result in reduced investment performance. There is no direct loss for the consolidated entity other than through the ensuing reduction in FUM, as noted above in market risk. The Investment Manager employs standard market practices for managing its credit risk exposure.

(c) Liquidity Risk

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting obligations associated with financial liabilities. The consolidated entity manages liquidity risk by maintaining sufficient cash reserves to cover its liabilities and receiving management fees to meet operating expenses on a regular basis. Management monitors its cash position on a daily basis and prepares cash forecasts on a weekly basis.
The amounts below represent the contractual maturity of financial liabilities.

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18. Financial Risk Management CONTINUED

(c) Liquidity Risk CONTINUED

CONTRACTUAL MATURITY ANALYSIS	AT CALL $'000	WITHIN 30 DAYS $'000	BETWEEN 1 AND 12 MONTHS $'000	MORE THAN 12 MONTHS $'000	TOTAL $'000
Trade creditors					
30 June 2012	–	3,010	–	–	3,010
30 June 2011	–	3,382	–	–	3,382
Goods and Services Tax (GST)					
30 June 2012	–	1,419	–	–	1,419
30 June 2011	–	1,609	–	–	1,609
Current tax payable					
30 June 2012	–	–	11,431	–	11,431
30 June 2011	–	–	14,653	–	14,653
Unclaimed dividends payable to shareholders					
30 June 2012	277	–	–	–	277
30 June 2011	225	–	–	–	225
Long service leave					
30 June 2012	1,234	–	–	–	1,234
30 June 2011	883	–	–	–	883
Annual leave					
30 June 2012	911	–	–	–	911
30 June 2011	821	–	–	–	821
Payroll tax					
30 June 2012	–	–	34	18	52
30 June 2011	–	–	–	50	50
Total					
30 June 2012	2,422	4,429	11,465	18	18,334
30 June 2011	1,929	4,991	14,653	50	21,623

At 30 June 2012, the consolidated entity has sufficient cash reserves of $236,779,031 (2011: $232,761,124) and a further $21,264,517 (2011: $22,937,858) of receivables to cover these liabilities. The current year cash reserves figure includes $224,900,000 of term deposits. All of these term deposits have maturities of six months or less from the date of acquisition.

Accordingly, the consolidated entity does not have a significant direct exposure to liquidity risk.

18. Financial Risk Management CONTINUED

(d) Fair Value Hierarchy

AASB 7: *Financial Instruments: Disclosures* requires the consolidated entity to classify 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).

At 30 June 2012 and 30 June 2011, all financial assets at fair value through profit or loss are classified as level 1 as all financial assets are valued based on quoted arm's length prices in active markets.

(e) Capital Risk Management

(i) Capital requirements

The Company has limited capital requirements. Owing to the volatility caused by the performance share fee component of revenue, the Directors smooth dividend payments and have a policy of paying out 80% to 90% of net profit after tax. This is a policy, not a guarantee.

(ii) External requirements

In connection with operating a funds management business in Australia, the operating subsidiary of the Company (that conducts the funds management business) is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities & Investment Commission (ASIC) requires the subsidiary to:

- hold at least $5 million Net Tangible Assets in respect of its managed investments and custody services;
- have Adjusted Surplus Liquid Funds ("ASLF") of:
  - $50,000; plus
  - 5% of adjusted liabilities between $1 million and $100 million; plus
  - 0.5% of adjusted liabilities for any amount of adjusted liabilities exceeding $100 million, up to a maximum ASLF of $100 million.
- have at least $50,000 in Surplus Liquid Funds ("SLF") (i.e. its own funds in liquid form).

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

18. Financial Risk Management CONTINUED

(e) Capital Risk Management CONTINUED

(ii) External requirements CONTINUED

The operating subsidiary has complied with all externally imposed requirements to hold an AFSL during the financial year.

Effective 1 November 2012, due to changes implemented by ASIC Class Order 11/1140, the operating subsidiary will be required to:

- prepare 12-month cash-flow projections which must be approved at least quarterly by directors, and reviewed annually by auditors;
- hold at all times minimum Net Tangible Assets (NTA) the greater of:
  - $150,000;
  - 0.5% of the average value of scheme property (capped at $5 million); or
  - 10% of the average Responsible Entity (RE) revenue (uncapped).

The operating subsidiary must hold at least 50% of its minimum NTA requirement as cash or cash equivalents and hold at least $50,000 in Surplus Liquid Funds (SLF).

The operating subsidiary will comply with these new requirements to hold an AFSL.

19. The Company

Platinum Asset Management Limited ("the Company") is a company limited by shares, incorporated and domiciled in New South Wales. Its registered office and principal place of business is Level 8, 7 Macquarie Place, Sydney NSW 2000. The Company is the ultimate holding company for the entities listed in Note 20.

20. The Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

(a) McRae Pty Limited (incorporated in Australia) – (100% owned by the Company).

(b) Platinum Asset Pty Limited (incorporated in Australia) – (100% owned by the Company).

(c) Platinum Investment Management Limited (incorporated in Australia) – (indirectly 100% owned by the Company).

(d) Platinum Asset Management Pte Ltd (incorporated in Singapore) – (indirectly 100% owned by the Company).

21. Related Party Dealings

(a) Directors' remuneration

Details of all remuneration paid to Directors is disclosed in the Directors' Report and Note 22.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 20.

(c) Transactions with related parties

Platinum Investment Management Limited provides investment management services to related party unit trusts – the Platinum Trust Funds and to the ASX-listed investment company, Platinum Capital Limited. Platinum Investment Management Limited is entitled to receive a monthly management fee from Platinum Capital Limited and the Platinum Trust Funds, a monthly administration fee from the Platinum Trust Funds and in some instances a performance fee (that is calculated annually) based upon the relevant Funds' and Platinum Capital Limited's investment return over and above a specified benchmark. The total related party fees recognised in the Statement of Comprehensive Income for the year ended 30 June 2012 was $176,499,297 (2011: $209,839,040). Of this, an amount of $13,118,492 was receivable at 30 June 2012 (2011: $16,469,022).

Platinum Investment Management Limited holds small investments in the Platinum Trust Funds. At 30 June 2012, the amount of this investment as disclosed in the Balance Sheet was $1,881,873 (2011: $7,468,357). The income distribution relating to this, as disclosed in the Statement of Comprehensive Income and disclosed as "Other investments" was $34,616 (2011: $130,206).

(d) Tax consolidation and dividend transactions

Any tax payments and dividends are sourced from the operating subsidiary, Platinum Investment Management Limited, and paid out under the Company. Platinum Asset Management Limited is the head entity of the consolidated tax group and is the entity that ultimately pays out dividends to shareholders. The amounts paid are disclosed in the Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS

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22. Key Management Personnel Disclosures

(a) Aggregate remuneration

The aggregate remuneration that the consolidated entity provided Executive and Non-Executive Directors was as follows:

	2012 $	2011 $
Cash and short-term incentive bonuses	**2,114,000**	2,070,900
Superannuation	**94,650**	91,194
Accounting share-based payments expense for options granted*	**1,335,154**	1,488,389
Increase/(decrease) in annual and long service leave provision	**51,799**	40,635
	3,595,603	3,691,118

* Options were granted to two Executives in 2007 and/or 2009 and the above figure is the accounting expense entry that relates to 2012 (and 2011), required to be made under the accounting standards. Whilst the consolidated entity booked this accounting expense, there was no actual benefit or remuneration payment made to the Executives. See Note 22(b) for further details.

The above compensation figures include remuneration paid or provided to Andrew Clifford, who is a Director of the operating subsidiary, Platinum Investment Management Limited. Philip Howard and Andrew Clifford were granted options and this is detailed on the following page.

