# Washington H. Soul Pattinson and Company Limited

**A.B.N. 49 000 002 728**

**ASX Code: SOL**

# Annual Report 2013

# Company Profile

Washington H. Soul Pattinson and Company Limited (WHSP) was incorporated on 21 January, 1903 having previously traded as two separate companies, Pattinson and Co. and Washington H. Soul and Co.

Following a public offering of shares, WHSP was listed on the Sydney Stock Exchange (now the Australian Securities Exchange) on 21 January, 1903.

## OVER 100 YEARS AS A LISTED PUBLIC COMPANY

When Caleb Soul and his son Washington opened their first store at 177 Pitt Street, Sydney, in 1872 neither of them could have envisaged that 141 years later their single pharmacy would have evolved into a company as prominent and diversified as WHSP.

WHSP is now a significant investment house with a portfolio encompassing many industries including, its traditional field of pharmaceuticals, as well as coal mining, building materials, copper mining and refining, equity investments, telecommunications and corporate consulting.

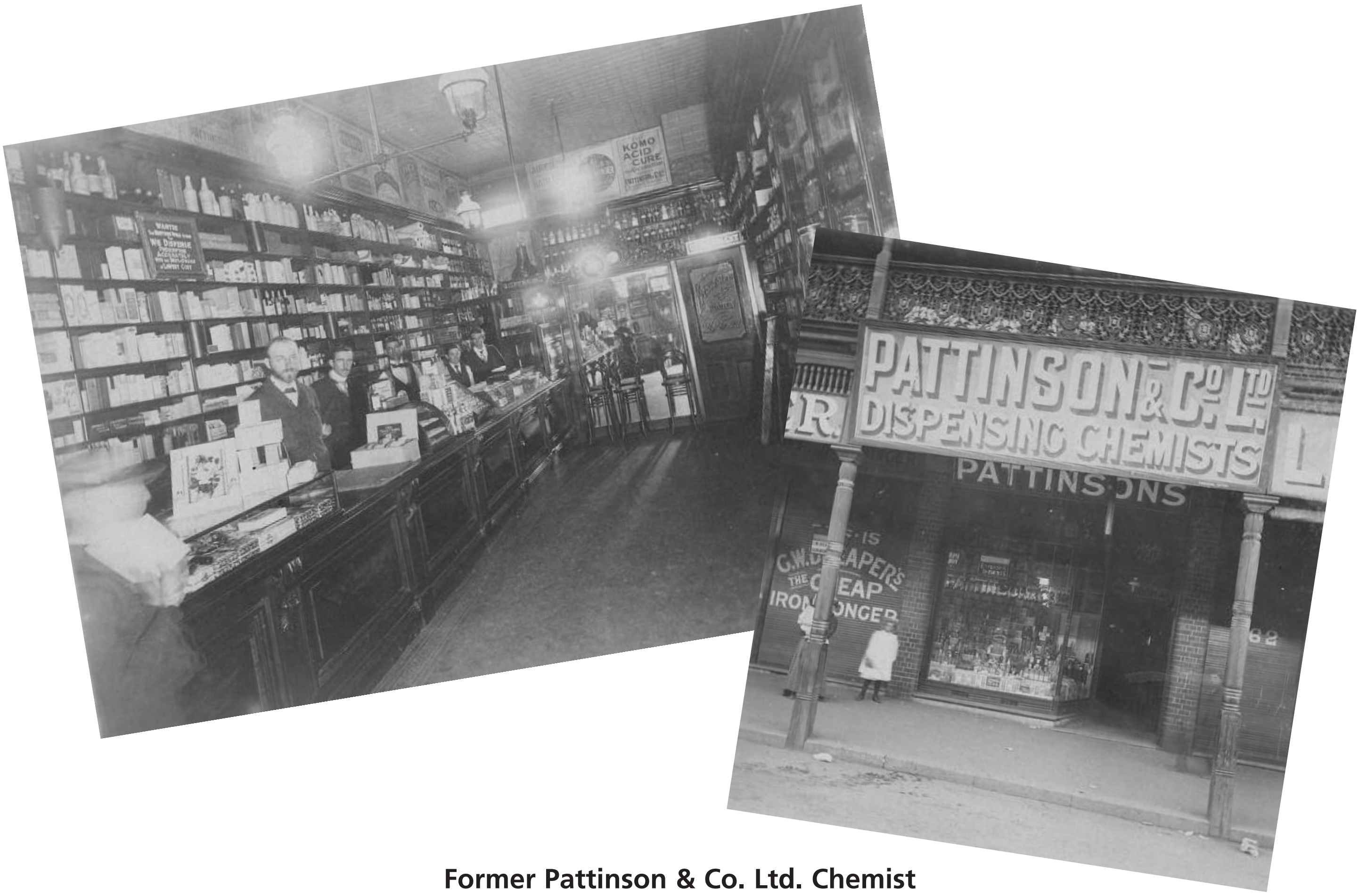
## OBJECTIVE

WHSP's objective is to hold a diversified portfolio of assets which generate a growing income stream for distribution to Shareholders in the form of increasing fully franked dividends and to provide capital growth in the value of the Shareholders' investments.

## DIVIDEND POLICY

Ordinary dividends are generally paid out of regular profits.

Special dividends are generally paid out of profits from non-regular items. Non-regular items typically include those which are outside of the normal course of business or are of an unusually large size.




**Former Pattinson & Co. Ltd. Chemist**

**Newtown**

# Contents and Corporate Directory

## CONTENTS



## CORPORATE CALENDAR

| | |
|---|---|
| Final Dividend | |
| Record date | 18 November 2013 |
| Payment date | 9 December 2013 |
| Annual General Meeting | 6 December 2013 at 12.00 noon<br>The Ballroom<br>Sofitel Sydney Wentworth<br>61-101 Phillip Street, Sydney |

## DIRECTORS

| | |
|---|---|
| Robert D Millner | Chairman - Non-Executive Director |
| Peter R Robinson | Executive Director |
| David J Fairfull | Non-Executive Director |
| Michael J Hawker | Non-Executive Director (appointed 10 October 2012) |
| Thomas C D Millner | Non-Executive Director |
| Robert G Westphal | Non-Executive Director |
| David E Wills | Non-Executive Director |
| Michael J Millner | Deputy Chairman - Non-Executive Director (resigned 1 October 2012) |

## CHIEF FINANCIAL OFFICER

Melinda R Roderick

## COMPANY SECRETARY

Ian D Bloodworth

## AUDITORS

Moore Stephens Sydney

# Performance Highlights

## CONSOLIDATED FINANCIAL PERFORMANCE

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Profit after tax attributable to shareholders | **105,421** | 142,989 |
| Regular profit after tax* attributable to shareholders | **160,663** | 161,607** |

## DIVIDENDS PAID/DECLARED

| | | |
|---|---|---|
| Interim Dividend | **18 cents** | 17 cents |
| Final Dividend | **28 cents** | 27 cents |
| Total Dividends | **46 cents** | 44 cents |

* Regular profit after tax is a non-statutory profit measure and represents profit from continuing operations before non-regular items. A reconciliation to statutory profit is included in the Consolidated Financial Statements – Note 3, Segment information.

** The regular profit after tax and non-regular items for the year ended 31 July 2012 have been restated for consistency with the current year. Refer to Note 3, Segment Information, of the Consolidated Financial Statements for further information.



**Former Pattinson & Co. Ltd. Chemist**
**Victoria Markets**

# Chairman's Review

Dear Shareholders,

I am pleased to present the 2013 Annual Report for Washington H. Soul Pattinson and Company Limited (WHSP, Parent Company) on behalf of the Board of Directors of the Company.

## Consolidated Financial Performance

The regular profit after tax* attributable to shareholders for the year ended 31 July 2013 was $160.7 million, marginally lower than the $161.6 million** for 2012. The result was driven by; higher contributions from Brickworks Limited and TPG Telecom Limited; an improved result for CopperChem Limited; a lower contribution from New Hope Corporation Limited (New Hope); and lower special dividend income.

The profit after tax (including non-regular items) was $105.4 million, a decrease of $37.6 million compared with 2012.

The net loss on non-regular items was $55.2 million, compared with a loss of $18.6 million** in 2012. Impairments by New Hope against the carrying values of its investments accounted for $30.7 million of the net loss.

Comparisons with the prior year are as follows:-

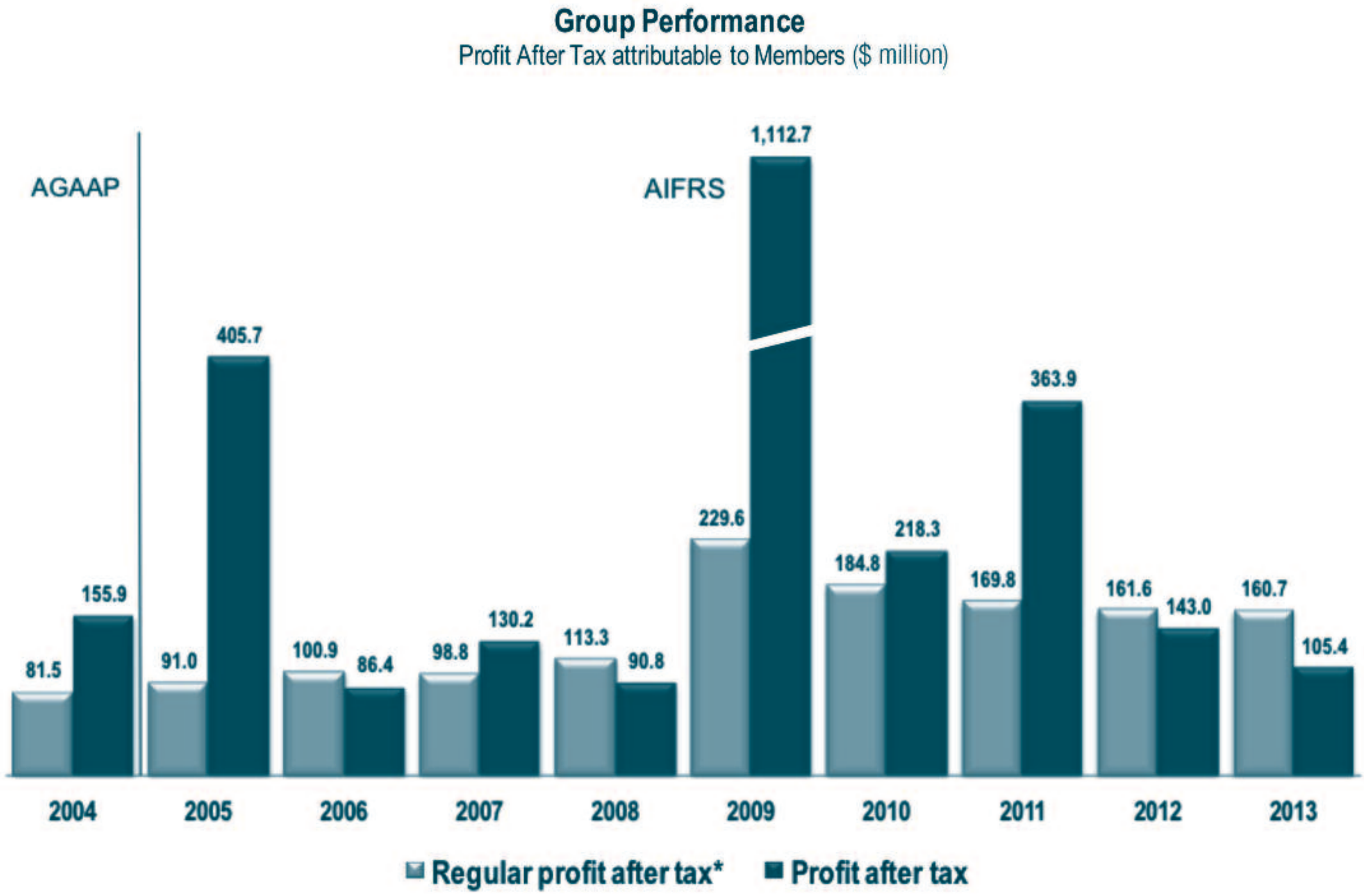
| | 2013 $'000 | 2012 $'000 | % Change |
|---|---|---|---|
| Revenue from continuing operations | **791,315** | **912,359** | - 13.3% |
| Profit after tax attributable to shareholders | **105,421** | **142,989** | - 26.3% |
| Regular profit after tax* attributable to shareholders | **160,663** | **161,607**** | - 0.6% |
| Interim Dividend (paid in May each year) | **18 cents** | **17 cents** | + 5.9% |
| Final Dividend | **28 cents** | **27 cents** | + 3.7% |
| Total Dividends | **46 cents** | **44 cents** | + 4.5% |

* Regular profit after tax is a non-statutory profit measure and represents profit from continuing operations before non-regular items. A reconciliation to statutory profit is included in the Consolidated Financial Statements – Note 3, Segment Information.

** The regular profit after tax and non-regular items for the year ended 31 July 2012 have been restated for consistency with the current year. Refer to Note 3, Segment Information, of the Consolidated Financial Statements for further information.

## Historical Performance

The chart below shows the Group regular profit after tax* (excluding non-regular items) and the Group profit after tax (including non-regular items) over the last 10 years.




### Non-regular Items

Non-regular items typically include those which are outside of the normal course of business or are of an unusually large size.

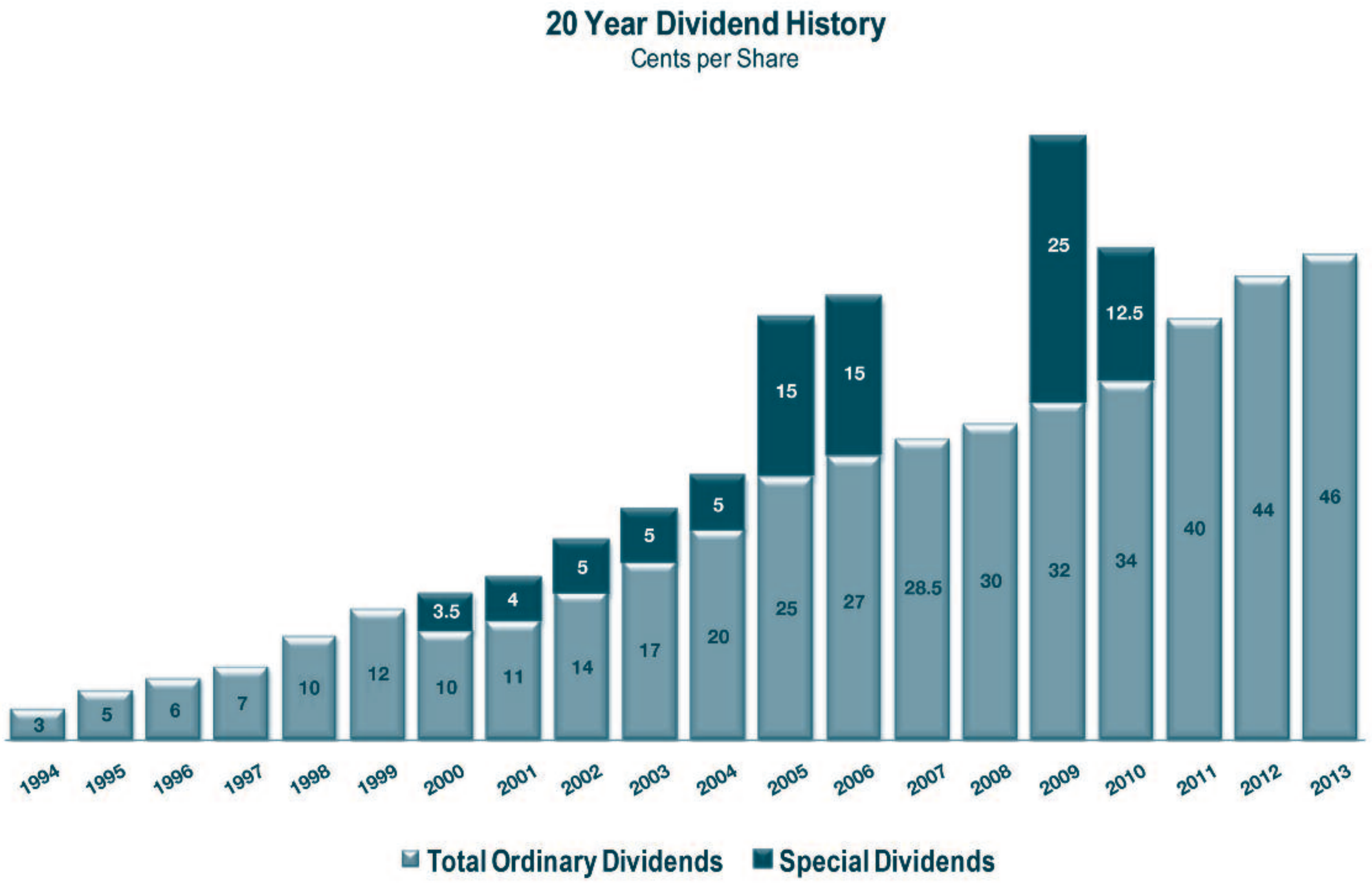
The regular profits after tax of prior years have been restated for consistency with the current year. Refer to Note 3, Segment Information, of the Consolidated Financial Statements for further information.

* Regular profit after tax is a non-statutory profit measure and represents profit from continuing operations before non-regular items. A reconciliation to statutory profit is included in the Consolidated Financial Statements – Note 3, Segment information.