22. Key Management Personnel Disclosures CONTINUED

(b) Details of options granted

The table below provides details of options that were granted to the Executives of the consolidated entity in 2007 and/or 2009 and details about any options that have vested.

NAME	GRANT DATE	NO. OF OPTIONS GRANTED	FAIR VALUE PER OPTION (ROUNDED) ($)	FAIR VALUE AT GRANT DATE(1) ($)	VESTING DATE	EXPIRY DATE	NO. OF OPTIONS VESTED	NO. OF OPTIONS EXERCISED	ACCOUNT-ING EXPENSE(2) ($)
Kerr Neilson	N/A	Nil	Nil	Nil	N/A	N/A	Nil	Nil	Nil
Philip Howard	22/05/07	841,500	0.82	688,263	22/05/11	22/05/13	841,500	Nil	Nil
	17/06/09	856,898	1.14	973,436	17/06/13	17/06/15	Nil	Nil	243,359
Andrew Clifford	17/06/09	3,844,350	1.14	4,367,181	17/06/13	17/06/15	Nil	Nil	1,091,795
Vested				688,263			841,500		
Outstanding (unvested)				5,340,617			4,701,248		

(1) Independently determined using an appropriate option pricing model, in accordance with AASB 2: *Share-Based Payments*. For further details, refer to accounting policy note 1(m).

(2) Relates to instances where the options vest over a number of years and some of the vesting period fell in 2012. Under the accounting standards, we are required to show the portion of the expense relating to 2012. The amount expensed for accounting purposes was not received by the Executives during the year.

No options were granted to, or exercised by, any of the Executives during the year.

(c) 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:

	2012 QUANTITY	2011 QUANTITY
Michael Cole	**300,000**	300,000
Bruce Coleman	**200,000**	200,000
Margaret Towers	**20,000**	20,000
Kerr Neilson	**322,074,841**	322,074,841
Philip Howard	**104,281**	104,281

There were no movements in shareholdings in the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2012

23. Parent Entity Disclosures

Parent entity financial information is as follows:

(a) Current assets $11,709,000 (2011: $14,879,000)

(b) Total assets $664,761,000 (2011: $665,436,000)

(c) Current liabilities $11,709,000 (2011: $14,878,000)

(d) Total liabilities $11,709,000 (2011: $14,878,000)

(e) Issued share capital $629,091,000 (2011: $629,091,000)

(f) Reserves $22,544,000 (2011: $20,050,000)

(g) Shareholders' equity $653,052,000 (2011: $650,558,000)

(h) Operating profit before tax $129,110,000 (2011: $134,724,000)

(i) Operating profit after tax $129,110,000 (2011: $134,724,000)

(j) Total comprehensive income $129,110,000 (2011: $134,724,000)

There are no guarantees entered into by the parent entity in relation to debts of the subsidiaries, no contingent liabilities and no capital commitments.

DIRECTORS' DECLARATION

In the Directors' opinion,

(a) the financial statements and notes set out on pages 41 to 78 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 consolidated entity's financial position as at 30 June 2012 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 Asset Management 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.

Michael Cole
DIRECTOR

Kerr Neilson
DIRECTOR

Sydney, 16 August 2012

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PLATINUM ASSET MANAGEMENT LIMITED

Report on the financial report

We have audited the accompanying financial report of Platinum Asset Management Limited (the Company), which comprises the Balance Sheet as at 30 June 2012, 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 for the Platinum Asset Management Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

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. These Auditing 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.

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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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 Asset Management Limited is in accordance with the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 17 to 27 of the Directors' Report for the year ended 30 June 2012. 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 Asset Management Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

A J Loveridge

PricewaterhouseCoopers

A J Loveridge
Partner

Sydney, 16 August 2012

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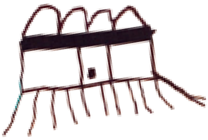

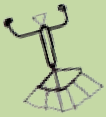

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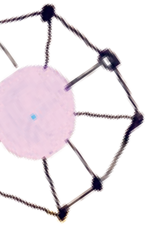
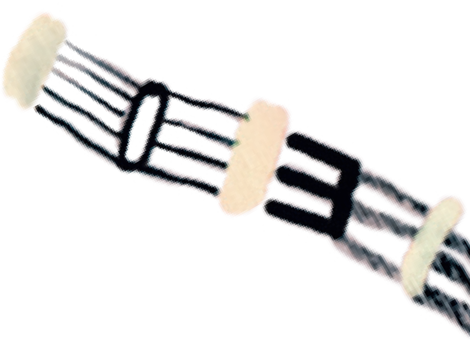




PREFACE

Twenty years of almost unremitting growth has indeed reinforced the characterisation of Australia as 'the lucky country'. While the fortune of our location and natural endowment can be celebrated, it is easy to forget that prior to the 'great financial unravelling' (GFU), countries like Spain and Ireland too were enjoying a financial boom they hadn't witnessed for centuries. They came unstuck not from careless government deficit spending but partially from their governments inheriting problems from their bank which had overindulged in a credit binge. As they try to adjust via an internal recalibration of wages and prices (unable to devalue on their own as members of the European Monetary Union), the disruption and pain felt by many is very real and unsettling.

The two building blocks of Platinum Asset Management's investment philosophy relate to human behaviour. Firstly, there is a natural predilection to over-emphasise the recent event and secondly, there is a tendency to extrapolate the current situation into the future. We have been questioning for the last 18 months the prospect of China maintaining the high growth rates of the past given the skewing of that country's economy towards an unparallel level of investment. The market is now coming around to our view and is starting to understand the degree to which credit and central allocation have contributed to the astonishing growth record achieved by China.

It was with this in mind that we chose an economic assessment of the Australian economy for this year's report. Some shareholders may find it a little gruelling to process on account of it being somewhat academic and certainly belonging to the Austrian School of Economics. However, there is no escaping the central theme that Australia has been sitting on its laurels for a good while now with the reforms brought in largely by Mr Keating being a fading memory. Without a new bout of reforms that intensifies competition, frees resources and trims down bureaucratic meddling, the message is that we run the risk of severe withdrawal symptoms once our terms of trade deteriorate. To rely on this rare and huge benefit is simply careless. For reference, our current account was in deficit to the tune of 4% of GDP in the first quarter of 2012; a time when the terms of trade are at a multi-decade high, last seen alongside the Korean War.

For those less interested in the text, there are some valuable tables and charts that tell most of the story. Industries that have been left to their own devices like agriculture, have eclipsed the field in terms of productivity while others with strong monopoly positions, like the utilities, have a pitiful record of labour productivity. In terms of new legislation, our esteemed leaders in Canberra have excelled in adding to our burden, with the now disbanded Australian regulation taskforce estimating that one quarter of managers' time is devoted to compliance with the government's rules.

This analysis has interesting implications for you as an investor. Even if you believe that the phenomenon of strong growth in the emerging markets persists, you should perhaps think carefully about the likely supply response that elevated prices will bring to our principal exports. This will also bear heavily on the Australian dollar and may lead you to conclude that investing abroad carries relatively low risk from an Australian dollar appreciation perspective.

Kerr Neilson

Managing Director
August 2012

UNIFORM MEDIOCRITY

...Or how Australia's *'Great Complacency'* will come back to haunt it.

By Justin Pyvis, Ausnomics

"GOVERNMENT CAN NEVER DUPLICATE THE VARIETY AND DIVERSITY OF INDIVIDUAL ACTION.

At any moment in time, by imposing uniform standards in housing, or nutrition, or clothing, government could undoubtedly improve the level of living of many individuals; by imposing uniform standards in schooling, road construction, or sanitation, central government could undoubtedly improve the level of performance in many local areas and perhaps even on the average of all communities. But in the process, government would replace progress by stagnation, it would substitute uniform mediocrity for the variety essential for that experimentation which can bring tomorrow's laggards above today's mean."