# Chairman's Review (continued)

## Dividends

The chart below shows the ordinary and special dividends paid or declared by the Parent Company over the last 20 years.




## Final Dividend

The Directors have declared a fully franked final dividend of 28 cents per share in respect of the year ended 31 July 2013 (2012: 27 cents fully franked).

The record date for this dividend will be 18 November 2013 with payment due on 9 December 2013.

The Directors consider the regular profit after tax* to be the underlying profit of the Group. Accordingly, interim and final dividends are declared and paid based on that profit.

* Regular profit after tax is a non-statutory profit measure and represents profit from continuing operations before non-regular items. A reconciliation to statutory profit is included in the Consolidated Financial Statements – Note 3, Segment information.

# Chairman's Review (continued)

## Parent Company Investments

As at 31 July 2013 WHSP held listed equity investments valued at $4.20 billion. Details of the largest investments, which also represented significant holdings in those companies, are included below.

| **As at 31 July 2013** (including controlled and associated entities) | **WHSP Holdings** | **Value of WHSP's Holding $ million** | **Total Market Capitalisation of each investment $ million** |
|---|---|---|---|
| **Listed Investments at Market Value** | | | |
| New Hope Corporation Limited | 59.7% | 1,834 | 3,073 |
| Brickworks Limited | 44.4% | 801 | 1,803 |
| TPG Telecom Limited | 26.9% | 783 | 2,913 |
| BKI Investment Company Limited | 13.0% | 93 | 714 |
| Aust. Pharmaceutical Industries Limited | 24.6% | 53 | 215 |
| Apex Healthcare Berhad | 30.3% | 47 | 155 |
| Ruralco Holdings Limited | 23.5% | 41 | 173 |
| Clover Corporation Limited | 28.6% | 25 | 89 |
| | | 3,677 | |
| Other Listed Investments | | 521 | |
| **Parent Company Listed Investments** | | **4,198** | |

## Cash - Parent Company and wholly-owned subsidiaries

| **As at 31 July 2013** | **$ million** |
|---|---|
| Cash and Deposits | 227 |

## Board of Directors

During the financial year there were two changes to the Board of Directors.

Mr. Michael Millner resigned from the Board on 1 October 2012. Michael was appointed as a Non-executive Director in 1997 and became the Deputy Chairman in 1998 as well as serving on Board committees. On behalf of the Board, I wish to thank Michael for his significant contribution to the Company over the past 15 years.

Mr. Michael Hawker was appointed as a Non-executive Director on 10 October 2012. Michael has a Bachelor of Science Degree from Sydney University and brings vast experience to the Board having worked in banking, insurance and non-executive director roles. He currently sits on the boards of Macquarie Group Limited, Macquarie Bank Limited and Aviva PLC. Michael has proved to be a valuable addition to the Board.

On behalf of the Board, I wish to thank the management and staff of the Washington H. Soul Pattinson Group for their contribution during the year. I would also like to thank you, the Shareholders, for your continued support.

**R D Millner**
Chairman

# Review of Group Entities

## Parent Company

The market value of the listed equities held, excluding controlled entities and associates, was $521.2 million at 31 July 2013. This represents an increase of 20.0% since 31 July 2012 after adjusting for Exco Resources Limited (Exco) which is now a controlled entity. Under the Group's accounting policies, movements in the market values of investment portfolio assets are taken up in other comprehensive income or reflected within the profit for the period as impairments. Movements in the market values of trading portfolio assets are taken up within the profit for the period.

Exco was delisted in January 2013 following a successful offer by WHSP to acquire all of the issued shares of Exco it did not already own. WHSP invested $83.2 million in Exco during the year bringing the total amount invested to $101.9 million. When the takeover was completed Exco was debt free and held cash reserves in excess of $45 million.

**Listed investments based on market value as at 31 July 2013**
(excluding controlled and associated entities)

| | Market Value $ million |
|---|---|
| Milton Corporation Limited | 133 |
| Commonwealth Bank of Australia | 58 |
| BHP Billiton Limited | 51 |
| National Australia Bank Limited | 25 |
| SFG Australia Limited | 22 |
| Perpetual Limited | 21 |
| Telstra Corporation Limited | 19 |
| Wesfarmers Limited | 18 |
| Westpac Banking Corporation | 15 |
| Brambles Limited | 15 |
| **Total – Ten Largest** | **377** |
| Other | 144 |
| **Total** | **521** |

Including controlled entities and associates, the market value of listed equities was $4.20 billion as at 31 July 2013. This represents an increase of 13.1% since 31 July 2012 after adjusting for the investment in Exco which was delisted during the year.

Acquisitions of listed equities totalled $6.4 million for the year, excluding Exco. The main acquisition was Rum Jungle Resources Limited.

Proceeds from disposals totalled $9.3 million and included Industrea Limited and Suncorp-Metway Limited preference shares.

During the year WHSP received returns of capital totalling $4.3 million from Primeag Australia Limited.

Ordinary dividend and distribution income from listed equities held, excluding those from controlled entities and associates, was $20.8 million, an increase of 2.3% over 2012. Special dividends of $0.2 million were received during the year. Special dividends for 2012 were $0.3 million after adjusting for a $13.0 million special dividend received from Exco which is now controlled.

Interest income for the year, excluding that from controlled entities and associates, totalled $13.5 million compared to $18.8 million last year. This reduction was due to both lower interest rates and less funds being on deposit.

## New Hope Corporation Limited

**Controlled entity: 59.7% held***

**Contribution to Group profit: $44.2 million**

**Total Market Capitalisation: $3.07 billion***

**Value of WHSP's Holding: $1.83 billion***

**ASX code: NHC**

New Hope reported a net profit after tax and before non-recurring items of $125.0 million for the year ended 31 July 2013. The result comprised $80.2 million from coal mining, marketing and logistics operations and $44.7 million from investments. The result was down 27.0% compared to $171.1 million last year ($113.1 million from coal mining, marketing and logistics operations and $58.0 million from investments).

Due to the weak market conditions prevailing at 31 July 2013, New Hope wrote down its investments in Dart Energy Limited, Westside Corporation Limited and the Quantex group of companies. These one off impairments to the book carrying value of the investments totalled $51.4 million on an after tax basis.

Net profit after tax and non-recurring items for the year was $74.1 million, 55.6% lower than the $167.1 million recorded in 2012.

Basic earnings per share before non-recurring items were 15.0 cents per share, compared to 20.6 cents per share in 2012. After non-recurring items, basic earnings were 8.9 cents per share for 2013 against 20.1 cents in 2012.

New Hope has declared a final dividend of 5 cents per share (2012: 5 cents) and a special dividend of 5 cents per share (2012: 20 cents). Both of these dividends are fully franked.

Compared to the previous corresponding period, the 2013 full year result was impacted by:

- Lower clean coal production (down 7%);
- Lower sales volume (down 4%);
- Lower cost of sales (down 10%), albeit on lower volumes;
- Lower revenues from continuing operations (down 15%); and,
- Lost sales due to flooding in early 2013 and resultant impacts to rail infrastructure.

### Mining Operations

Production for the year was adversely impacted by the following significant events:

- Higher than normal rainfall across south east Queensland which culminated in localised flooding in early 2013, and resulted in the western rail line infrastructure being inoperative for 3 weeks;
- Cessation of mining at Oakleigh following the recovery of all economic coal reserves in the first quarter of 2013;
- The scaling back of operations at the high cost Jeebropilly mine due to difficult market conditions.

The New Acland open cut mine produced 4.7 million tonnes of product coal for the year a decrease of 0.4 million tonnes compared to 2012. The mine lost 3 weeks of rail transport due to rain damaged rail lines in February 2013. This resulted in a 2 week mine closure at Easter, due to stockpile capacity limitations.

The West Moreton operations, comprising Jeebropilly and Oakleigh open cut coal mines, produced 1.14 million tonnes of product coal in 2013 (Jeebropilly 0.87 million tonnes and Oakleigh 0.27 million tonnes) compared to 1.20 million tonnes in 2012.

### Queensland Bulk Handling (QBH)

QBH, New Hope's 100% owned coal terminal at the Port of Brisbane, exported 8.73 million tonnes of coal on 113 vessels. This result was similar to last year and within reforecast budget expectations despite difficult market conditions imposed on QBH's customer base. The result was also impacted by severe weather in January 2013 which caused landslides on the Toowoomba range damaging rail lines. QBH continues to be an essentially demurrage free port.

### New Hope Exploration

New Hope continues an active exploration program utilising three New Hope drilling rigs plus contract rigs as required. Exploration focused on the continued resource definition of the Bowen Basin and Surat Basin. Exploration on the mineral tenures focused on the eastern edge of the Mount Isa block.

*As at 31 July 2013

## New Hope Corporation Limited (continued)

The exploration programs consisted of seismic, aeromagnetic, gravity and electro-magnetic surveys in addition to drilling. The drilling program consisted of 151 open holes and 79 core holes, totalling 28,709 metres.

### Pastoral Operations

During the year New Hope continued cattle grazing trials on its rehabilitated land. Early results are encouraging.

The core focus areas remain:

- Effective utilisation of all Acland land, both before and after mining;
- Active rehabilitation of disturbed land as soon as possible after mining with a view to returning it to a quality that is equal to, or better than, the pre-disturbed land condition;
- Ongoing scientific trials to demonstrate the ability and commercial viability of returning disturbed land to a productive state.

During the year New Hope sold 2,570 head of cattle compared to 2,138 in 2012, and increased its total herd size from 1,996 to 2,460 head.

### Development Projects

Mining and environmental approvals for New Hope's portfolio of coal projects are progressing. These include the revised New Acland Coal Mine Stage 3 brownfield project and the greenfield projects at Lenton, Colton and Elimatta.

### Carbon Conversion Projects

During the year New Hope continued to investigate two alternative coal to liquids processes, with a view to commercialisation.

The construction of a one tonne per hour proof of concept plant at Jeebropilly continued throughout the year. Most site infrastructure and the gasifiers are now in place, however delays were experienced in the delivery and installation of the liquefaction units. The gasification process is likely to be commissioned in late 2013, followed by the liquefaction process.

While encouraging technical results have been achieved at the Quantex facilities in West Virginia USA, progress towards commercialisation has been slow. Due to Quantex requiring additional capital to continue testing, New Hope is re-assessing this investment, with a view to either delivering a commercially viable business case within a defined period or ceasing investment in the venture. As a result of the uncertainty surrounding this investment, New Hope has fully impaired the $13.3 million carrying value of the Quantex investment.

As a result of WHSP's 59.7% holding in the issued capital of the company, New Hope contributed a net profit of $44.2 million to the Group (2012: $99.8 million).

### Outlook

New Hope's coal assets remain well positioned to weather the current soft market conditions facing Australian thermal coal producers. Cost reduction initiatives across all sites have already delivered significant savings during the 2013 financial year and management remains focussed on delivering further prudent savings during the 2014 financial year.

Production and sales for 2014 are likely to be slightly lower due to the cessation of mining at Oakleigh (contributed 273,000 tonnes in 2013) and the scaling back of operations at Jeebropilly from the rate of approximately 1 million tonnes per annum to 0.7 million tonnes per annum. Acland will slightly offset this by producing at the maximum allowable rate of 4.8 million tonnes compared to 4.7 million tonnes in 2013.

Port operations are expected to achieve marginally increased exports in 2014 nearing design capacity of 10 million tonnes per annum.

Spot thermal coal prices are forecast to remain weak in US Dollar terms over the coming twelve months, however, the recent devaluation of the Australian Dollar has lifted the average price achieved in Australian Dollar terms.

As a vertically integrated, low cost Australian coal producer New Hope remains well positioned to continue generating operating profits, albeit at lower levels than those recorded in 2013.

A strong balance sheet provides flexibility to take advantage of acquisition opportunities that may present themselves during the current soft market. At the same time New Hope can take a longer term view of coal markets in respect of its development portfolio. This will ensure that prudent expenditure continues on exploration and approvals work so that development can occur swiftly once market conditions improve.

*As at 31 July 2013

## CopperChem Limited

**Controlled entity: 100% held***

**Contribution to Group result: $20.9 million loss**

**Unlisted entity**

## Exco Resources Limited

**Controlled entity: 100% held***

**Contribution to Group profit: $0.9 million**

**Unlisted entity**

CopperChem is a producer of copper sulphide and copper concentrate. Its operations are based in Cloncurry in north-west Queensland, 124kms from Mt Isa.

On 27 May 2013 Group Companies acquired all of the shares in CopperChem not previously held, making CopperChem a wholly owned Group Company.

2013 was a turn-around year for CopperChem, implementing a new operating strategy, and building new management and operating teams. These changes resulted in CopperChem producing positive earnings before interest, tax, depreciation and amortisation (EBITDA) in the second half of the 2013 financial year.

As part of the new operating strategy, CopperChem transitioned its workforce from Fly-In-Fly-Out to residential with the majority of staff now living in the Cloncurry area. As a result total costs reduced by 12.5% despite operations doubling its production rate. This equated to a 59.7% reduction in costs on a per tonne basis.

Operationally, CopperChem initiated mining from two additional open cut mines whilst the copper concentrator throughput was increased from its 60 tonnes per hour design capacity to 100 tonnes per hour without significant capital expenditure.

Production of copper sulphide from the heap leach operation was affected by a severe shortage of water due to on-going drought conditions in the Cloncurry area. The north-west area of Queensland is currently experiencing its longest and driest period for over 20 years. CopperChem continues to work closely with the Cloncurry Council looking at alternative sources of water supply in the region.

On 9 November 2012 Exco became a subsidiary of WHSP and on 28 December 2012 WHSP completed its off-market takeover of Exco. WHSP invested $83.2 million in Exco during the year bringing the total amount invested to $101.9 million. Exco was debt free and held cash reserves in excess of $45 million when the takeover was completed. In addition, WHSP received a $13.0 million special dividend from Exco during the 2012 financial year.

Following completion of WHSP's 100% acquisition of Exco, the WHSP Group now has access to sulphide and oxide ores located on 3,000km² of tenements in the region. These tenements have the potential to provide significant additional oxide and sulphide ore to CopperChem's plant operations for the next decade.

The first tenement to be mined and processed through the Exco-CopperChem management alliance is the Mt Colin Open-Cut Copper-Gold deposit. Mining is expected to begin at Mt Colin in November 2013.

Despite the sub-optimal supply of water to the operations and a challenging ore structure CopperChem reduced its second half loss to $4.9 million compared to a loss of $17.1 million during the first half of the financial year.

As a result of WHSP's interest in the issued capital of the company throughout the period, CopperChem contributed a net loss of $20.9 million to the Group. (2012: 93.4% held, $31.3 million loss).

As a result of WHSP's holding in the issued capital of the company, Exco contributed a net profit of $0.9 million to the Group in respect of the period 9 November 2012 to 31 July 2013. No dividend income was received from Exco during the period 1 August 2012 to 8 November 2012. For the year ended 31 July 2012 special dividends of $13.0 million were received from Exco.

*As at 31 July 2013

# Review of Group Entities (continued)

## Pitt Capital Partners Limited

**Controlled entity: 100% held***

**Contribution to Group profit: $1.5 million**

**Unlisted entity**

PCP is a corporate advisory firm specialising in mergers, strategic advice, equity capital markets, private equity, restructuring and debt advisory work.

For the year ended 31 July 2013, PCP's revenues were down 36% on 2012, despite an increased number of advisory assignments completed during the year. The market for completed mergers, acquisitions, capital raisings and IPOs continues to experience poor volumes in both number and size of transactions.

During the year PCP increased its ownership of Pitt Street Real Estate Partners Pty. Limited (PSREP) to 75% making PSREP a subsidiary of PCP.

PSREP is focused on identifying investments in the real estate sector which provide good risk adjusted returns, and aims to enhance returns through the structuring of investments.

PSREP is the manager of the Australian Logistics Property Fund (ALPF) which is 100% owned by WHSP. The activities of the ALPF are discussed below.

As a result of Group's 100% interest in the issued capital of the company, PCP contributed a net profit of $1.5 million to the Group (2012: $3.2 million).

## Australian Logistics Property Fund

**Controlled entity: 100% held***

**Unlisted entity**

The ALPF was established by Pitt Street Real Estate Partners Pty. Limited (PSREP) for WHSP in February 2013 with the intention of developing and owning distribution centres for lease to major tenants across Australia. As at 31 July 2013 the ALPF was 100% owned by WHSP.

The ALPF commenced the construction of two distribution centres during the year. They are strategically located on prime industrial land, at Erskine Park in NSW and at Brendale in Queensland. Both of the facilities will have long term lease arrangements with one of Australasia's top 10 corporate retailers, Super Retail Group Limited (SRG). The buildings form a significant and critical infrastructure development for SRG in their continued growth across Australia.

Construction of the Erskine Park facility commenced in March this year. As at 31 July 2013 the project was 45% complete. Earth works were underway for the Brendale facility at year end.

PSREP is managing the construction of the two distribution centres on behalf of the ALPF. PSREP will continue to work with the ALPF to identify further opportunities as they arise, and manage and report on its existing assets.

WHSP had invested $47.0 million in the ALPF at 31 July 2013 further diversifying the Group's portfolio of investments.

As the projects were under construction the ALPF did not generate income during the year.

*As at 31 July 2013

## Ampcontrol Pty. Limited

**Associated entity: 43.3% held***

**Contribution to Group profit: $6.9 million**

**Unlisted entity**

Ampcontrol is a leading international supplier of electrical and electronic products with a strong presence in providing products and services to the mining sector, in particular for underground coal mining.

Ampcontrol is currently expanding its capabilities to include a range of coal mining, metalliferous, energy, utilities and industrial applications. It has approximately 1,200 staff with operations across Australia and overseas including; Hong Kong, China, New Zealand, South Africa, Botswana, Russia, the USA and the United Kingdom.

Ampcontrol's revenue for the year ended 30 June 2013 was $293.3 million. Earnings before interest, tax, depreciation and amortisation were $33.1 million for the year.

WHSP has equity accounted Ampcontrol's result for the 12 months to June 2013. As a result of WHSP's interest in the issued capital of the company throughout the period, Ampcontrol contributed a net profit of $6.9 million to the Group.

---

## Apex Healthcare Berhad

**Associated entity: 30.3% held***

**Contribution to Group profit: $2.9 million**

**Total Market Capitalisation: $155 million***

**Value of WHSP's Holding: $47 million***

**Listed on Bursa Malaysia, code: APEX MK**

Apex Healthcare Berhad is a manufacturer, distributor and retailer of pharmaceutical and healthcare products with operations in Malaysia, Singapore, Indonesia and Vietnam and is publicly listed on the Main Board of Bursa Malaysia.

Apex's financial year ends on 31 December 2013. Apex's results for the six months ended 30 June 2013 have been converted into Australian dollars.

Apex generated revenue of $68.3 million, an increase of 7.8% over $63.4 million for the previous corresponding period. Net profit after tax was $5.1 million, an increase of 14.1% compared to 2012.

An interim dividend of 1.4 cents per share has been paid compared to 1.9 cents in 2012.

WHSP has equity accounted Apex's result for the 12 months to June 2013. As a result of WHSP's 30.3% holding in the issued capital of the company, Apex contributed a net profit of $2.9 million to the Group (2012: $2.6 million).

*As at 31 July 2013

# Review of Group Entities (continued)

## Australian Pharmaceutical Industries Limited

**Associated entity: 24.6% held***

**Contribution to Group profit: $6.1 million**

**Total Market Capitalisation: $215 million***

**Value of WHSP's Holding: $53 million***

**ASX code: API**

API's financial year ended on 31 August 2013. The results for the full year were due to be released to the market on 24 October 2013.

For the six months ended 28 February 2013, API reported revenues in line with last year, despite ongoing Pharmaceutical Benefits Scheme reforms. API's pharmacy wholesale division delivered a solid sales performance driven by underlying growth of 6.9% after adjusting for the impact of sector reforms.

The API Group reported a statutory net profit after tax of $12.9 million for the half year, a decline of 29.8%. The prior corresponding period included insurance proceeds of $14.5 million.

Priceline, API's mass market health and beauty retailing division, reported sales growth of 3.3% on the same period last year. Like-for-like store sales were marginally down 0.6% on the corresponding period, however, strong growth in gross profit margin of 0.8% was achieved despite intense price competition across the retail sector.

During the six months to 28 February 2013 API continued to reduce its net debt and improve cash flow from operations.

API maintained a fully franked interim dividend of 1.5 cents per share which was paid on 7 June 2013.

WHSP has equity accounted API's result for the 12 months to February 2013. As a result of WHSP's 24.6% holding in the issued capital of the company, API contributed a net profit of $6.1 million to the Group (2012: $7.4 million).

## BKI Investment Company Limited

**Associated entity: 13.0% held***

**Contribution to Group profit: $4.4 million**

**Total Market Capitalisation: $714 million***

**Value of WHSP's Holding: $93 million***

**ASX code: BKI**

For the year ended 30 June 2013 BKI's net operating result (before special dividend income) increased by 8.0% to $29.9 million, whilst earnings per share (before special dividend income) increased by 4.7% to 6.81 cents per share.

BKI's share price performance (including the reinvestment of dividends) for the year ended 30 June 2013 was 29.4%, outperforming the S&P/ASX 300 Accumulation Index over the same period by 7.5%.

BKI has paid a final ordinary dividend of 3.4 cents per share, up from 3.2 cents per share last year. Total dividends for the year were up 11.7% to 7.15 cents per share, including a special dividend of 0.5 cents per share paid in the first half. All of the dividends were fully franked.

WHSP has equity accounted BKI's result for the 12 months to June 2013. As a result of WHSP's holding in the issued capital of the company throughout the period, BKI contributed a net profit of $4.4 million to the Group (2012: $4.1 million 13.5% held).

*As at 31 July 2013

## Brickworks Limited

**Associated entity: 44.4% held***

**Contribution to Group profit: $13.6 million**

**Total Market Capitalisation: $1.80 billion***

**Value of WHSP's Holding: $801 million***

**ASX code: BKW**

Brickworks posted a normalised net profit after tax (NPAT) for the year ended 31 July 2013 of $100.0 million, up 26.9% from $78.9 million for the year ended 31 July 2012. After significant items, Brickworks' headline NPAT was up 96.7% to $85.2 million.

Building Products earnings before interest, tax and significant items was $32.8 million, up 14.9% on the prior year. This result was achieved on the back of strong selling price increases, despite another year of subdued detached housing construction activity.

Land and Development earnings before interest and tax (EBIT) was up 161.0% to $49.6 million, driven primarily by the sale of 'Oakdale South' for a profit of $23.4 million in the first half and continued strong growth of the joint venture property trust.

The impact of significant items after tax was a net expense of $14.9 million.

Normalised earnings per share were 67.7 cents, up from 53.4 cents per share for the prior year.

The directors of Brickworks have maintained the final dividend of 27 cents fully franked, taking the full year dividends to 40.5 cents fully franked, in line with last year.

### Divisional Results

Austral Bricks' sales revenue for the year ended 31 July 2013 was up 6.2% to $296.0 million despite flat volumes. Earnings were up 43.4% on the prior year, primarily as a result of a 6.5% increase in prices and strong cost controls. Total productivity improvements delivered an estimated $9.9 million in cost reductions during the year, including labour reductions. However, these savings were offset by unit cost increases such as energy price increases of $8.7 million (including the impost of the carbon tax).

Bristile Roofing's sales revenue was relatively stable at $104.9 million, with increased selling prices offsetting a decline in volume. Earnings were up by 34.5% on 2012 despite the decrease in volumes.

On the East Coast, earnings improvements in New South Wales and Queensland more than offset declines in Victoria. Sales of imported La Escandella terracotta products continue to gather momentum, supplementing the locally manufactured concrete roof tile range in these states.

Austral Masonry's sales revenue was up 18.3% to $62.4 million and earnings were up by 20.3%. The performance in New South Wales was the key driver of the improvement, assisted by the acquisition of Boral's masonry operation at Prospect in February 2013. This acquisition enabled the rationalisation of production facilities, with the existing Port Kembla facility being closed in March 2013 and volume being transferred to Prospect. In addition to significant manufacturing and administrative synergies, the acquisition has enabled an expanded paving and retaining wall product range to be offered along the East Coast.

Austral Precast's sales revenue was down 6.7% to $63.4 million, with the reduction in non-residential building activity contributing to a decline in sales volume. Earnings were also lower, with costs adversely impacted by flooding and delays in commissioning the new batch plant at the Wetherill Park facility in New South Wales.

Auswest Timbers' sales revenue was up 7.7% to $42.8 million for the year. A fire at the Deanmill facility caused significant disruption to operations in Western Australia, with the site being out of operation for almost the entire year and only limited production being transferred to Pemberton. The Deanmill plant has now been fully rebuilt and as a result it will be a safer and more efficient plant. A significant portion of the business interruption costs have been recovered through insurance, with the final payout expected to be finalised in the first half of the 2014 financial year.

Land and Development produced an EBIT of $49.6 million for the year ended 31 July 2013, up 161.0% from $19.0 million for the prior year.

*As at 31 July 2013

# Review of Group Entities (continued)

## Brickworks Limited (continued)

The improved result was primarily driven by increased property sales which contributed an EBIT of $28.2 million for the year compared to $0.7 million in the prior year. The major transaction for the year was the sale of 'Oakdale South' into the joint venture property trust for a profit of $23.4 million in the first half. Transactions in the second half included the sale of 2.6 hectares into the property trust, to allow the existing Coles Distribution Centre to be extended, and the sale of a quarry at Swanbank in Queensland for $2.0 million.

The property trust generated an EBIT of $24.3 million, up 24.0% from $19.6 million last year. Net property income distributed from the trust was $10.0 million for the year, up from $9.0 million in the year ended 31 July 2012.

As a result of WHSP's holding in the issued capital of the company throughout the period, Brickworks contributed a $17.9 million regular profit to the Group (2012: 44.5% held, $5.2 million). In addition, WHSP's share of non regular expenses was $4.3 million (2012: 44.5% held, $21.8 million). These contributions exclude the WHSP profit taken up by Brickworks under the equity accounting method.

### Outlook

Provided housing activity is relatively constant, the Building Products Group is expected to deliver an improved result in the 2014 financial year due to internal business improvement initiatives and pricing increases. Any improvement in detached housing commencements will provide additional impetus to Building Products earnings.

Please refer to announcements by Brickworks for further information.

---

## Clover Corporation Limited

**Associated entity: 28.6% held***

**Contribution to Group profit: $1.7 million**

**Total Market Capitalisation: $89 million***

**Value of WHSP's Holding: $25 million***

**ASX code: CLV**

Clover reported a net profit after tax for the 12 months ended 31 July 2013 of $6.1 million, an increase of 38.6% compared to 2012. The result last year included an impairment of $1.2 million associated with the closure and asset sale of the former joint venture, Future Foods Ingredients Pty. Limited.

Based on the performance of Clover in 2013, the Directors have declared a fully franked final dividend of 1.5 cents per share in respect of the year ended 31 July 2013. A fully franked interim dividend of 0.5 cents per share was paid in April 2013.

Sales revenue for the year was $44.1 million, a 14.9% increase compared to last year.

Clover noted the following in its release to the market on 18 September 2013:

- Continued focus on sales of products for use in the infant formula market, now at 98% of total sales revenue;
- Re-signed a 5 year supply agreement with multinational infant formula company;
- Expenditure on innovation and research was in line with the business strategy. R&D expenditure was $1.8 million, a 20% increase over the corresponding period last year;
- The Medical Foods initiative developed by Clover is currently involved in a Phase 3 clinical study in Australia and overseas with approximately 1,250 infants participating. Results of the study will be available by mid 2015. The regulatory, manufacturing and commercial plans associated with the initial medical food product are currently under development. Clover expects a further $1 million in R&D costs will be required to develop this project during 2014;
- In the past month the identification of contaminated milk powder in New Zealand has been widely reported in the media. Clover is a supplier into this market, however, it is unknown at this time what impact this incident will have on Clover's sale of ingredients to infant formula manufacturers over the next 2-3 months;
- Clover continues to look at strategic acquisition opportunities in relation to expanding its current product range and market and sales footprint.

As a result of WHSP's 28.6% holding in the issued capital of the company, Clover contributed a net profit of $1.7 million to the Group (2012: $1.2 million).

*As at 31 July 2013

## Ruralco Holdings Limited

**Associated entity: 23.5% held***

**Contribution to Group profit: $0.8 million**

**Total Market Capitalisation: $173 million***

**Value of WHSP's Holding: $41 million***

**ASX code: RHL**

Ruralco's financial year ends on 30 September 2013. Ruralco's results for the full year are not scheduled to be released to the market until 19 November 2013.

Ruralco released its half year result on 21 May 2013. For the six months to March 2013, revenue decreased by 7.4% to $495.4 million compared to the previous corresponding period. The net result after tax was a loss of $0.5 million compared to a profit of $10.0 million for the first half last year.

Ruralco reported that the results had been impacted by the write-down of its investment in Elders Limited, costs associated with that investment and abnormally dry and hot conditions during the period.

An interim dividend of 10 cents per share fully franked was paid on 19 June 2013 (2012: 10 cents per share).

WHSP has equity accounted Ruralco's result for the 12 months to March 2013. As a result of WHSP's 23.5% holding in the issued capital of the company, Ruralco contributed a net profit of $0.8 million to the Group (2012: $3.5 million).

---

## TPG Telecom Limited

**Associated entity: 26.9% held***

**Contribution to Group profit: $40.2 million**

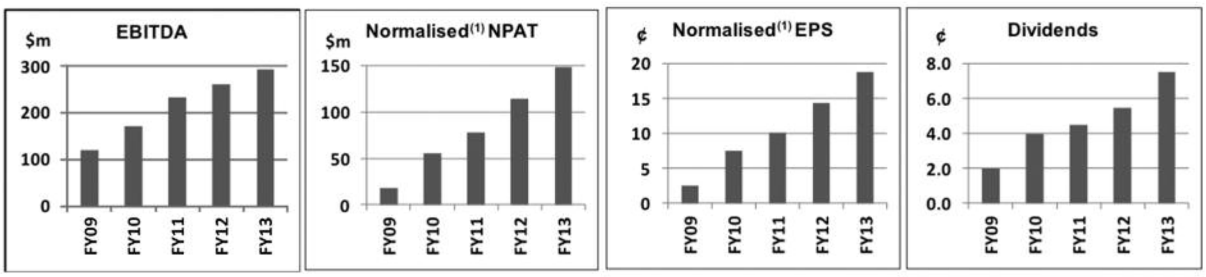
**Total Market Capitalisation: $2.91 billion***

**Value of WHSP's Holding: $783 million***

**ASX code: TPM**

TPG has reported earnings before interest, tax, depreciation and amortisation (EBITDA) of $293.1 million for the year ended 31 July 2013, an increase of 12% over last year.

Net profit after tax (NPAT) for the year was $149.2 million, 64% higher than in 2012. Last year's result was adversely affected by a $23.2 million one-off tax expense which arose from a retrospective tax legislation change. After excluding the impact of this from the 2012 result, 2013 represents a 31% increase in NPAT and earnings per share (EPS). EPS grew to 18.8 cents for the year.




(1) In the above charts NPAT and EPS for the 2012 financial year have been normalised to exclude a $23.2 million one-off tax expense incurred as a result of a retrospective change in tax legislation that was enacted in June 2012. The purpose of providing these normalised measures is to remove the distortion of TPG's NPAT and EPS results created by the one-off impact of the retrospective legislation change. Please refer to TPG's announcements for further information.

### Consumer Business

TPG's consumer division achieved organic growth of its broadband subscriber base of 76,000 compared to growth of 47,000 last year. The mobile phone subscriber base increased by 105,000 compared to growth of 54,000 last year.

As at 31 July 2013 TPG had 671,000 broadband subscribers and 360,000 mobile phone subscribers.

*As at 31 July 2013

# Review of Group Entities (continued)

## TPG Telecom Limited (continued)

### Corporate Business

TPG's corporate division achieved EBITDA of $110.3 million for the year which was in line with 2012. However, the accounting gains from Indefeasible Right of Use (IRU) sales of $10.5 million included within this year's result were $10.2 million lower than in 2012, meaning that the division's underlying recurring earnings (excluding IRU gains) again grew strongly, by over 10%.

This earnings growth has been achieved in a highly competitive environment in corporate, government and wholesale sales, and is largely attributable to improved margins resulting from TPG's previous and ongoing fibre network investment.

### Infrastructure Investment

TPG's extensive infrastructure provides significant benefits for financial performance and growth. During the year TPG continued to invest in expanding its DSLAM and fibre network infrastructure, whilst managing to reduce its overall capital expenditure by 10% to $58.3 million for the year.

Domestic fibre: TPG's domestic fibre network footprint grew by over 800kms during the year to greater than 3,800kms, with more than 300 additional buildings becoming directly connected to the network, resulting in total on-net buildings now exceeding 1,600. TPG has extensive fibre infrastructure in built-up areas of major capital cities throughout Australia.

International fibre: TPG's international fibre infrastructure includes its own submarine cable ("PPC-1") linking Australia to Guam, as well as capacity on other cable networks linking Australia directly with New Zealand, USA, Japan, Hong Kong, Singapore and the Philippines. In August 2013 TPG issued a letter of intent to submarine cable group Hawaiki Cable Limited confirming its intention to acquire capacity on the Australia-US and Australia-NZ segments of the planned Hawaiki submarine cable system. This would provide a significant addition to the capacity and diversity of TPG's international network which, once activated, should deliver cost savings. The expected capital expenditure in relation to this project is between US$10 million and US$20 million for each of the next three financial years commencing in FY2014, prior to the cable's expected activation in the 2016 financial year.

Spectrum: A new addition to TPG's network infrastructure was announced during the year with a successful bid at the digital dividend auction for 20MHz of spectrum licences in the 2.5GHz band across the country. This acquisition will complement TPG's fixed infrastructure, giving it opportunities to offer innovative, value-adding products to further enhance its existing product suite. This capacity will become available for use from October 2014, with the $13.5 million purchase price payable in September 2014.

Data Security Software: During the year TPG invested $10 million to acquire a 15% equity stake in data security software business Cocoon Data Holdings Limited (CDHL) and an exclusive licence to distribute certain CDHL products in Australia and New Zealand.

Fibre to the building: TPG is planning to increase the number of buildings directly connected to its fibre network in metropolitan areas. With the evolution of new technologies now enabling speeds of up to 100 Mbps this will enable it to commence offering very high-speed broadband services to its customers at ADSL2+ prices.

### Cash Flow

The quality of TPG's earnings result was again reflected in its cash flow performance, with $317.8 million cash being generated from operations (pre-tax) for the year. After tax, interest and capital expenditure, TPG had free cash flow of $174.5 million.