Milton Friedman: Capitalism and Freedom

We have worried about the long-term prospects of the Australian economy for a while now. For two decades she has seemingly coasted on the back of the last major crisis which culminated in 'breaking-point' regulatory reform in the 1980s and 1990s, a global debt bubble and a rather fortunate emergence of China as a major trading partner.

We say 'breaking-point' reform because that is how major change has occurred throughout the history of Australia; nothing happens for a long period of time, people get complacent and simply ignore the elephant in the room until circumstances force someone's hand one way or another. It is as Saul Eslake (2011, p. 20[1]) recently noted, where "…historical precedent strongly suggests that Australians, and their political representatives, will feel no great compulsion to embrace a program of productivity-enhancing economic reforms for as long as the mining boom – and the various channels through which the income generated by that boom is recycled and redistributed throughout the Australian economy – delivers continued growth in incomes and high levels of employment".

This is both a blessing and a curse in Australia: on the one hand, problems are allowed to build up and damage is able to be done with almost no recourse; on the other hand, the "Washminster Mutation"[2] political system also allows mess to be sorted out with *relative* ease when the 'breaking-point' is reached.

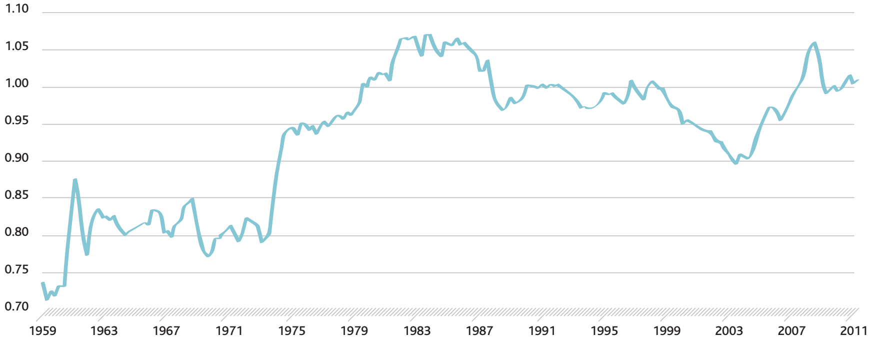
1 http://www.grattan.edu.au/publications/098_eslake_rba_productivity_august-2011.pdf

2 Elaine Thompson (1980), "The 'Washminster' Mutation", in Responsible Government in Australia, eds. P. Weller and D. Jaensch.

Baumol's Disease

One way to measure the productivity of government is through the relative price of government services when compared to the private sector, known as Baumol's Disease (Figure 1). This ratio only began to decline in Australia in 1983 after decades of complacency and the disaster that was the Keynesian revolution had culminated in a permanent growth in the size of government and the stagflationary period of the 1970s. According to former Australian treasury Secretary Ken Henry[3], "…the close to 6 percentage points of GDP expansion in government expenditure during the Whitlam Government has never been reversed. And I think I can safely say that it never will be".

FIGURE 1: BAUMOL'S DISEASE: RATIO OF PUBLIC TO PRIVATE CONSUMPTION DEFLATORS IN AUSTRALIA, SEPTEMBER 1959 – DECEMBER 2011



Source: Ausnomics, ABS

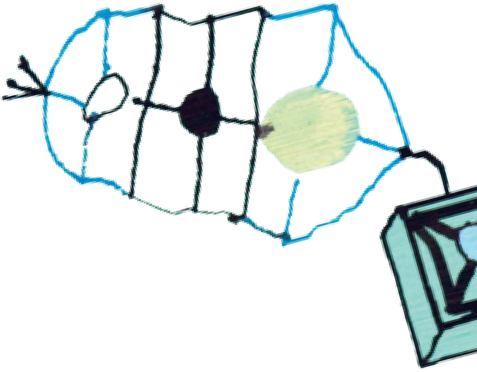
These events all culminated in 'breaking-point' reforms in Australia, starting with the extreme (by today's standards) move of the then Governor-General, Sir John Kerr, to dismiss the entire Gough Whitlam government in November of 1975 and replace it with Malcolm Fraser's opposition. However, it was not until Baumol's Disease peaked in the early 1980s and Paul Keating, then Australia's treasurer, declared that if Australia failed to reform it would become a "banana republic" that started what would eventually be two decades of reforms, floating the Australian dollar, deregulating the financial system, abolishing import quotas, cutting tariffs, freeing the labour market, privatising state-owned enterprises and reducing taxes.

3 Ken Henry (2009), "Fiscal Policy: More than just a National Budget", Address to the 2009 Whitlam Institute Symposium.

Baumol's Disease subsequently contracted until the start of the mining boom in the early 2000s, when the "Great Complacency" officially began.

We should add that while Baumol's Disease may have declined, government was still growing in absolute terms and while politicians had given up trying to run the country through state-owned businesses, they instead decided to regulate it to death; indeed, this could also affect the measured Baumol's disease, as the private consumption deflators we used also include a range of prices in sectors such as health and education which are subject to cost inflation due to inefficient government regulations, understating the extent of the disease.

Baumol's Disease subsequently contracted until the start of the mining boom in the early 2000s, when the "Great Complacency" officially began.



The regulatory burden in Australia has clearly been increasing. The growth in tax legislation alone has resulted in what Ken Henry[4] described as a tax system that "… vastly exceeds human scale… Australia's system now has no fewer than 125 taxes", and "…there could be as many as 160 different state taxes and 259 taxes nationally"[5]. This is why Australia has the world's third most complex tax system[6], with "…approximately 5,700 pages of income tax legislation, and that [sic] almost three-quarters of individual Australian taxpayers apparently need a registered tax agent to prepare their tax return". That is just income tax; Robin Speed from the Rule of Law Association estimated that if the Australian Federal Parliament keeps performing at the current trend, there will be "…830 billion pages of tax legislation by the turn of the next century"[7].

The costs to the economy are huge. Australia's Regulation Taskforce (which was wound up in 2006[8]) estimated that 25% of managers' time is devoted to compliance with the government's rules. This is before new regulation associated with the incoming mining and carbon taxes (plus the taxes themselves) are considered and we can be sure that these will serve to increase costs, raise Australia's risk profile and further discourage foreign capital, a source of funding that Australia being a vast, low-populated nation is dependent on for her future prosperity.

The increasing regime uncertainty means businesses (both existing and potential) cannot know or hope to comply with all the regulations in place and so instead simply wait to discover which rules they are expected to follow. This affects small businesses disproportionally, with risk-management experts Robyn Fairman and Charlotte Yapp finding that most small businesses simply ignore regulations until inspectors come knocking at which point they attempt to comply[9].

4 http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/speeches/01.htm

5 http://www.taxreview.treasury.gov.au/content/Paper.aspx?doc=html/publications/papers/report/section_2-03.htm

6 http://www.aph.gov.au/house/committee/jcpaa/taxation06/report.htm

7 http://www.smh.com.au/national/welter-of-laws-seen-as-threat-to-country-20091120-iqvo.html#ixzz1pcjhwcLz

8 http://www.regulationtaskforce.gov.au/

9 Robyn Fairman and Charlotte Yapp (2005), *Enforced Self-Regulation, Prescription and Conceptions of Compliance within Small Businesses: The Impact of Enforcement, Law & Policy* Vol. 27, No. 4, p. 491-519.

THE WORRYING SIGN IS NOT JUST THE GROWTH IN REGULATIONS AND THE COSTS OF COMPLYING, BUT THE FACT THAT AUSTRALIA HAS FALLEN BACK IN ALMOST EVERY MEASURED INDEX RELATIVE TO HER GLOBAL PEERS.

For example, in the OECD's integrated product market regulation indicator Australia dropped in ranking from an above-average 5th in 2003 to a below-average 13th in 2008, due to "...the rate of reform, relative to comparator countries, having slowed in recent years"[10].