This free cash flow enabled TPG to repay $107 million of debt during the year, fund the $10 million investment in CDHL and pay an increased dividend. TPG's net debt, after netting off cash at hand of $26 million, had been reduced to $16 million at 31 July 2013.

### Dividend

TPG has declared a fully franked final dividend of 4 cents per share, bringing total dividends for the year to 7.5 cents per share (fully franked), an increase of 36% over last year.

As a result of WHSP's 26.9% holding in the issued capital of the company, TPG contributed a net profit of $40.2 million to the Group (2012: $24.4 million).

*As at 31 July 2013

# Directors' Report

The Directors of Washington H. Soul Pattinson and Company Limited (WHSP, Parent Company) present their report and the financial statements of the consolidated entity, being the Parent Company and its subsidiaries, for the financial year ended 31 July 2013.

## DIRECTORS

The following persons were Directors of WHSP for the whole of the financial year and up to the date of this report:

Mr R D Millner
Mr P R Robinson
Mr D J Fairfull
Mr T C D Millner
Mr R G Westphal
Mr D E Wills

The following person was appointed as a Director of WHSP on 10 October 2012 and remains a Director at the date of this report:

Mr M J Hawker

The following person was a Director of WHSP until his resignation on 1 October 2012:

Mr M J Millner

## PRINCIPAL ACTIVITIES

The principal activities of the corporations in the consolidated entity during the course of the financial year were ownership of shares, coal mining, copper mining and refining and consulting. There were no significant changes in the nature of the consolidated entity's principal activities during the year.

## DIVIDENDS

Dividends paid or declared by the Company since the end of the previous financial year were:

| | Cents Per Share | Total amount $'000 | Franking % | Date of Payment |
|---|---|---|---|---|
| **Declared and paid during the year** | | | | |
| Final ordinary dividend 2012 | 27 | 64,637 | 100% | 10 December 2012 |
| Interim ordinary dividend 2013 | 18 | 43,091 | 100% | 9 May 2013 |
| Dealt with in the financial report as dividends | 45 | 107,728 | | |
| **Declared after the end of the year** | | | | |
| Final ordinary dividend 2013 | 28 | 67,031 | 100% | 9 December 2013 |

## REVIEW OF OPERATIONS

The profit after tax attributable to shareholders for the year ended 31 July 2013 was $105.4 million, a decrease of $37.6 million compared with the previous year. Impairments by New Hope Corporation Limited (New Hope) against the carrying values of its investments accounted for $30.7 million of this decrease.

On 28 December 2012 WHSP completed its off-market takeover of Exco Resources Limited (Exco). WHSP invested $83.2 million in Exco during the year bringing the total amount invested to $101.9 million. Exco was debt free and held cash reserves in excess of $45 million when the takeover was completed. In addition, WHSP received a $13.0 million special dividend from Exco during the 2012 financial year.

The Australian Logistics Property Fund (ALPF) was established on 27 February 2013 to develop and hold distribution centres for lease to major tenants across Australia. During the year the ALPF commenced construction of two distribution centres strategically located on prime industrial land, at Erskine Park in NSW and at Brendale in Queensland. As at 31 July 2013 WHSP had invested $47.0 million in the ALPF.

# Directors' Report (continued)

Comparison with the prior year is as follows:

| | 2013 $'000 | 2012 $'000 | % Change |
|---|---|---|---|
| **Revenue from continuing operations** | **791,315** | 912,359 | - 13.3% |
| **Profit after tax attributable to shareholders** | **105,421** | 142,989 | - 26.3% |
| **Interim Dividend** (paid in May each year) | **18 cents** | 17 cents | + 5.9% |
| **Final Dividend** | **28 cents** | 27 cents | + 3.7% |
| **Total Dividends** | **46 cents** | 44 cents | + 4.5% |

For further information regarding the operations of the Group refer to the Chairman's Review and the Review of Group Entities on pages 3 to 17 of this annual report.

## STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated entity's financial statements.

## FINANCIAL POSITION, FINANCIAL INSTRUMENTS AND GOING CONCERN

The Directors believe the Group is in a strong and stable position to grow its current operations.

Details of financial risk management objectives and policies are set out in note 32 of the consolidated financial statements.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in its operational businesses for the foreseeable future and have therefore continued to adopt the going-concern basis in preparing the financial statements.

## EVENTS SUBSEQUENT TO THE REPORTING DATE

The Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report or the consolidated financial statements that has or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years. Refer to note 44 of the consolidated financial statements.

## LIKELY DEVELOPMENTS, BUSINESS STRATEGY AND PROSPECTS

Further information about likely developments, business strategy and prospects and the expected results in subsequent financial years has not been included in this report because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the consolidated entity.

## ENVIRONMENTAL COMPLIANCE

The Group is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The Energy Efficiency Opportunities Act 2006 (EEO Act) requires the assessment of energy usage, including the identification and evaluation of energy saving opportunities, the reporting of assessments undertaken and the action which is intended as a result. The Group has fulfilled its obligations under the EEO Act.

The National Greenhouse and Energy Reporting Act 2007 requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2011/12 report to the Greenhouse and Energy Data Officer on 29 October 2012.

### New Hope Group (NHG)

The majority of the NHG's operations are in Queensland and are regulated by various regulatory authorities:

- Coal mining operations and exploration tenements are regulated under Queensland's Environmental Protection Act 1994.
- Queensland Bulk Handling (QBH) coal export port facility and Jondaryan rail loading facility are regulated under the Sustainable Planning Act 2009.
- Oil and gas operations are regulated under the Queensland Department of Environment and Heritage Protection (DEHP).

The NHG was not prosecuted for any breach of environmental laws during the year.

QBH has historically monitored dust levels within the site boundaries and no evidence of excessive dust has been identified. QBH has undertaken to expand the monitoring program to include areas further from the QBH boundary, including within the suburb of Wynnum North. QBH will continue to work with DEHP and the Port of Brisbane to ensure all aspects of its licence conditions continue to be met.

**New Hope Group (NHG) (continued)**

New Hope's operational sites have submitted reports under the National Pollutant Inventory program. During the year, New Hope commenced implementation of its Environmental Management System (EMS). The EMS assists New Hope to improve its environmental performance by increasing environmental awareness, optimising operational control, monitoring compliance and facilitating continuous improvement.

Bridgeport Energy Limited (Bridgeport) became a subsidiary of New Hope during the year. It executed various agreements including Cultural Heritage Management Agreements and Landowner Access Agreements for some of the permits it acquired during the year. Bridgeport operates its permits in accordance with Environmental Management System legislation.

**CopperChem Limited (CopperChem)**

CopperChem's mining operations and exploration tenements are regulated by the Queensland Department of Environment and Heritage Protection (DEHP) under Queensland's Environmental Protection Act 1994. Mining operations and exploration tenements each function under a site specific Environmental Authority.

There were three reportable environmental incidents during the year ended 31 July 2013.

In August 2012 seepage discharge from the Tailings Storage Facility was identified in Copper Mine Creek. As a result DEHP issued an Environmental Protection Order (EPO) to Copperchem. Eight of the ten requirements of the EPO were met by 2 November 2012 and a Transitional Environmental Program (TEP) to deal with the remaining requirements was accepted by DEHP in March 2013. Copperchem is on track to finalise the works required under the TEP and submit a final report to DEHP.

The second DEHP reportable incident involved a process pond overflowing. Raffinate, a low pH process solution, was released and contained locally in a drain and burrow pit. Copperchem was able to quickly and thoroughly remove all contaminated solution and earth to appropriate storage areas. An independent assessment and clean-up verification report is pending following sampling in October 2013.

The most recent incident involved tailings overflowing the storage facility. The overflow was minor and easily dealt with. Work is underway to raise the height of the dam walls.

Copperchem is audited annually by an independent third party with non-compliance reported to DEHP. Non-compliances and suggested environmental improvements are tabled and actioned. A separate Internal Environmental Improvement Program has also been developed and implemented.

## DIRECTORS

Information regarding the Directors of the Company.

**Robert Dobson Millner F.A.I.C.D.**

Chairman.

Non-executive Director since 1984, appointed Chairman 1998. Member of the Remuneration and Nomination Committees.

Mr Millner has extensive experience in the investment industry.

Other current listed company directorships:

- Apex Healthcare Berhad – Appointed 2000
- Australian Pharmaceutical Industries Limited – Appointed 2000
- Brickworks Limited – Appointed 1997 Chairman since 1999
- BKI Investment Company Limited – Appointed 2003 Chairman since 2003
- Milton Corporation Limited – Appointed 1998 Chairman since 2002
- New Hope Corporation Limited – Appointed 1995 Chairman since 1998
- TPG Telecom Limited – Appointed 2000

Former listed company directorships in the past three years:

- Choiseul Investments Limited – Appointed 1995 (company delisted December 2010)
- Exco Resources Limited – Appointed November 2012 (company delisted January 2013)
- Northern Energy Corporation Limited – Appointed 2011 (company delisted October 2011)
- Souls Private Equity Limited – Appointed 2004 (company delisted January 2012)

# Directors' Report (continued)

## DIRECTORS (continued)

**Peter Raymond Robinson B.Com.(UNSW), F.A.I.C.D.**

Executive Director.

Joined the Company 1978, appointed Executive Director 1984.

Mr Robinson has held both executive and non-executive directorships for a period of 29 years and has over 30 years experience at general management and Chief Executive Officer level. During this period Mr Robinson has had extensive experience in manufacturing and distribution.

Other current listed company directorships:

- Australian Pharmaceutical Industries Limited – Appointed 2000 Chairman since 2003
- Clover Corporation Limited – Appointed 1997 Chairman since 2002
- New Hope Corporation Limited – Appointed 1997

Former listed company directorships in the past three years:

- Exco Resources Limited – Appointed November 2012 (company delisted January 2013)
- Northern Energy Corporation Limited – Appointed 2011 (company delisted October 2011)

**David John Fairfull B.Com., A.C.I.S., C.P.A., FFin, M.A.I.C.D.**

Non-executive Director since 1997.

Member of the Nomination Committee, Chairman from 10 October 2012. Member of the Audit and Remuneration Committees.

Mr Fairfull is a merchant banker and professional company director with over 40 years experience in corporate finance.

Other current listed company directorships:

- Drill Torque Limited – Appointed 2011 Chairman since 2011
- Heritage Brands Limited – Appointed 2009 Chairman since 2009
- New Hope Corporation Limited – Appointed 1997

Former listed company directorships in the past three years:

- Northern Energy Corporation Limited – Appointed 2011 (company delisted October 2011)
- Souls Private Equity Limited – Appointed 2004 (company delisted January 2012)

**Michael John Hawker AM BSc(Sydney), F.A.I.C.D., SF Fin.**

Non-executive Director since 10 October 2012. Member of the Audit, Nomination and Remuneration Committees since 10 October 2012.

Mr Hawker is a professional company director with over 29 years experience in financial markets and investment. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, Mr Hawker held a range of positions at Westpac, including Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of positions at Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe.

Other current listed company directorships:

- Aviva PLC – Appointed 2010
- Macquarie Group Limited – Appointed 2010

**Thomas Charles Dobson Millner B.Des(Industrial), GDipAppFin(Finsia), FFin, G.A.I.C.D.**

Non-executive Director since 2011 and member of the Nomination Committee.

Mr Millner's experience includes management of investment portfolios, research and analysis of listed equities and business development. Mr Millner is the Chief Executive Officer of BKI Investment Company Limited (BKI). He joined BKI in 2008 and is the sole full time staff member of the Company.

Mr Millner has a Bachelor of Industrial Design degree and a Graduate Diploma in Applied Finance. He is a Fellow of the Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

Former listed company directorships in the past three years:

- Exco Resources Limited – Appointed November 2012 (company delisted January 2013)

## DIRECTORS (continued)

**Robert Gordon Westphal B.Com.(UNSW), F.C.A., FFin, M.A.I.C.D.**

Non-executive Director since 2006. Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

Mr Westphal is a Chartered Accountant and was a partner of Ernst & Young for 25 years. He has many years of experience in corporate transactions with particular emphasis on mergers and acquisitions, due diligence and valuation across a variety of industry sectors. Mr Westphal was formerly the Chairman of the Board of Governors of Queenwood School for Girls Limited for 10 years.

Other current listed company directorships:

- Xanadu Mines Ltd – Appointed 2010

Former listed company directorships in the past three years:

- Souls Private Equity Limited – Appointed 2005 (company delisted January 2012)

**David Edward Wills B.Com.(UNSW), F.C.A., M.A.I.C.D**

Non-executive Director since 2006. Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.

Mr Wills is a Chartered Accountant, having been a partner of Coopers & Lybrand and then PricewaterhouseCoopers for 25 years. He was Managing Partner of the Sydney office and Deputy Chairman of the Australian firm immediately prior to his retirement from the firm in 2004. As a result of Mr Wills' experience and qualifications, he brings financial expertise to the Board.

Former listed company directorships in the past three years:

- Clover Corporation Limited – Appointed 2005, Resigned June 2013
- Quickstep Holdings Limited – Appointed 2010, Resigned July 2013
- Souls Private Equity Limited – Appointed 2004 (company delisted January 2012)

## COMPANY SECRETARY

**Ian David Bloodworth**

Mr Bloodworth is a Chartered Accountant with more than 25 years accounting and company secretarial experience and was appointed Company Secretary of WHSP in 2007. He was also the Company Secretary of Clover Corporation Limited from 2007 to 2012. Prior to joining the Company, Mr Bloodworth was Company Secretary of the Garratts Limited Group of Companies for 2 years and Chief Financial Officer of the Group for 6 years.

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

| | | Directors' Meetings | | Audit Committee Meetings | | Remuneration Committee Meetings | | Nomination Committee Meetings | |
|---|---|---|---|---|---|---|---|---|---|
| | | Eligible to Attend | Number Attended | Eligible to Attend | Number Attended | Eligible to Attend | Number Attended | Eligible to Attend | Number Attended |
| Mr R D Millner | R,N | 27 | 27 | - | - | 2 | 2 | 2 | 2 |
| Mr P R Robinson | | 27 | 26 | - | - | - | - | - | - |
| Mr D J Fairfull | A,R,N | 24 | 22 | 7 | 7 | 2 | 2 | 2 | 2 |
| Mr M J Hawker | A,R,N | 17 | 16 | 4 | 4 | 2 | 2 | - | - |
| Mr T C D Millner | N | 24 | 24 | - | - | - | - | 2 | 2 |
| Mr R G Westphal | A,R,N | 26 | 25 | 7 | 7 | 2 | 2 | 2 | 2 |
| Mr D E Wills | A,R,N | 24 | 24 | 7 | 7 | 2 | 2 | 2 | 2 |
| Mr M J Millner | A,N | 7 | 7 | 3 | 3 | - | - | 1 | 1 |

A Denotes member of the Audit Committee of Directors during the year.

R Denotes member of the Remuneration Committee of Directors during the year.

N Denotes member of the Nomination Committee of Directors during the year.

# Directors' Report (continued)

## DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the Company, as notified to the Australian Securities Exchange in accordance with section 205G of the Corporations Act 2001, at the date of this report is as follows:

| | Ordinary Shares |
|---|---|
| Mr R D Millner | 20,292,230 |
| Mr P R Robinson | 74,210 |
| Mr D J Fairfull | 163,587 |
| Mr M J Hawker | 7,680 |
| Mr T C D Millner | 17,166,791 |
| Mr R G Westphal | 12,739 |
| Mr D E Wills | 266,323 |

## REMUNERATION REPORT (AUDITED)

### *Scope of Report*

This Remuneration Report focuses on the key management personnel of the consolidated entity other than those who are also key management personnel of New Hope Corporation Limited (New Hope). New Hope is publicly listed and, accordingly, has its own Remuneration Committee and produces its own Remuneration Report in accordance with Section 300A of the Corporations Act 2001 to be voted on by its shareholders. The remuneration of certain key management personnel of New Hope is included in this Remuneration Report.

### *Remuneration Committee*

The Remuneration Committee consists of Non-executive Directors whose responsibility is to make recommendations to the full Board on remuneration matters and other terms of employment for the Executive Director, senior executives and Non-executive Directors.

The Remuneration Committee ensures that remuneration levels for Directors, senior managers and group executives are competitively set to attract and retain qualified and experienced Directors and executives. The Committee is authorised by the Board to obtain independent professional advice on the appropriateness of remuneration packages if deemed necessary.

### *Non-executive Directors*

Board policy is to remunerate Non-executive Directors at comparable market rates and remuneration levels are reviewed annually by the Remuneration Committee and are not subject to performance based incentives.

The Remuneration Committee reviews various publications/surveys annually to assist in setting Non-executive Director remuneration. Based on these publications/surveys for 2012 the remuneration received by Non-executive Directors for the year ended 31 July 2013 was under the 50th percentile for ASX listed Companies with a market capitalisation greater than $3 billion.

The aggregate amount of fees which may be paid to Non-executive Directors by the Parent Company is subject to the approval of Shareholders in general meeting and is currently set at $1,500,000 per annum. Approval for this aggregate amount was given at the 2009 Annual General Meeting.

During the year ended 31 July 2013 fees paid to the Non-executive Directors by the Parent Company amounted to $1,158,593 including statutory superannuation guarantee contributions.

With effect from 31 July 2004 the retiring allowance for Non-executive Directors was frozen at three times the average annual fees for the three years prior to that date. Non-executive Directors appointed after 1 August 2004 do not qualify for a retiring allowance. Mr Michael Millner was paid a retiring allowance of $202,500 during the year following his resignation from the Board of Directors on 1 October 2012.

### *Executive Directors and Senior Executives*

Remuneration levels are reviewed annually by the Remuneration Committee to reflect individual performance, the overall performance of the Parent Company and Consolidated Entity and prevailing employment market conditions.

Remuneration of the Executive Director and senior executives of the Parent Company consists of a fixed remuneration package comprising a base salary, superannuation and fringe benefits, where taken. Fixed remuneration is approved by the Remuneration Committee based on data sourced from external sources, including independent salary survey providers.

The Remuneration Committee reviews various publications/surveys annually to assist in setting the remuneration of the Executive Director and senior executives. Based on these publications/surveys for 2012 the remuneration they received for the year ended 31 July 2013 was under the 50th percentile for ASX listed Companies with a market capitalisation greater than $3 billion.

There were no fixed term contracts of employment in place for any key management personnel of the Parent Company at any time during the financial year.

# Directors' Report (continued)

## REMUNERATION REPORT (AUDITED) (continued)

***Executive Directors and Senior Executives (continued)***

On 1 November 2001, Mr Peter Robinson, the Parent Company's Executive Director, agreed, in order to reduce administrative burdens, to transfer from a defined benefit superannuation plan to a target benefit superannuation plan under a Master Trust Deed administered by AMP Life Limited. In consideration for this, the Company provided him with a guarantee that the benefit he received from the target benefit plan would not be less than his benefit under the defined benefit plan of seven times his final average salary when he ceases service on or after age 55 (the Guarantee).

As a result of changes to the taxation of superannuation contributions from 1 July 2007, which would have resulted in the Company being required to pay substantially higher contributions in order to top up the plan, Mr Robinson and the Company agreed to terminate the Guarantee effective from 24 February 2012, being his 60th birthday.

The total amount of the shortfall between the guaranteed amount and the amount in his target benefit plan as at 24 February 2012 was calculated by Rice Warner Actuaries Pty Ltd and amounted to $3,061,674, payable in two components being a Prescribed Payment of $2,271,674 less PAYG tax which was made to Mr Robinson on 2 July 2012 and an employment termination payment (ETP) of $790,000 plus interest at commercial rates, payable to him on cessation of his employment. As at 31 July 2013 the balance of the ETP was $839,397.

***Company Performance, Shareholder Wealth and Remuneration***

The Parent Company does not have a policy for paying bonuses or granting options under long term or short term incentive plans. Incentive based remuneration linked to the performance of the Parent Company is considered inappropriate because the Parent Company is a holding company with a diversified portfolio of investments and does not employ personnel at the Parent Company level to operate those assets. The Parent Company considers the setting of performance linked remuneration to be the responsibility of the operating companies.

In its review of remuneration policies, in particular the base salaries of key management personnel of the Parent Company, the Remuneration Committee has regard to the performance of the consolidated entity for the current and previous four financial years, taking into account the following measures:

| | **2009** | **2010** | **2011** | **2012** | **2013** |
|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Revenue from continuing activities | 774,953 | 823,307 | 758,387 | 912,359 | 791,315 |
| Profit after tax attributable to shareholders | 1,112,652 | 218,327 | 363,871 | 142,989 | 105,421 |
| Share price at year end | $11.00 | $13.02 | $12.93 | $13.15 | $13.50 |
| Ordinary dividends paid/declared | 32 cents | 34 cents | 40 cents | 44 cents | 46 cents |
| Special dividends paid | 25 cents | 12.5 cents | - | - | - |

***Key management personnel of the Parent Company and Consolidated Entity***

**Non-executive Directors**

Mr R D Millner – Chairman

Mr D J Fairfull

Mr M J Hawker (appointed 10 October 2012)

Mr T C D Millner

Mr R G Westphal

Mr D E Wills

Mr M J Millner (resigned 1 October 2012)

**Executive Director**

Mr P R Robinson

**Other key management personnel of the Parent Company and Consolidated Entity**

Mr I D Bloodworth – Company Secretary

Ms M R Roderick – Chief Financial Officer

**Key management personnel of the Consolidated Entity**

Mr M J Busch – Financial Controller and Company Secretary, New Hope Corporation Limited

Mr B D Denney – Chief Operations Officer, New Hope Corporation Limited

Mr R C Neale – Managing Director and Chief Executive Officer, New Hope Corporation Limited

Mr S O Stephan – Chief Financial Officer, New Hope Corporation Limited

# Directors' Report (continued)

## REMUNERATION REPORT (AUDITED) (continued)

Remuneration paid to key management personnel of the Parent Company by the Parent Company:

| Key Management Personnel of Parent Company | Short Term Employee Benefits | | | Post Employment Benefits | | Share Based Payments | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Cash Bonus | Non Monetary Benefits | Super-annuation | Termination Benefits | | | Parent Company |
| Name | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-executive Directors – 2013** | | | | | | | | |
| Mr R D Millner (1) | 223 | - | 37 | 16 | - | - | - | 276 |
| Mr D J Fairfull (1) | 129 | - | - | 1 | - | - | - | 130 |
| Mr M J Hawker (appointed 10 October 2012) | 96 | - | - | 9 | - | - | - | 105 |
| Mr T C D Millner | 102 | - | 19 | 9 | - | - | - | 130 |
| Mr R G Westphal | 138 | - | - | 12 | - | - | - | 150 |
| Mr D E Wills (1) | 128 | - | - | 12 | - | - | - | 140 |
| Mr M J Millner (2) (resigned 1 October 2012) | 23 | - | - | 2 | 203 | - | - | 228 |
| | 839 | - | 56 | 61 | 203 | - | - | 1,159 |
| **Executive Director – 2013** | | | | | | | | |
| Mr P R Robinson (1) | 772 | - | 60 | 17 | - | - | - | 849 |
| **Other Key Management Personnel – 2013** | | | | | | | | |
| Mr I D Bloodworth | 263 | - | 13 | 23 | - | - | - | 299 |
| Ms M R Roderick | 502 | - | - | 25 | - | - | - | 527 |
| **Total** | **2,376** | **-** | **129** | **126** | **203** | **-** | **-** | **2,834** |
| **Non-executive Directors – 2012** | | | | | | | | |
| Mr R D Millner (1) | 211 | - | 36 | 19 | - | - | - | 266 |
| Mr M J Millner | 138 | - | - | 12 | - | - | - | 150 |
| Mr D J Fairfull (1) | 119 | - | - | 11 | - | - | - | 130 |
| Mr T C D Millner | 119 | - | - | 11 | - | - | - | 130 |
| Mr R G Westphal (1) | 138 | - | - | 12 | - | - | - | 150 |
| Mr D E Wills (1) | 128 | - | - | 12 | - | - | - | 140 |
| | 853 | - | 36 | 77 | - | - | - | 966 |
| **Executive Director – 2012** | | | | | | | | |
| Mr P R Robinson (1)(3) | 687 | - | 62 | 79 | - | - | 2,272 | 3,100 |
| **Other Key Management Personnel – 2012** | | | | | | | | |
| Mr I D Bloodworth | 245 | - | 13 | 22 | - | - | - | 280 |
| Ms M R Roderick (4) | 278 | - | - | 22 | - | - | - | 300 |
| **Total** | **2,063** | **-** | **111** | **200** | **-** | **-** | **2,272** | **4,646** |

(1) Also derive remuneration from controlled entities as shown elsewhere in this Report.

(2) Retiring allowance paid to Mr M J Millner following his resignation from the Board of Directors on 1 October 2012. Refer to the Non-executive Directors section of this report on page 23 for further details.

(3) Payment In consideration for transferring from a defined benefit superannuation plan to a target benefit superannuation plan. Refer to the Executive Directors and Senior Executives section of this report on page 24 for further details.

(4) Ms M R Roderick was on maternity leave for 5 months of the 2012 financial year.

## REMUNERATION REPORT (AUDITED) (continued)

Details of the nature and amount of each major element of the remuneration of the key management personnel of the Parent Company and the Consolidated Entity:

| Key Management Personnel | Short Term Employee Benefits | | | Post Employment Benefits | | Share Based Payments | Other | Total | Received from | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Salary & Fees $'000 | Cash Bonus $'000 | Non Monetary Benefits $'000 | Super-annuation $'000 | Termination Benefits $'000 | Value of Rights $'000 | $'000 | $'000 | Parent Company $'000 | Controlled Entities $'000 |
| **Non-executive Directors – 2013** | | | | | | | | | | |
| Mr R D Millner | 581 | - | 37 | 39 | - | - | - | 657 | 276 | 381 |
| Mr D J Fairfull | 264 | - | - | 13 | - | - | - | 277 | 130 | 147 |
| Mr M J Hawker (appointed 10 October 2012) | 96 | - | - | 9 | - | - | - | 105 | 105 | - |
| Mr T C D Millner | 102 | - | 19 | 9 | - | - | - | 130 | 130 | - |
| Mr R G Westphal | 138 | - | - | 12 | - | - | - | 150 | 150 | - |
| Mr D E Wills | 153 | - | - | 14 | - | - | - | 167 | 140 | 27 |
| Mr M J Millner (1) (resigned 1 October 2012) | 23 | - | - | 2 | 203 | - | - | 228 | 228 | - |
| | | | | | | | | | 1,159 | 555 |
| **Executive Director – 2013** | | | | | | | | | | |
| Mr P R Robinson | 972 | - | 60 | 35 | - | - | - | 1,067 | 849 | 218 |
| **Other Key Management Personnel – 2013** | | | | | | | | | | |
| Mr I D Bloodworth | 263 | - | 13 | 23 | - | - | - | 299 | 299 | - |
| Mr M J Busch | 416 | 106 | 29 | 17 | - | 115 | 7 | 690 | - | 690 |
| Mr B D Denney | 612 | 191 | 23 | 16 | - | 143 | - | 985 | - | 985 |
| Mr R C Neale | 1,443 | 550 | 45 | 17 | - | 808 | 24 | 2,887 | - | 2,887 |
| Ms M R Roderick | 502 | - | - | 25 | - | - | - | 527 | 527 | - |
| Mr S O Stephan | 597 | 201 | 3 | 16 | - | 193 | - | 1,010 | - | 1,010 |
| **Total** | **6,162** | **1,048** | **229** | **247** | **203** | **1,259** | **31** | **9,179** | **2,834** | **6,345** |

(1) Retiring allowance paid to Mr M J Millner following his resignation from the Board of Directors on 1 October 2012. Refer to the Non-executive Directors section of this report on page 23 for further details.

# Directors' Report (continued)

## REMUNERATION REPORT (AUDITED) (continued)

| Key Management Personnel | Short Term Employee Benefits | | | Post Employment Benefits | | Share Based Payments | Other | Total | Received from | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Salary & Fees $'000 | Cash Bonus $'000 | Non Monetary Benefits $'000 | Super-annuation $'000 | Termination Benefits $'000 | Value of Rights $'000 | $'000 | $'000 | Parent Company $'000 | Controlled Entities $'000 |
| **Non-executive Directors – 2012** | | | | | | | | | | |
| Mr R D Millner | 566 | - | 36 | 45 | - | - | - | 647 | 266 | 381 |
| Mr M J Millner | 138 | - | - | 12 | - | - | - | 150 | 150 | - |
| Mr D J Fairfull | 268 | - | - | 25 | - | - | - | 293 | 130 | 163 |
| Mr T C D Millner | 119 | - | - | 11 | - | - | - | 130 | 130 | - |
| Mr R G Westphal | 160 | - | - | 15 | - | - | - | 175 | 150 | 25 |
| Mr D E Wills | 175 | - | - | 20 | - | - | - | 195 | 140 | 55 |
| | | | | | | | | | 966 | 624 |
| **Executive Director – 2012** | | | | | | | | | | |
| Mr P R Robinson (1) | 864 | - | 62 | 95 | - | - | 2,272 | 3,293 | 3,100 | 193 |
| **Other Key Management Personnel – 2012** | | | | | | | | | | |
| Mr I D Bloodworth | 245 | - | 13 | 22 | - | - | - | 280 | 280 | - |
| Mr M J Busch | 374 | 322 | 21 | 16 | - | 116 | 7 | 856 | - | 856 |
| Mr B D Denny | 568 | 451 | 19 | 16 | - | 88 | - | 1,142 | - | 1,142 |
| Mr R C Neale | 1,340 | 1,368 | 47 | 16 | - | 1,712 | 24 | 4,507 | - | 4,507 |
| Ms M R Roderick (2) | 278 | - | - | 22 | - | - | - | 300 | 300 | - |
| Mr S O Stephan | 565 | 557 | 2 | 16 | - | 236 | - | 1,376 | - | 1,376 |
| **Total** | **5,660** | **2,698** | **200** | **331** | **-** | **2,152** | **2,303** | **13,344** | **4,646** | **8,698** |

(1) Payment in consideration for transferring from a defined benefit superannuation plan to a target benefit superannuation plan. Refer to the Executive Directors and Senior Executives section of this report on page 24 for further details.

(2) Ms M R Roderick was on maternity leave for 5 months of the 2012 financial year.

## OPTIONS

The Parent Company has not issued any options over its unissued shares during the year or in prior years.

## INDEMNIFICATION OF OFFICERS AND AUDITORS

### *Indemnification*

The Parent Company's constitution provides for an indemnity of Directors, Secretaries and Executive Officers (as defined in the Corporations Act 2001); where liability is incurred in the performance of their duties in those roles, other than conduct involving a wilful breach of duty in relation to the Company. The Constitution further provides for an indemnity in respect of any costs and expenses incurred in defending proceedings in which judgement is given in their favour, they are acquitted, or the Court grants them relief under the Corporations Act 2001.

## INDEMNIFICATION OF OFFICERS AND AUDITORS (continued)

***Insurance***

In accordance with the provisions of the Corporations Act, the Parent Company has a Directors' and Officers' Liability policy covering Directors and officers of the Parent Company and some of its controlled entities. The insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

***Auditors***

No indemnities have been given or insurance premiums paid during or since the end of the financial year in respect of any person who is or has been an auditor of the Parent Company and its controlled entities.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## NON AUDIT SERVICES

During the year, Moore Stephens Sydney, the Company's auditor, performed other services in addition to their statutory duties. An entity associated with Moore Stephens Sydney was paid $170,150 for providing tax compliance services in respect of the Group. Details of the amounts paid to the auditors are disclosed in note 41 of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor, and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement APES 110: Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

## AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 31 July 2013 has been received and is included on page 29.

## ROUNDING OF AMOUNTS

The amounts contained in the accompanying financial statements have been rounded off to the nearest one thousand dollars under the option available to the Company under Class Order 98/100.

Signed in accordance with a resolution of the Board of Directors:

| | |
|---|---|
| **R D MILLNER** | **P R ROBINSON** |
| Director | Director |

Dated this 22nd day of October 2013.

# Auditor's Independence Declaration

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Level 15, 135 King Street
Sydney NSW 2000

T +61 (0)2 8236 7700
F +61 (0)2 9233 4636

www.moorestephens.com.au

**Auditor's Independence Declaration**
**to the Directors of Washington H. Soul Pattinson and Company Limited**

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Washington H. Soul Pattinson and Company Limited for the year ended 31 July 2013, I declare that, to the best of my knowledge and belief, there have been:

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

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

Moore Stephens Sydney

**Moore Stephens Sydney**
Chartered Accountants

Martin J Shannon

**Martin J. (Joe) Shannon**
Partner

Dated in Sydney this 21st day of October 2013.

Moore Stephens Sydney ABN 90 773 984 843. Liability limited by a scheme approved under Professional Standards Legislation*

*Other than for the acts or omissions of financial services licensees. An independent member of Moore Stephens International Limited - members in principal cities throughout the world. The Sydney Moore Stephens firm is not a partner or agent of any other Moore Stephens firm.

# Corporate Governance Statement

The Board of Washington H. Soul Pattinson and Company Limited (the Company) is committed to ensuring its policies and practices reflect good corporate governance and recognises that for its success an appropriate culture needs to be nurtured and developed throughout all levels of the Company.

This statement outlines the Company's Corporate Governance Practices in place throughout the year, unless otherwise stated, and has been summarised into sections in line with the 8 core principles set out in the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations – 2nd edition".

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

The Board is ultimately responsible for the operations, management and performance of the Company. In discharging this responsibility the Board delegates to senior management, whose role it is to manage the Company in accordance with the directions and policies set by the Board. The Board monitors the activities of senior management in the performance of their delegated duties.

It is the responsibility of the Board to determine policies, practices, management and the operations of the Company and to ensure that the Company is compliant with statutory, legal and other regulatory obligations.

Responsibilities of the Board include the following:

- Determining corporate strategies, policies and guidelines for the successful performance of the Company in the present and in the future;
- Monitoring the performance and conduct of the Company;
- Accountability to Shareholders;
- Ensuring that risk management procedures and compliance and control systems are in place and operating effectively;
- Monitoring the performance and conduct of senior management, and ensuring adequate succession plans are in place; and
- Ensuring the Company continually builds an honest and ethical culture.

The Board has delegated responsibility for the following to management:

- Day to day management of the Company;
- Production of performance measurement reports;
- Managing the compliance and risk management systems; and
- Management of staff including, appointment, termination, staff development and performance measurement.

The Executive Director is responsible for ensuring that the responsibilities delegated by the Board are properly discharged.