Not to fear, Australia has started reforming. Reform in the shape of a carbon and mining tax that the outgoing chairman of Australia's Future Fund (a kind of sovereign wealth fund) David Murray described as "…the worst piece of economic reform I've ever seen in my life in this country", with the "…consequence of introducing that tax at that level in Australia today [sic] is very, very bad for this economy, particularly in terms of its international competitiveness…it raises costs further within Australia, it reduces our competitiveness for export of energy-related commodities and it therefore renders us less competitive in the future". As for the mining tax, he described it as "clumsy" and that "…the timing at the top of the terms of trade was not good". Whenever the government jumps on the bandwagon (in this case the mining boom), you can be sure that the cycle is close to if not at its peak; politicians gamble with other people's money and have a 'colourful' track record as far as investing goes!

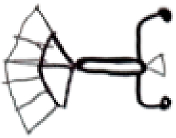
Australia is not doing well on the trade front either. In 2010 (prior to the mining and carbon taxes) the OECD ranked Australia's artificial barriers to foreign direct investment as the 7th highest among the 34 "advanced nations". In fact, it is easier for Australians to invest in Chinese real estate than it is for people from China to buy property in Australia[11]!

We are not alone in our thinking that Australia has been embarking on what Ross Garnaut dubbed[12] "…the great Australian complacency of the early 21st century", where Australia faces "…a period when there's very little economic capacity to increase per capita living standards". While we may disagree with a lot of what Garnaut preaches, we do agree that Australia is nearing the end of her "great complacency" where government largesse was allowed to grow unimpeded on the back of a growing economy and increasing living standards for the average Australian, with people preferring to believe that all of the growth in government was a tolerable 'free lunch' rather than something that will have to either reverse its course or detract from future living standards when the good times end.

10 http://www.treasury.gov.au/igr/igr2010/Overview/pdf/IGR_2010_Overview.pdf

11 http://resources.news.com.au/files/2010/11/15/1225953/995883-101116-aes.pdf

12 http://www.rossgarnaut.com.au/Documents/Breaking%20the%20Australian%20Complacency%20of%20the%2021st%20Century%202005.pdf



When will the good times end?

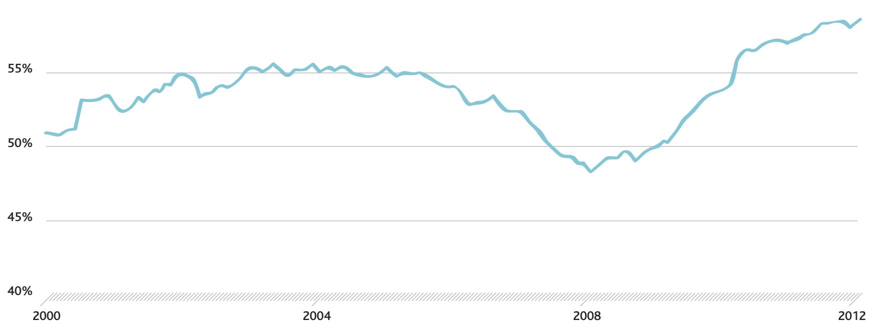
"Analysis, whether economic or other, never yields more than a statement about the tendencies present in an observable pattern. And these never tell us what will happen to the pattern but only what would happen if they continued to act as they have been acting in the time interval covered by our observation and if no other factors intruded."

Joseph Schumpeter: Capitalism, Socialism and Democracy

If there was a question on everyone's mind, it would be: how long can Australia continue to ride her luck before something triggers an event necessary to collapse the whole stack of cards?

It is a question we have been trying to answer for some time. As we pointed out earlier, Australia has performed poorly as far as implementing *beneficial* economic reform during the good times which means that when they end, the bust will be all the worse for it. Labour markets have become more inflexible, wages are 'stickier', resources have been misallocated *en masse* and the financial sector – on which any modern economy depends – has suckled on the teet of government for so long that it has created a pool of systemic risk meaning that a crash in one industry will likely be felt as an economy-wide recession requiring further assistance rather than a relatively isolated incident in one asset class (Figure 2).

FIGURE 2: AUSTRALIAN BANKS' RESIDENTIAL LOANS AS A % OF LENDING, JANUARY 2000 – JANUARY 2012



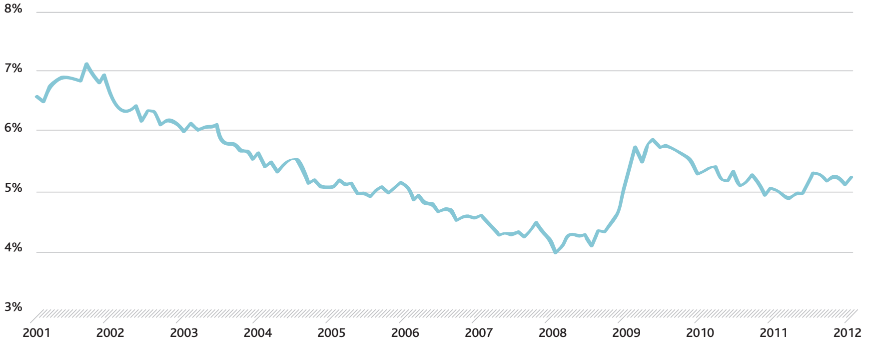
Source: Ausnomics, RBA

The Ricardo Effect

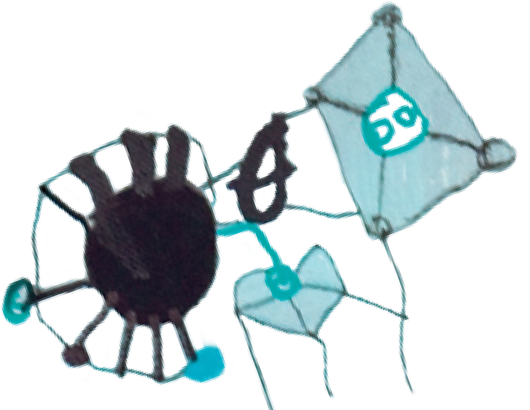
For an idea as to when the bust will come, we can find a clue in what Hayek dubbed the "Ricardo Effect" – the Ricardian (David Ricardo was an eminent British economist of the classical tradition) proposition that a rise in real wages will cause businesses to substitute capital for labour and vice versa.

As the price of products that businesses sell increases (starting with commodities in Australia in this case), real wages fall and thus the level of profit rises provided that nominal wages do not increase by as much. This has had the effect of keeping Australia's employment near what economists call its 'natural rate', or maximum, for years (Figure 3).

FIGURE 3: AUSTRALIAN UNEMPLOYMENT (% OF LABOUR FORCE), FEBRUARY 2001 – FEBRUARY 2012



Source: Ausnomics, ABS



For the purpose of our analysis, the key is *real wages*, the *relative* profitability of industries in Australia and the movement of the interest rate in response to these signals. Hayek (1939, p. 27-28), in his essay *Profits, Interest and Investment*, pointed out that:

"If the rate of interest had been allowed to rise with the rate of profit in the prosperous industries, the other industries would have been forced to curtail the scale of production to a level at which their profits correspond to the higher rate of interest. This would have brought the process of expansion to an end before the rate of profit in the prosperous industries would have risen too far, and the necessity of a later violent curtailment of production in the early stages would have been avoided".

In the case of Australia, the prosperous industries Hayek speaks of are those directly involved in and related to the mining sector. The other industries are those that came along for the ride even when they should not have, the prime examples being housing and related industries (e.g., construction and finance, Figure 4)[13].