The performance of the Executive Director is evaluated by the Board with reference to the overall performance of the Company and of its subsidiaries and associates in which the Executive Director represents the Company. Both qualitative and quantitative measures are used to evaluate performance.

The Executive Director evaluates the performance of the other senior executives and reports to the Board. The Board also reviews the performance of these executives via the monthly Board reports and their attendance at Board meetings.

The performance of the senior executives of the Company was assessed, as set out above, during the reporting period.

## Principle 2 – Structure the Board to add value

The Company's constitution states that its Board is to comprise of no less than three and no more than ten Directors. The names and details of the Directors of the Company during the year and at the date of this statement are set out in the Directors' Report.

At the date of this report the Board consisted of six Non-executive Directors and one Executive Director. The Board has assessed the independence of its members and is of the view that the following Directors are independent:

Robert D. Millner - Chairman, Non-executive

David J. Fairfull - Non-executive

Michael J. Hawker - Non-executive (appointed 10 October 2012)

Thomas C.D. Millner - Non-executive

Robert G. Westphal - Non-executive

David E. Wills - Non-executive

# Corporate Governance Statement (continued)

## Principle 2 – Structure the Board to add value (continued)

Mr Michael J. Millner was the Deputy Chairman and a Non-executive Director until 1 October 2012. The Board considered him to be independent.

Each Director has undertaken to provide the Board with all information which is relevant to the assessment of his independence in a timely manner.

Under the ASX Corporate Governance Principles and Recommendations two of the current Non-executive Directors do not qualify as independent for the following reasons. Mr Robert Millner is a Director of Brickworks Limited a major shareholder in the Company. Additionally, Mr Robert Millner and Mr. Thomas Millner have relevant interests in substantial shareholdings in the Company as disclosed in the Key Management Personnel note to the financial statements.

Whilst the above Non-executive Directors do not meet the criteria for independence in accordance with the ASX Corporate Governance Principles and Recommendations, all Directors are committed to bring their independent views and judgement to the Board and, in accordance with the Corporations Act 2001, must inform the Board if they have any interest that could conflict with those of the Company. Where the Board considers that a significant conflict exists it may exercise its discretion to determine whether the Director concerned may be present at the meeting while the item is considered. For these reasons the Board believes that Mr. Robert Millner and Mr. Thomas Millner can be considered to be acting independently in the execution of their duties.

The current Chairman of the Board is Mr Robert Millner who is a Non-executive Director. For the reasons stated above he is considered to be independent. The current Executive Director is Mr Peter Robinson.

The Nomination Committee consists of all Non-executive Directors who review the membership of the Board annually having regard to the Company's particular needs, both present and future. The names of the members of the Committee during the year and their attendance at meetings are set out in the Directors' Report.

The role of the Nomination Committee is to review and consider the structure, balance of skills and diversity of the Board and make recommendations regarding appointment, retirement and approval for Directors to stand for re-election. When a vacancy occurs the Nomination Committee identifies the necessary and desirable skills, expertise and experience required to compliment the Board and undertakes a process to identify the most appropriate candidates. The Nomination Committee may engage recruitment consultants and other independent experts to undertake research and assessment at the Company's expense.

In October 2012 the Board established a Nomination Committee Charter which includes the process by which candidates are identified and selected, the use of professional intermediaries and the requirement for a diverse range of candidates to be considered. The Charter may be viewed in the Corporate Governance section of the Company's web site at www.whsp.com.au.

Directors are initially appointed by the full Board, following consideration of recommendations made by the Nomination Committee.

Appointment is subject to election by the Shareholders of the Company at the next Annual General Meeting. Under the Constitution Directors other than the Executive Director are required to retire from office after three years. Retiring Directors may stand for re-election at the next Annual General Meeting, subject to approval by the Board. Retiring Directors exclude themselves from Nomination Committee meetings while the remaining members of the Committee consider their suitability for re-election.

In the discharge of their duties and responsibilities, the Directors either individually or jointly, have the right to seek independent professional advice at the Company's expense. In respect of advice to individual Directors, the prior approval of the Chairman is required; such approval is not to be unreasonably withheld. The Chairman is entitled to receive a copy of any such advice obtained.

The Chairman is responsible for monitoring and assessing the performance of individual Directors, each Board Committee and the Board as a whole. The Chairman interviews each Director and provides feedback regarding their performance. The Board as a whole continuously monitors the efficiency and effectiveness of its operations on an informal basis.

The performance of each Director of the Company was assessed, as set out above, during the reporting period.

The Board considers that the Directors bring an appropriate mix of skills, breadth and depth of knowledge and experience to meet the Board's responsibilities and objectives. The range of skills and experience possessed by the each of the Directors is set out in the Directors' Report.

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

### Code of Conduct

The Company has an established code of conduct dealing with matters of integrity and ethical standards. The Board recognises the need for the Directors and employees to adhere to the highest standards of behaviour and business ethics.

All Directors and employees are expected to abide by the code of conduct which requires them to:

- Act in accordance with ethical and professional standards;
- Act with honesty and integrity in dealings with shareholders, customers, suppliers and competitors;
- Ensure compliance with all laws and regulations;
- Act in accordance with standards of workplace behaviour and equal opportunity;
- Avoid actual or potential conflicts of interest between private and company matters;
- Not engage in insider trading;
- Not accept unauthorised benefits as a result of their position in the Company;
- Ensure Company assets and confidential information are not used improperly;
- Maintain and further enhance the Company's reputation and not act in a manner which may harm that reputation; and
- Reporting all breaches of the code.

### Share Trading Policy

A share trading policy with the following main principles was in place throughout the year.

- The policy relates to trading in shares of the Company and controlled and associated entities of the Company that are publicly listed;
- Trading is prohibited when Directors and employees are in possession of price sensitive information which is not available to the public;
- In respect of the securities of the Company, Directors and other key management personnel are also prohibited from trading during prohibited periods which are imposed by the Company from time to time;
- In respect of Directors and other key management personnel trading in its shares, the Company has established the following share trading windows each for a period of 6 weeks commencing from:
  - The release of the Company's annual result to the ASX;
  - The release of the Company's half yearly result to the ASX;
  - The date of the Annual General Meeting; and
  - The release of a prospectus.
- Directors and senior executives are prohibited from using margin loans to finance the purchase of shares in the Company or from trading in any financial products issued or created over the Company's shares.

A revised share trading policy was adopted by the Board on 11 September 2013. This policy may be viewed in the Corporate Governance section of the Company's web site at www.whsp.com.au.

### Diversity

The Company values and respects the skills that people with diverse backgrounds, experiences and perspectives bring to the organisation. The Company is committed to rewarding performance and providing opportunities that allow individuals to reach their full potential irrespective of background or difference. When appointing or promoting people within the organisation the most suitably qualified candidates are selected. As a result, diversity is promoted throughout the organisation.

The Company has established a Diversity Policy to formalise its commitment to providing equal access to opportunities irrespective of background or difference. The policy may be viewed in the Corporate Governance section of the Company's web site at www.whsp.com.au.

The policy governs the conduct of the Company, its subsidiaries (other than those in the New Hope Corporation Limited Group) and all directors and employees of those entities. New Hope Corporation Limited (New Hope) is listed on the Australian Securities Exchange (ASX) and accordingly is required to establish its own diversity policy and objectives and make the required disclosures in its Annual Report. Therefore it is not considered appropriate for companies in the New Hope Group to be governed by the Company's policy nor for the New Hope Group companies' diversity reporting to be included in this Annual Report.

# Corporate Governance Statement (continued)

## Principle 3 – Promote ethical and responsible decision-making (continued)

The Company has adopted the ASX Corporate Governance Principles and Recommendations on diversity. As at 31 July 2013 the consolidated entity (excluding the New Hope Group) had 229 full time equivalent employees.

The proportion of women employees in the organisation as at 31 July 2013 was 29%. While the Company believes that this represents a reasonable level of gender diversity, it will continue to ensure that neither gender nor any other differences interfere with the employment of individuals based on their suitability for the position available. By doing so the Company aims to increase female representation.

The proportion of women in senior executive positions as at 31 July 2013 was 25%. The Company's objective is to incrementally grow this as vacancies allow and suitably qualified candidates are available. The aim is to achieve higher female representation. The small number of senior executive positions within the organisation and the low turnover rate limits the opportunity to increase female representation in this area.

There were no women on the Board of Directors of the Company as at 31 July 2013. The Board has undertaken to include female candidates when selecting new Directors. When appointing a new Director during the year three women and two men were shortlisted. Candidates will continue to be assessed on their skills, knowledge and experience and on the relevance of these to the Company's needs.

## Principle 4 – Safeguard integrity in financial reporting

The Company has an established Audit Committee, which has a formal charter outlining the committee's function, composition, authority, responsibilities and reporting.

The current members of the Audit Committee are:

Robert G. Westphal - Chairman

David J. Fairfull

Michael J. Hawker (appointed to the Board and committee 10 October 2012)

David E. Wills

Former member of the Audit Committee:

Michael J. Millner (resigned from the Board and committee 1 October 2012)

All of the members of the committee are Non-executive, independent Directors. Mr Westphal, who is the Chairman of the Audit Committee, is not the Chairman of the Board. The Chairman of the Board is not a member of the Audit Committee. Details of the Audit Committee members and their attendance at meetings are set out in the Directors' Report.

The Non-executive Chairman, Executive Director, Chief Financial Officer, Company Secretary and the Non-executive Director not on the committee may attend Audit Committee meetings by invitation. The external auditors, Moore Stephens Sydney, are requested by the Audit Committee to attend the appropriate meetings to report on the results of their half-year review and full year audit.

The function of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to:

- The external reporting of financial information, including the selection and application of accounting policies;
- The independence and effectiveness of the external auditors;
- The effectiveness of internal control processes and management information systems;
- Compliance with the Corporations Act, ASX Listing Rules and any other applicable requirements; and
- The application and adequacy of risk management systems within the Company.

The Executive Director and the Chief Financial Officer are required to state in writing to the Board, by submission to the Audit Committee, that the Company's financial statements present a true and fair view, in all material respects, of the Company's financial position and operational results and that they are in accordance with relevant accounting standards. A declaration from the Executive Director and the Chief Financial Officer has been received in respect of the current reporting period.

## Principle 5 – Make timely and balanced disclosure

The Board recognises the need to ensure that all investors have equal and timely access to material information regarding the Company and for announcements to be factual, clear, balanced and complete.

The Company has established a Continuous Disclosure Policy to ensure compliance with ASX and Corporations Act continuous disclosure requirements. The policy requires timely disclosure through the ASX announcement platform of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities or which would materially influence the decision making of investors. Internal procedures are in place to ensure that relevant information is communicated promptly.

The Chairman and Executive Director are responsible for determining disclosure obligations and the Company Secretary is the nominated continuous disclosure officer for the Company.

## Principle 6 – Respect the rights of Shareholders

The Board is committed to ensuring that Shareholders are fully informed of all material matters affecting the Company in a timely manner.

The dissemination of information is mainly achieved as follows:

- An Annual Report is distributed to Shareholders in October or November each year;
- The Chairman's Address to the Annual General Meeting is distributed to Shareholders in December each year;
- A Half-yearly Review of Operations is distributed to Shareholders in May each year; and
- Significant information is posted on the Company's website.

In addition, Shareholders are encouraged to attend and participate in the Annual General Meeting of the Company. The external auditor attends the Annual General Meeting to answer Shareholders' questions in regard to the conduct of the audit and the content of the auditor's report.

## Principle 7 – Recognise and manage risk

The Company is committed to identifying and managing areas of significant business risk to protect Shareholders, employees, earnings and the environment. Arrangements in place include:

- Regular detailed financial, budgetary and management reporting;
- Procedures to manage financial and operational risks;
- Established organisational structures, procedures and policies dealing with the areas of health and safety, environmental issues, industrial relations and legal and regulatory matters;
- Comprehensive insurance and risk management programs;
- Procedures requiring Board approval for all borrowings, guarantees and capital expenditure beyond minor levels; and
- Where applicable, the utilisation of specialised staff and external advisors.

Management is responsible for the design and implementation of a risk management and internal control system which manages the material business risks of the Company and reporting to the Board on whether those risks are being managed efficiently. Management reported to the Board on an ongoing basis during the current reporting period.

The Executive Director and the Chief Financial Officer are required to state in writing to the Board, by submission to the Audit Committee, that the risk management and internal control compliance systems are operating efficiently and effectively. In their declaration under section 295A of the Corporations Act the Executive Director and the Chief Financial Officer have made this statement in respect of the current reporting period.

# Corporate Governance Statement (continued)

## Principle 8 – Remunerate fairly and responsibly

The Company has established a Remuneration Committee which consists of five Directors, the majority of whom are independent, and is chaired by an independent Director. The Committee makes recommendations to the full Board on remuneration matters and other terms of employment for the Executive Director, senior executives and Non-executive Directors. The details of the Remuneration Committee members and their attendance at meetings are set out in the Directors' Report.

Senior executive performance is continually monitored by the Executive Director and the Executive Director's performance is subject to continuous monitoring by the full Board.

The remuneration of the Executive Director is reviewed annually by the Remuneration Committee, which consists of Non-executive Directors. The remuneration of the senior executive staff is reviewed annually by the full Board after taking into consideration the recommendations of the Remuneration Committee and the Executive Director.

The Executive Director and senior executive staff are renumerated by way of salary, non monetary benefits, and superannuation contributions. Neither the Executive Director nor senior executive staff are entitled to receive bonus payments or any equity based remuneration.

Non-executive Directors' fees are reviewed annually by the full Board after taking into consideration the Company's performance, market rates, level of responsibility and the recommendations of the Remuneration Committee. The aggregate amount of fees which may be paid to Non-executive Directors is subject to the approval of Shareholders at the Annual General Meeting and is currently set at $1,500,000 per annum. Approval for this amount was given at the 2009 Annual General Meeting.

Non-executive Directors are remunerated by way of fees in the form of cash, non monetary benefits, and statutory superannuation contributions and may be entitled to receive a retiring allowance. With effect from 31 July 2004 the retiring allowance for Non-executive Directors was frozen at 3 times the average annual fees for the 3 years prior to that date. Non-executive Directors appointed after 1 August 2004 do not qualify for a retiring allowance. Non-executive Directors are not entitled to receive bonus payments or any equity based remuneration.

Remuneration is set so as to attract and retain suitable personnel and to motivate them to pursue the long term growth and success of the Company.

Further information of Directors' and executives' remuneration is set out in the Remuneration Report.

For further information concerning the corporate governance practices of the Company refer to the corporate governance section of the Company's web site at www.whsp.com.au.

# Financial report
## 31 July 2013

**Contents**



This financial report covers the consolidated financial statements of the Consolidated entity consisting of Washington H. Soul Pattinson and Company Limited and its controlled entities. The financial statements are presented in Australian currency.

Washington H. Soul Pattinson and Company Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is located in New South Wales:

Washington H. Soul Pattinson and Company Limited

Level 1

160 Pitt Street

SYDNEY NSW 2000

A description of the nature of the Consolidated entity's operations and its principal activities is included in the Directors' report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 22nd October 2013.