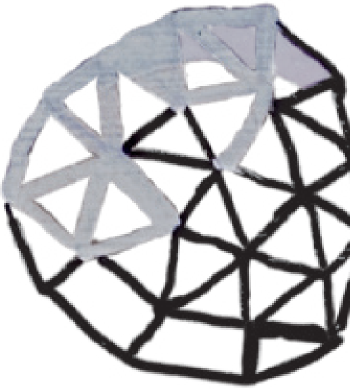
FIGURE 4: % CHANGE IN TOTAL EMPLOYMENT AND $ VALUE ADD FOR SELECTED AUSTRALIAN INDUSTRIES, JUNE 2000 – JUNE 2011

INDUSTRY	VALUE ADD	EMPLOYMENT	VALUE ADD PER HOUR WORKED
Mining	336.30	181.36	57.27
Finance	150.60	27.39	101.45
Construction	138.74	50.33	61.96
Transport	125.33	27.54	84.83
Public Administration	106.17	48.95	42.49
Real Estate Services	104.71	41.04	54.07
Electricity, Gas, Water	87.98	89.57	-1.24
Retail Trade	86.41	22.90	59.39
Agriculture	73.35	-25.43	134.45
Manufacturing	37.66	-10.32	56.44

Source: Ausnomics, ABS

Interestingly, sitting at the bottom of the table is the much bemoaned Australian manufacturing industry, adding just 38% value add in a decade (and it is probably negative when you remove subsidies). However, an industry *just as exposed to an appreciating dollar* in the form of Agriculture (Australia exports over half of her food production) has not only managed to almost double in value add over the same period, but has almost tripled in productivity (value add per hour worked) compared to that of manufacturing. We have no doubt in our mind that this relative success is owed to less government intervention in agriculture, less union meddling and therefore a far more flexible and vibrant industry, able to adapt to changing times by investing in labour-saving capital equipment. How long this can last we do not know; the government has taken notice and is developing a "National Food Plan"[14], something you can be sure will add a bit of manufacturing-style "uniform mediocrity" to the industry.

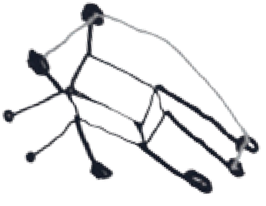
"If the rate of interest had been allowed to rise with the rate of profit in the prosperous industries, the other industries would have been forced to curtail the scale of production to a level at which their profits correspond to the higher rate of interest. This would have brought the process of expansion to an end before the rate of profit in the prosperous industries would have risen too far, and the necessity of a later violent curtailment of production in the early stages would have been avoided".



13 And as we have argued before, we believe that the exogenous shock that is fuelling the mining boom is itself built on a bubble in China and artificially cheap credit thanks to the 'liquidity' provided by the US along with the combination of fiat currencies and the structural flaws in the global financial system that allows this 'hot money' to find its way into Australia where it is treated as if it were real savings, fuelling domestic asset prices.

14 http://www.news.com.au/breaking-news/australias-food-sector-enjoys-healthy-growth/story-e6frfku0-1226316641893

While the mining boom initially helped to reduce real wages in manufacturing, the global financial crisis (GFC) in 2008 put an end to that as a strong Australian dollar and a general lack of international competitiveness in Australian manufacturing caused real labour costs to soar.



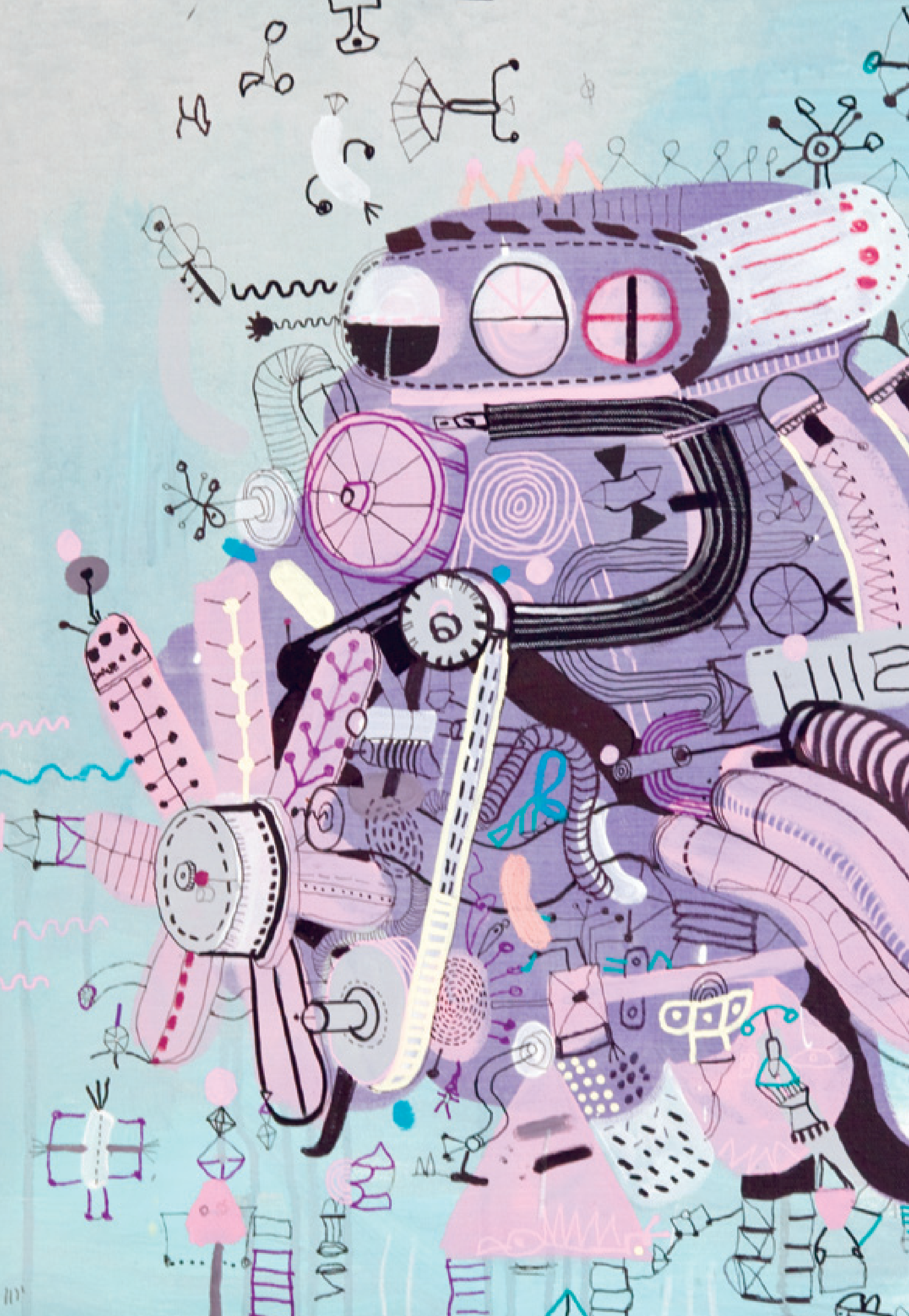
Productivity?

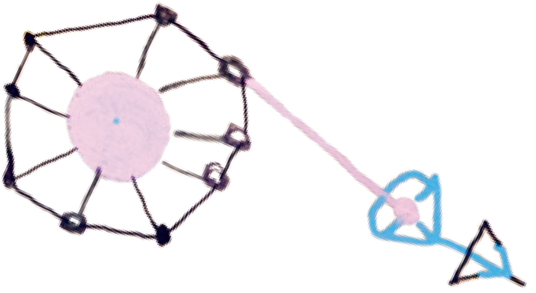
A lot has been written about Australia's declining multifactor productivity[15]. Most studies use the ABS's figures on multifactor productivity (MFP) and bemoan the lack of productivity growth in Australia (there was significant negative MFP growth over the past decade), but we find these productivity indexes of questionable use given that they overlook the role prices play. For example while MFP has declined drastically in the mining sector (ABS estimates put it at negative 24.3% for the early boom years between 2000-01 and 2006-07[16]), our preferred measure of dollar output per hour worked had risen almost 60% over the same period.