# Consolidated Income Statement
## For the year ended 31 July 2013

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | **791,315** | 912,359 |
| Other income | 5 | **7,198** | (4,024) |
| Cost of sales | | **(414,187)** | (447,276) |
| Selling and distribution expenses | | **(143,761)** | (145,554) |
| Administration expenses | | **(56,688)** | (63,897) |
| Other expenses | | **(7,204)** | (5,517) |
| Impairment of assets | 6 | **(58,827)** | (54,427) |
| Finance costs | | **(2,980)** | (3,303) |
| Share of results from equity accounted associates | | **78,997** | 35,037 |
| **Profit before income tax** | | **193,863** | 223,398 |
| Income tax (expense) | 7a | **(59,611)** | (34,088) |
| **Profit after tax for the year** | | **134,252** | 189,310 |
| Profit after tax attributable to non-controlling interests | | **(28,831)** | (46,321) |
| **Profit after tax attributable to members of Washington H. Soul Pattinson and Company Limited** | | **105,421** | 142,989 |

The above consolidated income statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Comprehensive Income
## For the year ended 31 July 2013

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Profit after tax for the year** | **134,252** | 189,310 |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to income statement** | | |
| Net movement in the fair value of long term equity investments, net of tax | **91,327** | (32,066) |
| Movement to profit and loss on disposal of long term equity investments, net of tax | **(121)** | (110) |
| Net movement in hedge reserve, net of tax | **(50,953)** | (7,618) |
| Net movement in foreign currency translation reserve, net of tax | **534** | 387 |
| Net movement in equity reserve, net of tax | **(4,539)** | (533) |
| **Total other comprehensive income for the year, net of tax** | **36,248** | (39,940) |
| **Total comprehensive income for the year** | **170,500** | 149,370 |
| Total comprehensive income attributable to non-controlling interests | **(6,663)** | (38,878) |
| **Total comprehensive income attributable to members of Washington H. Soul Pattinson and Company Limited** | **163,837** | 110,492 |

| **Earnings per share** | **2013 cents** | 2012 cents |
|---|---|---|
| Basic and diluted earnings per share to ordinary equity holders of Washington H. Soul Pattinson and Company Limited | | |
| **Earnings per share from all operations** | **44.04** | 59.81 |

| | **No. of shares** | **No. of shares** |
|---|---|---|
| Weighted average number of shares used in calculating basic and diluted earnings per share | **239,395,320** | 239,073,628 |

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

# Consolidated Statement of Financial Position
## As at 31 July 2013

| | Notes | 31 July 2013 $'000 | 31 July 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **28,078** | 78,173 |
| Term deposits | 10 | **1,499,724** | 1,721,075 |
| Trade and other receivables | 11 | **90,363** | 52,450 |
| Inventories | 12 | **80,235** | 82,121 |
| Investments fair valued through profit and loss | 13 | **10,779** | 10,021 |
| Derivative financial instruments | 26 | **-** | 20,393 |
| Current tax asset | | **4,401** | - |
| Other assets | | **614** | 462 |
| **Total current assets** | | **1,714,194** | 1,964,695 |
| **Non-current assets** | | | |
| Trade and other receivables | 14 | **5,102** | 10,237 |
| Equity accounted associates | 15 | **813,648** | 782,506 |
| Long term equity investments | 16 | **542,131** | 505,579 |
| Other financial assets | 17 | **22,387** | 17,601 |
| Derivative financial instruments | 26 | **-** | 9,971 |
| Property, plant and equipment | 18 | **882,588** | 760,358 |
| Investment properties | 19 | **50,223** | - |
| Exploration and evaluation assets | 20 | **129,628** | 41,334 |
| Deferred tax assets | 21 | **21,115** | 43,206 |
| Intangible assets | 22 | **28,311** | 21,997 |
| **Total non-current assets** | | **2,495,133** | 2,192,789 |
| **Total assets** | | **4,209,327** | 4,157,484 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **59,629** | 54,995 |
| Interest bearing liabilities | 24 | **51,165** | 50,655 |
| Derivative financial instruments | 26 | **30,537** | - |
| Current tax liabilities | | **18,924** | 22,481 |
| Provisions | 27 | **35,499** | 31,720 |
| **Total current liabilities** | | **195,754** | 159,851 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 25 | **7,900** | 2,210 |
| Derivative financial instruments | 26 | **11,707** | - |
| Deferred tax liabilities | 29 | **193,735** | 182,237 |
| Provisions | 28 | **50,210** | 39,310 |
| **Total non-current liabilities** | | **263,552** | 223,757 |
| **Total liabilities** | | **459,306** | 383,608 |
| **Net assets** | | **3,750,021** | 3,773,876 |
| **Equity** | | | |
| Share capital | 30 | **43,232** | 43,232 |
| Reserves | 31 | **597,249** | 538,713 |
| Retained profits | | **2,295,642** | 2,281,912 |
| Parent entity interest | | **2,936,123** | 2,863,857 |
| Non-controlling interest | | **813,898** | 910,019 |
| **Total equity** | | **3,750,021** | 3,773,876 |

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

# Consolidated Statement of Changes in Equity
## For the year ended 31 July 2013

| Year ended 31 July 2013 | Share capital $'000 | Retained profits $'000 | Reserves $'000 | Total parent entity interest $'000 | Non-controlling interest $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Total equity at the beginning of the year 1 August 2012** | **43,232** | **2,281,912** | **538,713** | **2,863,857** | **910,019** | **3,773,876** |
| **Net profit for the year after tax** | **-** | **105,421** | **-** | **105,421** | **28,831** | **134,252** |
| **Other comprehensive income for the year** | | | | | | |
| Net movement in the asset revaluation reserve, net of tax | **-** | **-** | **93,113** | **93,113** | **(1,907)** | **91,206** |
| Net movement in hedge reserve | **-** | **-** | **(30,692)** | **(30,692)** | **(20,261)** | **(50,953)** |
| Net movement in foreign currency translation reserve | **-** | **-** | **534** | **534** | **-** | **534** |
| Net movement in equity reserve | **-** | **-** | **(4,539)** | **(4,539)** | **-** | **(4,539)** |
| **Total comprehensive income for the year** | **-** | **105,421** | **58,416** | **163,837** | **6,663** | **170,500** |
| **Transactions with owners** | | | | | | |
| Dividends declared and paid | **-** | **(87,293)** | **-** | **(87,293)** | **(105,755)** | **(193,048)** |
| Net movement in share-based payments reserve | **-** | **-** | **120** | **120** | **172** | **292** |
| Non-controlling interests share of subsidiaries | **-** | **-** | **-** | **-** | **603** | **603** |
| Increase in ownership of CopperChem Limited | **-** | **(4,896)** | **-** | **(4,896)** | **2,694** | **(2,202)** |
| Equity transfer to members on issue of share capital in controlled entity | **-** | **498** | **-** | **498** | **(498)** | **-** |
| **Total equity at the end of the year - 31 July 2013** | **43,232** | **2,295,642** | **597,249** | **2,936,123** | **813,898** | **3,750,021** |
| **Year ended 31 July 2012** | | | | | | |
| **Total equity at the beginning of the year 1 August 2011** | **32,900** | **2,209,757** | **570,092** | **2,812,749** | **1,101,009** | **3,913,758** |
| **Net profit for the year after tax** | - | 142,989 | - | 142,989 | 46,321 | 189,310 |
| **Other comprehensive income for the year** | | | | | | |
| Net movement in the asset revaluation reserve, net of tax | - | - | (27,644) | (27,644) | (4,532) | (32,176) |
| Net movement in hedge reserve | - | - | (4,706) | (4,706) | (2,912) | (7,618) |
| Net movement in foreign currency translation reserve | - | - | 386 | 386 | 1 | 387 |
| Net movement in equity reserve | - | - | (533) | (533) | - | (533) |
| **Total comprehensive income for the year** | **-** | **142,989** | **(32,497)** | **110,492** | **38,878** | **149,370** |
| **Transactions with owners** | | | | | | |
| Dividends declared and paid | - | (81,252) | - | (81,252) | (88,424) | (169,676) |
| Net movement in share-based payments reserve | - | - | 1,118 | 1,118 | 117 | 1,235 |
| Increase in ownership of Souls Private Equity Limited | 10,332 | (8,219) | - | 2,113 | (76,266) | (74,153) |
| Increase in ownership of Northern Energy Corporation Limited | - | (3,599) | - | (3,599) | (46,277) | (49,876) |
| Gain on acquisition of additional ownership in controlled entities | - | 22,236 | - | 22,236 | (19,018) | 3,218 |
| **Total equity at the end of the year - 31 July 2012** | **43,232** | **2,281,912** | **538,713** | **2,863,857** | **910,019** | **3,773,876** |

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 31 July 2013

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers inclusive of GST | | **671,391** | 804,387 |
| Payments to suppliers and employees inclusive of GST | | **(561,577)** | (590,985) |
| | | **109,814** | 213,402 |
| Dividends received | | **75,603** | 80,218 |
| Interest received | | **78,556** | 122,639 |
| Finance costs | | **(699)** | (807) |
| Income taxes paid | | **(54,352)** | (215,762) |
| **Net cash inflow from operating activities** | 42 | **208,922** | 199,690 |
| **Cash flows from investing activities** | | | |
| Payment for property, plant and equipment and intangibles | | **(178,835)** | (48,375) |
| Proceeds from sale of property, plant and equipment | | **948** | 58,752 |
| Payments for exploration and evaluation activities | | **(28,947)** | (32,866) |
| Net proceeds from term deposits | | **220,901** | 191,744 |
| Payments for investments | | **(22,138)** | (73,500) |
| Payments for subsidiaries, net of cash acquired | | **(72,898)** | 72 |
| Proceeds from sale of investments | | **13,720** | 16,032 |
| Proceeds from sale of equity accounted associates | | **9,683** | - |
| Loans advanced | | **(5,000)** | (2,221) |
| Loan repayments received | | **6,585** | 3,364 |
| Proceeds from sale of non-current assets | | **5,813** | - |
| **Net cash (outflow)/inflow from investing activities** | | **(50,168)** | 113,002 |
| **Cash flows from financing activities** | | | |
| Proceeds from issues of equity | | **601** | 1,737 |
| Dividends paid to WHSP shareholders | | **(107,728)** | (100,357) |
| Dividends paid by subsidiaries to non-controlling interest | | **(105,755)** | (88,424) |
| Payments for increasing ownership in controlled entities | | **(3,000)** | (124,359) |
| (Payments)/proceeds from interest bearing liabilities | | **(122)** | 962 |
| Proceeds from external borrowings | | **5,500** | 5,335 |
| Repayment of external borrowings | | **(1,240)** | (5,013) |
| **Net cash (outflow) from financing activities** | | **(211,744)** | (310,119) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(52,990)** | 2,573 |
| Cash and cash equivalents at the beginning of the year | | **78,173** | 79,783 |
| Effects of exchange rate changes on cash and cash equivalents | | **2,895** | (4,183) |
| **Cash and cash equivalents at the end of the year** | 9a | **28,078** | 78,173 |

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

# Contents of the Notes to the Financial Statements

# Notes to the Financial Statements For the year ended 31 July 2013

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity ("WHSP") consisting of Washington H. Soul Pattinson and Company Limited and its controlled entities ("Consolidated entity" or "Group"). In accordance with the *Corporations Amendment (Corporate Reporting Reform) Act 2010*, parent entity accounts are no longer required to be presented in the consolidated financial statements. Summarised parent entity financial information is provided in note 35.

Washington H. Soul Pattinson and Company Limited is a listed public company, incorporated and domiciled in Australia.

### a) Basis of preparation of accounts

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), AASB Interpretations and the *Corporations Act 2001*. Washington H. Soul Pattinson and Company Limited is a for-profit entity for the purposes of preparing the financial statements.

*i. Compliance with International Financial Reporting Standards (IFRS)*

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Washington H. Soul Pattinson and Company Limited comply with IFRS.

*ii. Historical cost convention*

These financial statements have been prepared under historical cost convention, as modified by the revaluation of long term equity investments, financial assets and liabilities (including derivative instruments) carried at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

*iii. Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

*iv. Financial statement presentation*

The Group has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

| 'Plain English' terminology | AASB terminology |
|---|---|
| Share capital | Contributed equity |
| Investments fair valued through profit and loss | Other financial assets at fair value through profit or loss |
| Long term equity investments | Available for sale financial assets |
| Equity accounted associates | Investments accounted for using the equity method |
| Term deposits | Held to maturity investments |

The accounting standards also require the presentation of a statement of comprehensive income which presents all items of recognised income and expense either in one statement or in two linked statements. The Consolidated entity has elected to present two statements.

### b) Principles of consolidation

*i. Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Washington H. Soul Pattinson and Company Limited ("Company" or "Parent entity") as at 31 July 2013 and the results of all subsidiaries for the year then ended.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**b) Principles of consolidation (continued)**

*i. Subsidiaries (continued)*

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity.

*ii. Associates*

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received/receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*iii. Joint venture entities*

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the consolidated financial statements under the appropriate headings. Details of the joint ventures are set out in note 38.

**c) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chairman of the Washington H. Soul Pattinson and Company Limited Board.

**d) Foreign currency translation**

*i. Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Washington H. Soul Pattinson and Company Limited's functional and presentation currency.

*ii. Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, differences on non-monetary assets and liabilities such as investments fair valued through profit and loss are recognised in the income statement, as part of the fair value gain or loss and translation differences on non-monetary assets, such as long term equity investments are included in the asset revaluation reserve in equity.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Foreign currency translation (continued)

*iii. Group companies*

The results and financial position of all of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rates at the reporting date;
- income and expenses are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to the income statement, as part of the gain or loss where applicable.

### e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

- Revenue from the sale of goods (net of returns, discounts and allowances) is recognised when title has transferred to the customer in accordance with the sales terms. Where a sale is settled through instalments, interest revenue is recognised over the contract term, using the effective interest rate method.
- Service fee income is recognised as the services are performed.
- Consulting and management fee income is recognised as the services are performed and the control of the right to be compensated for the commitments undertaken.
- Interest income is recognised on a time proportion basis using the effective interest method.
- Dividend income is taken into revenue when the right to receive payment is established. Dividends received from associates are accounted for in accordance with the equity method of accounting. Refer note (1 b).
- Rental income is recognised on a straight-line basis over the lease term.

### f) Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretations. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amount in the consolidated financial statements and are determined using tax rates (and laws) expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### f) Income tax (continued)

*Investment allowance*

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward.

*Tax-consolidation legislation*

Some of the entities within the consolidated entity have formed tax consolidated groups under the tax consolidation regime. The Australian Tax Office has been notified on these decisions.

Controlled entities within the relevant tax-consolidated groups, continue to be responsible by the operation of tax funding agreements, for funding tax payments required to be made by the head entity in their tax consolidation groups from underlying transactions of their controlled entities.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

### g) Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

### h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if changes or circumstances indicate that they may be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) Cash and cash equivalents

For the purposes of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, should they occur, are shown within borrowings in current liabilities in the statement of financial position.

### j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost, using the effective interest rate method, less provision for impairment. Trade receivables are due for settlement between 30 and 45 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 to 45 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

### k) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate portion of variable and fixed overheads, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### l) Investments and other financial assets

*Classification*

The Group classifies its investments in the following categories: long term equity investments, financial assets fair valued through profit and loss, loans and receivables and term deposits. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition.

*i. Long term equity investments*

Long term equity investments comprise holdings in marketable equity securities which are intended to be held for the long term. These investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

*ii. Investments fair valued through profit and loss*

Investments fair valued through profit and loss comprises principally of securities held for the purpose of selling in the short to medium term. Derivatives are included in this classification unless they are designated as hedges. Assets in this category are classified as current assets.

*iii. Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities of greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

*iv. Term deposits*

Term deposit investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Term deposit financial assets are included in current assets, except those with maturities of more than 12 months from the reporting date, which are classified as non-current assets.

*Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Long term equity investments are initially recognised at fair value plus transaction costs. Investments fair valued through profit and loss are initially recognised at fair value. Financial assets are derecognised when the rights to

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### l) Investments and other financial assets (continued)

receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as long term equity investments are sold, the accumulated fair value adjustments previously recognised in equity, are transferred to the income statement.

*Subsequent measurement*

Long term equity investments and investments fair valued through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'Investments fair valued through profit and loss' category, are presented in the income statement within other income in the period in which they arise. Changes in the fair value of long term equity investments are recognised in equity through the asset revaluation reserve.

Loans and receivables and term deposits are carried at amortised cost using the effective interest method.

*Impairment*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as long term equity investments, a significant or prolonged decline in the value of a security below its cost is considered an indicator that the security may be impaired. Impairment losses are recognised in the income statement.

### m) Derivatives and hedge activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as hedges of highly probable forecast transactions (cash flow hedges). The Group designates certain derivatives as either:

- hedges its foreign currency exposure by entering into forward contracts; or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less estimated credit adjustments and impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### o) Property, plant and equipment

Freehold land is carried at the lower of cost and recoverable amount.

Property, plant and equipment, excluding investment properties, are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate where relevant, of the cost of dismantling and removing the items and restoring the site under which they are located and an appropriate proportion of production overhead.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| Class of Property, plant and equipment: | Depreciation rate |
|---|---|
| Buildings | 2½ – 5% |
| Machinery | 5 – 33⅓ % |
| Vehicles | 15 – 33⅓ % |
| Furniture, fittings and equipment | 5 – 40% |
| Mining reserves & leases | Over productive life of mine |
| Mine development costs | Over productive life of mine |

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### p) Mine properties, mine development costs, mining reserves and mining leases

Development expenditure incurred by the Group is accumulated separately for each area of interest in which economically recoverable mineral resources have been identified to the satisfaction of the Directors. Direct development expenditure, pre-operating mine start-up costs, and an appropriate portion of related overhead expenditure are capitalised as mine development costs up until the relevant mine is in commercial production.

Mining reserves, leases and mine development costs are amortised over the estimated productive life of each applicable mine on either a unit of production basis or years of operation basis, as appropriate. Amortisation commences when a mine commences commercial production.

The cost of acquiring mineral reserves and mineral resources are capitalised in the statement of financial position as incurred.

### q) Investment properties

The Group's investment properties under development consist of properties being constructed or developed for future use as investment properties. They are held for long term rental yields and/or capital appreciation. Investment properties are initially recognised at cost including transaction costs, development costs, construction costs and interest incurred during the construction phase. Investment properties are subsequently recognised at fair value in the financial statements.

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parities in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cashflow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry experience and knowledge and where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measureable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk. These valuations are reviewed annually by a registered independent valuer.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**q) Investment properties (continued)**

Changes in fair value are recorded in the income statement as part of other income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the income statement in the year of disposal.

Subsequent redevelopment and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property where they result in enhancement in the future economic benefits of the property.

**r) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and benefits incidental to the ownership of the asset are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Group will obtain ownership of the asset or over the term of lease.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, are classified as operating leases. Payment made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**s) Intangible assets**

*i. Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in the carrying amount of investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies, unless there is no reasonable and consistent basis to do so, in which case goodwill is allocated to groups of cash generating units. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where this recoverable amount is less than the carrying amount, an impairment loss is recognised.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

*ii. Software*

Software is stated at historical cost less applicable amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of software. Amortisation is calculated so as to write off the cost of each item of software during its expected economic life to the Group.

*iii. Other intangible assets*

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

*iv. Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

**Amortisation of intangible assets**

Amortisation is charged to the income statement on a straight-line basis, unless otherwise stated, over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance date.

Other intangible assets are amortised from the date they are available for use. The estimated useful lives of intangibles are as follows:

| Class of intangible | Useful life |
|---|---|
| Goodwill | Indefinite life |
| Software | 3 – 5 years |

**Impairment of assets**

The carrying amount of the Group's assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### s) Intangible assets (continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable value. Impairment losses are expensed to the income statement unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use.