This is because high commodity prices and soaring profits in the industry have allowed 'less productive' – that is, marginal mine sites – to be mined and for 'less productive' labour to be drawn from other areas of the economy with high *nominal* wages. Thus while MFP declines, the total incomes and thus the standard of living of the people involved increases. However, if the increasing numbers of marginal mining projects (which have long lead times before they produce anything) are met with a slowdown in commodity price growth, i.e. a China slowdown, then the largely immovable capital sunk in these mines will have to be written off and the productivity gains will fail to materialise.

15 See for instance the Productivity Commission's *Long Term Trends*, http://www.pc.gov.au/research/productivity/estimates-trends/trends

16 http://www.pc.gov.au/__data/assets/pdf_file/0005/84911/mining-productivity.pdf

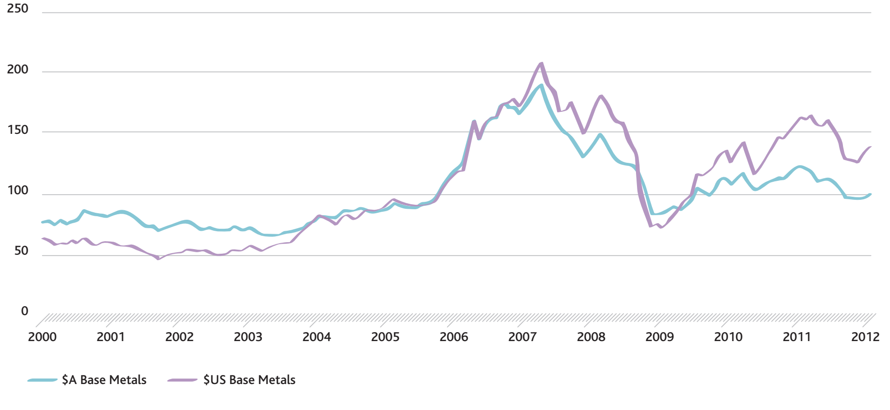




So long as the dollar value of output per hour worked and real wages continue their inversely-related trends, we would expect the current boom in Australia to continue. We can see what happens to an industry when this trend reverses; jobs are lost and the industry concerned either stagnates due to an inability to adjust (reallocate resources) or simply declines.

While the mining boom initially helped to reduce real wages in manufacturing, the global financial crisis (GFC) in 2008 put an end to that as a strong Australian dollar and a general lack of international competitiveness in Australian manufacturing caused real labour costs to soar. This is something we would expect to happen in other industries when the China story comes to an end, which will eventually be signalled through a reversal in the trend of commodity prices and the Terms of Trade (Figure 5; Figure 6)[17].

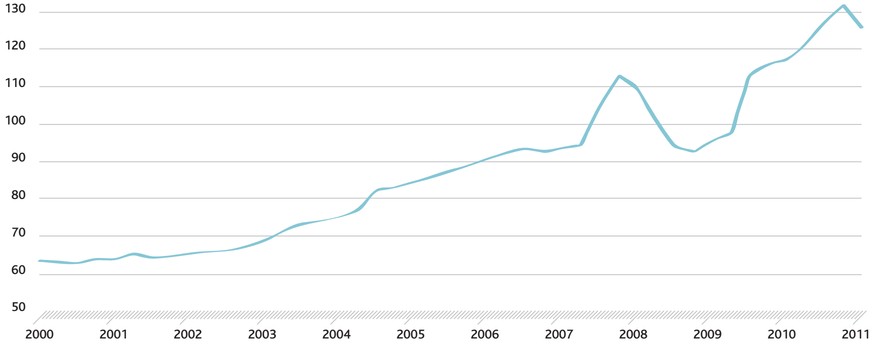
FIGURE 5: BASE METAL PRICES, FEBRUARY 2000 – FEBRUARY 2012



Source: Ausnomics, RBA

17 We must add that these charts are more backwards-looking than usual – unfortunately the ABS only publishes annual data every June for one of the data sets we rely on so that is all we were able to use.

FIGURE 6: AUSTRALIA'S TERMS OF TRADE, DECEMBER 2000 – DECEMBER 2011



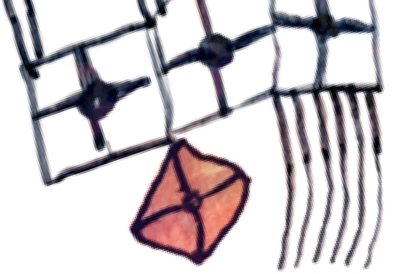
Source: Ausnomics, ABS

Our theory tells us that in the boom phase the real wages faced by miners and all industries carried along for the ride (some more so than others) should be declining – those areas furthest removed from final consumption – and profits relatively high, something we have witnessed.

While in a perfect world[18] the interest rate would have adjusted to reflect the demands coming from the mining sector, forcing other sectors to *expand less quickly*, in reality the *relative* rate of interest – that is, the deviation from the natural rate – did not rise as much as it would have had it not been for the price-fixing of the Reserve Bank (RBA) and its international colleagues. When the rate of interest is too low[19] – *even if rates have been cut, they may still be too low* – some things become relatively cheaper than they would have been otherwise, in particular more capital intensive and risky investments. Cantillon effects exist and the structure of production is distorted and it is only down the road that people realise those investments cannot be sustained at the same level as they were before.

18 Hayek in *Profits, Interest and Investment: "…in the absence of an automatic mechanism making rates of interest move with rates of profits it would require superhuman wisdom to adjust them perfectly by deliberate policy".*

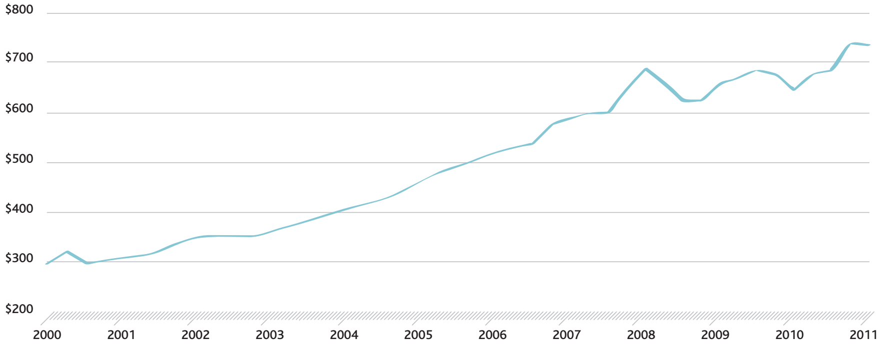
19 Vice versa, if the rate is too high we get a stifling of growth, or a rate of growth below the optimal rate.



The recent announcement by BHP Billiton[20], the world's largest miner, that it plans to invest $100bn over the next 8 years – a sum larger than its total CapEx in the past 20 years – is an example of the kind of 'bubble peak' signal we are always looking out for.

Rather than an exogenous boom in China being solely-related to the mining sector,[21] the boombust cycle spread throughout the real economy thanks to the intertwining of the financial system with the whole economy, something exacerbated by the oligopoly grant provided to the nations' banks (meaning that failure is likely to be systemic rather than isolated and therefore the government will be forced to intervene). Debt levels built up and consumption (housing is a consumer good) and investment (businesses) were largely financed through increases in debt and speculation in ever-rising asset prices (Figure 7; Figure 8; Figure 9; Figure 10).

FIGURE 7: AUSTRALIA'S NET FOREIGN DEBT, DECEMBER 2000 – DECEMBER 2011 ($ BILLIONS)

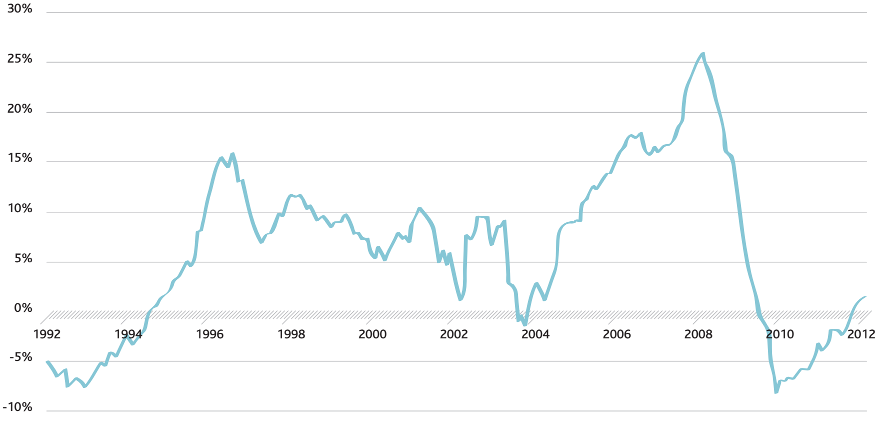


Source: Ausnomics, ABS

20 http://afr.com/p/business/companies plans_attract_more_scrutiny_odhifVKqinsSGSthHXd5tK

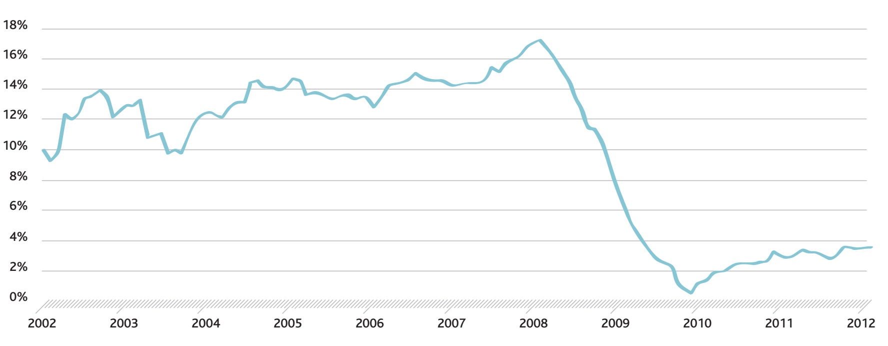
21 We must again stress that 'hot-money' induced booms cannot spread across borders to the extent that they can today if the recipient country was operating with a (or several) less 'facilitative', sound currency.

FIGURE 8: AUSTRALIAN BUSINESS CREDIT GROWTH: JANUARY 1992 – JANUARY 2012 (%YoY)



Source: Ausnomics, RBA

FIGURE 9: TOTAL AUSTRALIAN CREDIT: JANUARY 2002 – JANUARY 2012 (%YoY)



Source: Ausnomics, RBA

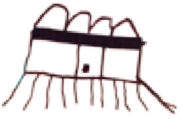
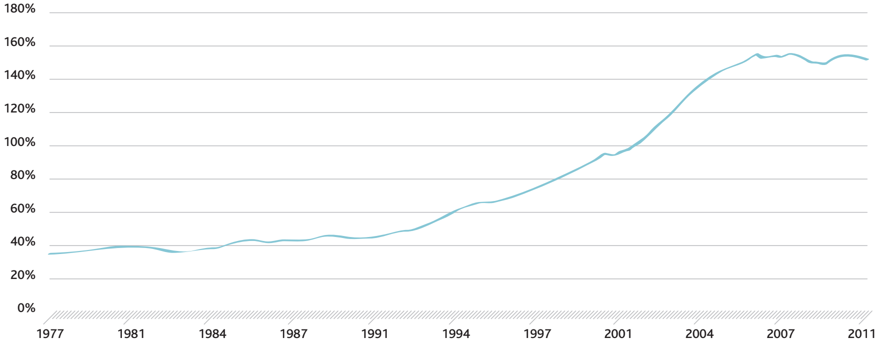


FIGURE 10: TOTAL AUSTRALIAN HOUSEHOLD DEBT TO DISPOSABLE INCOME: SEPTEMBER 1977 – SEPTEMBER 2011



Source: Ausnomics, RBA

Both consumption and investment expanded as the production possibility frontier (excuse the economic jargon, think of the total 'mix' of potential economic output) was pushed outwards beyond what is sustainable. While a normal, healthy economy will always be pushing outwards with investment and consumption increasing in accordance with real savings and eventually lower prices, an unsustainable one follows a different path where the economy is still growing but the manipulation of the interest rate sends entrepreneurs an incorrect signal and so both investment and consumption expand beyond what is sustainable, creating misallocations and sowing the seeds of the future bust.

It is at that point where the economy, through the price system, tries to move back to the old, sustainable path that a recession ensues (as some of the expansion was 'good' growth, this does not mean a contraction to the level of consumption and investment before the boom started).

IT IS A CUMULATIVE PROCESS, INDEED AN EXPLOSIVE PROCESS,

leading further and further away from an equilibrium position till the stresses become so strong that it collapses.

F.A. Hayek, Profits, Interest and Investment

"Argentina became very rich, despite its extractive institutions, because of a resource boom. And that then came back to bite it. If you become very rich because of a resource boom, but your institutions are deeply extractive, the moment that resource boom goes away, or even before, the conflict is there and people [politicians] are going to use these institutions for enriching themselves."

Daron Acemoglu, Why Nations Fail

Conclusion

Australia is not Argentina; at least not yet. Her fundamental institutions are still strong despite a gradual erosion in various freedom and business indexes over the "great complacency". However, to draw from Acemoglu again, certain industries are built on "extractive" institutions, where growth comes not from increasing the size of the pie but from extracting rents from society. One such industry is banking, where the concentration of risks such as mortgage finance in a small number of banks results in local disruptions being transmitted across the country. It is where [sic] "…the financial sector through its political influence distorted the rules of the game, benefiting executives in the industry, which in turn led to outsized rewards and ultimate instability in the financial industry"[22].

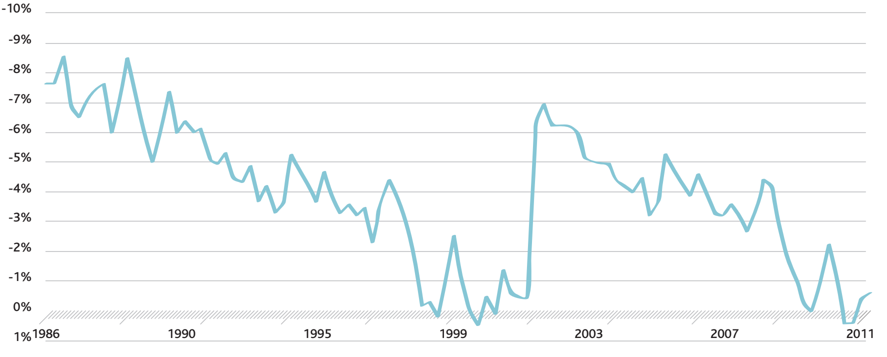
Australian banks have grown to their gargantuan proportions not through innovation and efficiency gains but by capturing government support available only to the largest banks – something that they have even managed to have enshrined in their 'four pillars' policy. Combined with the incentives provided by the Basel regulations which nudged banks into real estate, this institutional structure has mutated what should have been a local issue into a potential national disaster.

22 http://www.econtalk.org/archives/2011/02/acemoglu_on_ine.html

Speaking of housing, the housing industry is still flat lining and is showing no real signs of reigniting despite a slight downwards movement in the Current Account Deficit and the best effort of the government[23] and the banks', with RateCity reporting that "Nearly 70 per cent of lenders are writing home loans with deposits as low as 5 per cent of the value of the property", compared "…to just 50 per cent of lenders two years ago"[24].

However, while property might fizzle for decades, the real trigger for the bust – that is, declining commodity prices as a result of a slowdown in China which will cause *real* wages to increase and therefore force businesses to switch to more capital-intensive, labour-saving means to survive – looks like it could be just around the corner (Figure 11).

FIGURE 11: AUSTRALIAN REAL NON-FARM LABOUR COSTS, SEPTEMBER 1986 – DECEMBER 2011 (INVERSED; % CHANGE YoY)



Source: Ausnomics, ABS

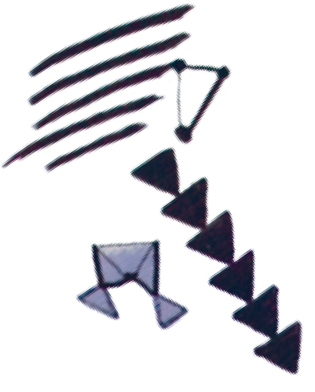
23 As we reported in our last *ExposAsia*, zoning in Australia is some of the worst in the world. For a recent example, Urban Development Institute of Australia WA said that developers in Western Australia must put their plans through 13 different government agencies for approval, a process which "…was taking between seven and 14 years to complete, adding thousands of dollars to the cost of a home", http://www.watoday.com.au/wa-news/housing-shortage-and-costs-to-worse-industry-body-20120329-1w09f.html

24 http://www.news.com.au/money/banking/borrowers-lured-with-high-risk-loans/story-e6frfmcr-1226300561296

How long can Australia rely on falling real labour costs? The data would seem to indicate that her time is just about up, with the rate of decline decelerating throughout the 2000's and even turning positive briefly during the 2009 financial crisis (Figure 11). While real labour costs have fallen slightly since then, we believe that Australia is at the end of the most recent credit-induced boom and that government efforts to kick-start it will – unlike in 2009 – fail. The result will be rising unemployment and house price declines, the extent of which will depend on whether the government and RBA decide to let the economy restructure (which will result in short-term unemployment and a rapid decline in asset prices) or a long, drawn-out and possibly stagflationary period where the structural problems in the economy are not solved efficiently through the price system but are maintained in 'limbo' with only the most marginal businesses being forced to reallocate their resources.

While interest rates will be slashed, they will not be able to fix the structural problems in the economy and will at best keep mortgage holders from defaulting and marginal businesses above water. The Australian dollar, relying on the carry trade and China for its strength, will collapse when the bust comes as the smart money looks for safer yields elsewhere.

> **"Once a certain point is passed, although the decline of investment may be postponed for a long time by keeping the rate of interest low, it is bound to come, and that the further the point is put off, the greater will be the rise in the rate of profit and consequently also the ultimate decline of investment."**
>
> F.A. Hayek, *Profits, Interest and Investment*



Labour in Australia (with the exception of manufacturing) is still cheap in real terms. But when wages begin to rise whether as a result of higher nominal wages or lower profits (e.g. commodity prices) it will result in rising unemployment and all of the usual suspects that follow including a weaker dollar and short-term deflation in both consumer goods and asset prices. Deflation will occur because in spite of the inevitable efforts to inflate by the RBA and spend by the government the combination of deleveraging and, in the short term, the excess of unused resources ready to 'soak up' the liquidity will outweigh their efforts. As Ludwig von Mises[25] said:

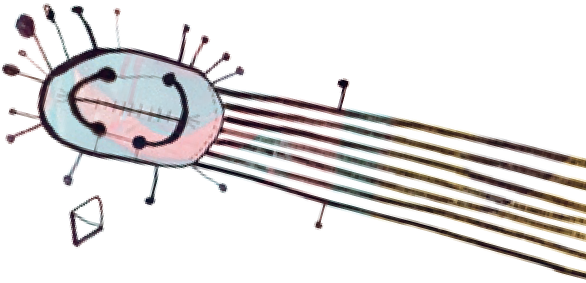
> **"Even on an unimpeded market there will be at times certain quantities of unsold commodities which exceed the stocks that would be held under static conditions, of unused productive plant, and of unused workmen. The increased activity will at first bring about a mobilisation of these reserves. Once they have been absorbed the increase of the means of circulation must, however, cause disturbances of a peculiar kind".**

It is only once the "unused" productive resources begin being put back to work[26] that we will begin to see the inflationary effects of the stimulus efforts, where the employment created through 'stimulus' is inherently unstable, accentuating future problems.

That an external shock such as the China boom could cause such distortions is not to say that all business cycles are exogenous and therefore unavoidable. No, it is the combination of an exogenous shock when combined with flawed domestic institutional structures that allows them to continue unabated to the extent we see today. Today it is a boom in China's demand for Australian resources; tomorrow it could be anything. If domestic institutions are unsatisfactory, then the boom-bust cycle must ensue.

25 1928, *Geldwertstabilisierung and Konjunkturpolitik*

26 Note that a significant stagflationary period in the medium term is possible if real wages remain high and profits remain low, as businesses choose to utilise a large amount of capital per worker. This effect combined with the inflationary forces of a depreciating currency and monetary stimulus should eventually offset the natural deleveraging and deflationary (caused by unemployment) effects.



Australia had a fantastic opportunity over the past decade to implement important reforms that would liberate labour markets and reduce the burdens that certain state-controlled industries (e.g., electricity and water) place on households as well as lower entry barriers to allow competition to improve efficiencies across the board (e.g., banking and retail). In the retail sector, for example, Mr Weickhardt of the Productivity Commission has said there were "troubling signs" that larger retailers were relying on barriers to entry to protect their profitability[27]. This was in response to a Productivity Commission report[28] that put the poor performance of the retail sector into context, producing estimates suggesting that labour productivity in that sector in 2007 was some 38% lower than in the United States, some 20-35% below that in Germany, the United Kingdom and France, and *only marginally higher than in Spain or Greece!*

The Commission concluded that "…it appears likely that the size of the gap between Australia and the US has been increasing; nor has Australia made any significant gains in its position in regards to other leading countries".

While we would love to be able to tell you that x will happen at y point in time, that would be an impossible task and one that – unlike some of our colleagues – we are not prepared to commit to. However, we hope we have pointed out that there are some very serious problems in the Australian economy that will almost certainly result at the very least in a long period of subdued growth, with the more extreme long-term alternative being hyperinflation. Unfortunately we simply cannot predict the actions that those in power will decide to take when confronted with a situation in which they must act.

27 "What we've said is the government needs to lift restrictions that inhibit new competitive retailers from coming in here, and lift restrictions stopping existing retailers from responding and adapting to that new competitive environment."

28 http://www.pc.gov.au/projects/inquiry/retail-industry/report

Centralised, 'pro-active' attempts at alleviating the perceived local problems in the economy will result at best in uniform mediocrity, the unseen cost of progress that was never achieved to be cast aside and simply ignored. We leave you with the words of Don Lavoie[29] who summed up the failure of 'planning through regulation' the best (what Australia has been using since the 1980s), where:

> **THE SAME LACK OF KNOWLEDGE ON THE PART OF ANY SINGLE PERSON OR ORGANIZATION**
>
> which makes it impossible for comprehensive planning to replace the market also makes it irrational for a non-comprehensive planning agency to try merely to 'guide' the market. If the guiding agency is less knowledgeable than the system it is trying to guide – and even worse, if its actions necessarily result in further undesired consequences in the working of that system – then what is going on is not planning at all but, rather, blind interference by some agents with the plans of others.

29 1985, *National Economic Planning: What is Left?*

Justin Pyvis, *Ausnomics, ExposAsia,* No. 8/2012, 10 April 2012. Edited extract.