### t) Trade and other payables

Trade and other payables are stated at their amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 to 45 days of recognition.

### u) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transactions costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the liability using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### v) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### w) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

*i. Restoration, rehabilitation and environmental expenditure*

Provisions are raised for restoration, rehabilitation and environmental expenditure as soon as an obligation exists, with the cost being charged to the income statement in respect of ongoing rehabilitation. Where the obligation relates to decommissioning of assets and restoring the sites on which they are located, the costs are carried forward in the value of the asset and amortised over its useful life.

The obligations include profiling, stabilisation and revegetation of the completed area, with cost estimates based on current statutory requirements and current technology.

### x) Employee benefits

*i. Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and vesting sick leave, expected to be settled within 12 months of the reporting date, are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*ii. Long service leave*

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*iii. Retirement benefit obligations*

All employees of the Group are entitled to benefits from the Group's superannuation plans on retirement, disability or death.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**x) Employee benefits (continued)**

The Group has defined contribution sections within its plans. The defined contribution section receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Contributions are recognised as an expense in the income statement on an accruals basis.

*iv. Share-based payments*

Share-based payments are provided to employees of Group entities. Details of the scheme is set out in note 43.

**y) Exploration and evaluation expenditure**

Exploration, evaluation and relevant acquisitions costs are accumulated separately for each area of interest. They comprise acquisition costs, direct exploration and evaluation costs and an appropriate portion of related overhead expenditure. Costs are carried forward only if they relate to an area of interest for which rights of tenure are current and such costs are expected to be recouped through successful development and exploitation or from sale of the area. Exploration and evaluation expenditure which does not satisfy these criteria is written off.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

**z) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax, from the proceeds. The amounts of any capital returns are applied against share capital.

**aa) Dividends**

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at reporting date.

**bb) Parent entity financial information**

The financial information for the Parent entity, Washington H. Soul Pattinson and Company Limited, disclosed in note 35, has been prepared on the same basis as the consolidated financial statements, except as set out below.

*i. Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Washington H. Soul Pattinson and Company Limited. Dividends received from associates are recognised in the Parent entity's income statement rather than being deducted from the carrying amount of these investments.

**cc) Earnings per share**

*Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**dd) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### ee) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar, unless otherwise stated.

### ff) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### gg) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 July 2013. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

***AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 and 2012-6 Amendments to Australian Accounting Standards arising from AASB 9***

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity has considered the adoption of AASB 9 and the major impact to the consolidated entity will be to the Group's long term equity investments. Currently, changes in the market value of these investments are recognised in the revaluation reserve. When an investment is disposed of, the gain or loss measured from the original cost is then recognised in the income statement.

Under the new standard, no gain or loss on the disposal of an investment would be recognised in the income statement and investments would no longer be subject to impairment reviews as all movements in market value are only recognised in the revaluation reserve. The Group is not proposing to early adopt the standard.

***AASB 10 Consolidated Financial Statements***

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The Group has assessed the impact of the new standard and are of the opinion that there will be no changes required to amounts recognised in the financial statements.

***AASB 11 Joint Arrangements***

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 August 2013 will not have a material impact on the consolidated entity.

***AASB 12 Disclosure of Interests in Other Entities***

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

The adoption of this standard from 1 August 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**gg) New accounting standards and interpretations (continued)**

***AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13***

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 August 2013 should be minimal, although there will be increased disclosures where fair value is used.

***AASB 127 Separate Financial Statements (Revised) and AASB 128 Investments in Associates and Joint Ventures (Reissued)***

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 August 2013 will not have a material impact on the consolidated entity.

***AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)***

This revised standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments eliminate the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The amendments also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. This will require annual leave that is not expected to be wholly settled within 12 months to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken. The adoption of the revised standard from 1 August 2013 is expected to reduce the reported annual leave liability and increase disclosures of the consolidated entity.

***AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement***

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

***AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards***

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 August 2013 will not have a material impact on the consolidated entity.

***AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities***

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The disclosure requirements of AASB 7 'Financial Instruments: Disclosures' (and consequential amendments to AASB 132 'Financial Instruments: Presentation') have been enhanced to provide users of financial statements with information about netting arrangements, including rights of set-off related to an entity's financial instruments and the effects of such rights on its statement of financial position. The adoption of the amendments from 1 August 2013 will increase the disclosures by the consolidated entity.

***AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities***

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of "currently has a legally enforceable right of set-off"; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 August 2014 will not have a material impact on the consolidated entity.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**gg) New accounting standards and interpretations (continued)**

***AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle***

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 (IFRS 1) 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities. The adoption of the amendments from 1 August 2013 will not have a material impact on the consolidated entity.

***AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039***

This amendment is applicable to annual reporting periods beginning on or after 1 January 2013. The amendment removes reference in AASB 1048 following the withdrawal of Interpretation 1039. The adoption of this amendment will not have a material impact on the consolidated entity.

***AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments***

These amendments are applicable to annual reporting periods beginning on or after 1 January 2013. They amend AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments. The adoption of these amendments will not have a material impact on the consolidated entity.

## NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on trends and economic data, obtained both externally and within the Group.

**a) Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*i. Impairment*

The Group tests annually whether goodwill has suffered an impairment in accordance with the accounting policy stated in note 1(s)(i). Other assets are assessed for impairment at each reporting date where changes in specific conditions or events indicate that the carrying amount may not be recoverable. Value-in-use and fair value less costs to sell calculations are performed in assessing recoverable amounts and require the use of assumptions.

*ii. Restoration, rehabilitation and environmental expenditure*

The Group makes estimates about the future cost of rehabilitating tenements which are currently disturbed, based on legislative requirements and current costs. Cost estimates take into account past experience and expectations of future events that are expected to alter past experiences. Any changes to legislative requirements could have a significant impact on the expenditure required to restore these areas.

*iii. Determination of reserves and resources - Coal*

The Group estimates its reserves and resources based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves of December 2004 (the "JORC code"). Reserves determined in this way are used in the calculation of depreciation, amortisation and impairment charges, the assessment of mine lives and for forecasting the timing of the payment of close down and restoration costs.

*iv. Mineral Resources Rent Tax (MRRT)*

During the year, as a result of the MRRT legislation that was substantively enacted on 19 March 2012 and that is effective from 1 July 2012, additional and offsetting deferred tax balances have been recognised. Judgement is required in assessing whether deferred tax assets and deferred tax liabilities arising from MRRT are recognised on the balance sheet.

## NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

**a) Critical accounting estimates and assumptions (continued)**

Deferred tax assets are recognised only when it is considered probable that they will be recovered. Recoverability is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These in turn depend on estimates of future sales volumes, operating costs, capital expenditure and government royalties' payable.

Judgements are also required about the application of the MRRT tax legislation for example in relation to the hypothetical valuation point.

The judgements and assumptions made by management are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

*v. Petroleum Resource Rent Tax (PRRT)*

As a result of the 100% acquisition of Bridgeport Energy Limited during the year, the Group is subject to Petroleum Resource Rent Tax (PRRT) effective 1 July 2012 being the date of the extension of the PRRT to onshore petroleum projects. The Group has accounted for the current and deferred tax impact of PRRT in accordance with the requirements outlined above in relation to income tax. As such, the Group has recorded current and deferred tax assets and liabilities relating to PRRT at the prevailing PRRT rate at 31 July 2013.

A subsidiary of the group, New Hope Corporation Limited (New Hope), as head company of New Hope income tax consolidated group; has made a PRRT consolidation election and as such the New Hope includes several PRRT consolidated groups at 31 July 2013. New Hope is intending to enter a Tax Sharing and Funding Agreement for each PRRT consolidated group adopting a separate tax payer in the group approach in line with income tax. New Hope has accounted for its PRRT tax balances in accordance with this methodology at 31 July 2013.

*vi. Determination of recoverable value – copper processing plant, equipment and capitalised mine development costs*

The Group carries its copper processing plant, equipment and capitalised mining costs at historical cost less accumulated depreciation/amortisation and impairment losses. At 31 July 2013 its carrying value is $87.754 million.

The assessment of recoverable value includes key estimates in relation to quantities of economically recoverable reserves and resources, resource grades and mine plans. These are based upon interpretations of geological models and other matters. It also requires key assumptions to be made regarding a number of factors including short and long-term exchange rates, short long-term copper prices, future capital expenditure and working capital. Estimates are also required to be made in relation to the economic life of the plant and its residual value. Changes in these estimates and applying different assumptions may impact significantly the assessment of the recoverable value of the plant, equipment and capitalised mine development costs, as well as the amount of depreciation and amortisation charged to income statement. The directors are satisfied that the estimates and assumptions made are based on observable and other supportable inputs and therefore that the carrying value of the copper processing plant, equipment and capitalised mine development costs at 31 July 2013 is appropriate.

**b) Critical judgements in applying the entity's accounting policies**

*i. Exploration and development expenditure*

During the year, the controlled entities New Hope Corporation Limited (New Hope), CopperChem Limited (CopperChem) and Exco Resources Limited, capitalised various items of expenditure to the mine development and exploration expenditure asset accounts. The relevant items of expenditure were deemed to be part of the capital cost of developing future mining operations, which would then be amortised over the useful life of the mine. The key judgement applied in considering whether the costs should be capitalised, is that costs are expected to be recovered through either successful development or sale of the relevant mining interest.

Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices.

To the extent that capitalised costs are determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

*ii. Impairment of financial assets*

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the financial results for the year ended 31 July 2013 include the assessment of the recoverable amounts for financial assets, including investments in associates and long term equity investments (refer to notes 6 and 37).

*iii. Deferred tax asset*

Deferred tax assets have been recognised relating to carried forward capital losses and temporary differences, based on current tax rates. Utilisation of capital tax losses requires the realisation of capital gains in subsequent years and the ability to satisfy

## NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

**b) Critical judgements in applying the entity's accounting policies (continued)**

certain tests at the time the losses are recouped. The actual tax results in future periods may differ from the estimate made at the time the deferred taxes are recognised.

## NOTE 3. SEGMENT INFORMATION

Segment information is provided on the same basis as internal management reporting and reflects how the Group is organised and managed.

**a) Business Segments**

Management have determined the following business activities to be operating segments based on product and service type:

*Investing activities*

The Group engages in investments, including cash, term deposits, property and equity investments.

*Coal mining*

The Group engages in coal mining activities which includes exploration, development, production, processing, associated transport infrastructure and ancillary activities. Coal mining operations are managed as a single integrated coal chain including transportation and infrastructure.

*Copper mining and processing*

The Group engages in copper mining activities including the exploration, mining and processing of copper ore into copper concentrate and copper sulphide.

*Consulting*

The Group is involved in the provision of consulting services.

**Measurement of Segment results**

Segment results shown are consistent with internal management reporting. Regular profit and regular profit after tax attributable to members, are the measures of segment profit. These results are non-statutory profit measures and represent profit from continuing operations before non-regular items. The measurement basis in general, excludes the effects of non-regular items of income and expense which by nature are outside the ordinary course of business or are part of ordinary activities but are unusual due their size. The Directors have presented this information as they consider the disclosure enhances the understanding of the results to members and users of the financial statements. Non-regular items are disclosed in note 3b.

The allocation of income and expense items between regular and non-regular profit is consistent with the prior year with the exception of the treatment of deferred tax expenses/benefits recognised on movements in the carrying value of equity accounted associates. This item has been deemed to be non-regular as it is not considered to be part of the ordinary operations of the equity accounted associate. This tax would only be payable on the sale of the investment. Any such gain or loss would, for accounting and disclosure purposes, be treated as a non-regular item and accordingly any such tax expense or benefit would also be a non-regular item. The comparative period has been amended for consistency purposes.

## NOTE 3. SEGMENT INFORMATION (continued)

**Business segments**

| Year ended 31 July 2013 | Investing activities $'000 | Coal mining $'000 | Copper mining and processing $'000 | Consulting $'000 | Intersegment eliminations /unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| **Revenue from external customers** | **143,117** | **587,394** | **47,551** | **1,844** | **11,409** | **791,315** |
| Intersegment revenue | **32,196** | **-** | **-** | **3,472** | **(35,668)** | **-** |
| **Total revenue** | **175,313** | **587,394** | **47,551** | **5,316** | **(24,259)** | **791,315** |
| **Regular profit before income tax** | **204,851** | **104,821** | **(20,264)** | **2,177** | **(35,941)** | **255,644** |
| Non-regular items before tax (note 3b) | (61,416) | 4,109 | (4,474) | - | - | **(61,781)** |
| **Profit before income tax** | **143,435** | **108,930** | **(24,738)** | **2,177** | **(35,941)** | **193,863** |
| Less income tax (expense)/benefit | (31,034) | (28,680) | 752 | (649) | - | (59,611) |
| **Profit after tax** | **112,401** | **80,250** | **(23,986)** | **1,528** | **(35,941)** | **134,252** |
| Less (profit)/loss attributable to non-controlling interests | 2,386 | (32,352) | 1,174 | (39) | - | (28,831) |
| **Profit after tax attributable to members** | **114,787** | **47,898** | **(22,812)** | **1,489** | **(35,941)** | **105,421** |
| **Profit after tax attributable to members** (as above) | **114,787** | **47,898** | **(22,812)** | **1,489** | **(35,941)** | **105,421** |
| Non-regular loss after tax attributable to members (note 3b) | 53,294 | (2,453) | 4,401 | - | - | 55,242 |
| **Regular profit after tax attributable to members** | **168,081** | **45,445** | **(18,411)** | **1,489** | **(35,941)** | **160,663** |
| Profit before income tax includes the following items: | | | | | | |
| Interest revenue | **77,024** | **-** | **6** | **233** | **(1,376)** | **75,887** |
| Interest (expense) | **(2,514)** | **-** | **(1,842)** | **-** | **1,376** | **(2,980)** |
| Depreciation and amortisation (expense) | **(1,891)** | **(48,498)** | **(8,979)** | **(19)** | **-** | **(59,387)** |
| Impairment (expense) | **(58,827)** | **-** | **-** | **-** | **-** | **(58,827)** |
| Share of results from equity accounted associates | **78,882** | **-** | **-** | **115** | **-** | **78,997** |
| **Segment assets as at 31 July 2013** | **3,258,713** | **987,178** | **173,429** | **8,335** | **(218,328)** | **4,209,327** |
| Total segment assets include: | | | | | | |
| Equity accounted associates and joint ventures | 813,505 | - | - | 143 | - | 813,648 |
| Additions to property, plant, equipment and intangibles | | | | | | |
| - purchases | 56,164 | 128,131 | 23,264 | 36 | - | 207,595 |
| - by way of acquisition of subsidiaries | - | 69,594 | 49,939 | 583 | - | 120,116 |

## NOTE 3. SEGMENT INFORMATION (continued)

**Business segments**

| Year ended 31 July 2012 | Investing activities $'000 | Coal mining $'000 | Copper mining and processing $'000 | Consulting $'000 | Intersegment eliminations /unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| **Revenue from external customers** | 193,763 | 680,828 | 21,625 | 5,101 | 11,042 | 912,359 |
| Intersegment revenue | 42,496 | - | - | 3,267 | (45,763) | - |
| **Total revenue** | 236,259 | 680,828 | 21,625 | 8,368 | (34,721) | 912,359 |
| **Regular profit before income tax** | 218,250 | 154,019 | (39,343) | 4,937 | (42,222) | 295,641 |
| Non-regular items before tax (note 3b) | (72,243) | - | - | - | - | (72,243) |
| **Profit before income tax** | 146,007 | 154,019 | (39,343) | 4,937 | (42,222) | 223,398 |
| Less income tax (expense)/benefit | 7,523 | (40,958) | 957 | (1,610) | - | (34,088) |
| **Profit after tax** | 153,530 | 113,061 | (38,386) | 3,327 | (42,222) | 189,310 |
| Less (profit)/loss attributable to non-controlling interests | (5,430) | (45,575) | 4,832 | (148) | - | (46,321) |
| **Profit after tax attributable to members** | 148,100 | 67,486 | (33,554) | 3,179 | (42,222) | 142,989 |
| **Profit after tax attributable to members** (as above) | 148,100 | 67,486 | (33,554) | 3,179 | (42,222) | 142,989 |
| Non-regular loss after tax attributable to members (note 3b) | 18,618 | - | - | - | - | 18,618 |
| **Regular profit after tax attributable to members** | 166,718 | 67,486 | (33,554) | 3,179 | (42,222) | 161,607 |
| Profit before income tax includes the following items: | | | | | | |
| Interest revenue | 107,346 | - | 19 | 612 | (1,758) | 106,219 |
| Interest (expense) | (3,135) | - | (1,926) | - | 1,758 | (3,303) |
| Depreciation and amortisation (expense) | (1,952) | (44,044) | (10,697) | (24) | - | (56,717) |
| Impairment (expense) | (54,427) | - | - | - | - | (54,427) |
| Share of results from equity accounted associates | 35,465 | - | - | (428) | - | 35,037 |
| **Segment assets as at 31 July 2012** | 3,332,617 | 835,784 | 102,337 | 9,949 | (123,203) | 4,157,484 |
| Total segment assets include: | | | | | | |
| Equity accounted associates | 782,124 | - | - | 382 | - | 782,506 |
| Additions to property, plant, equipment and intangibles | 10,459 | 69,995 | 6,723 | 3 | - | 87,180 |

## NOTE 3. SEGMENT INFORMATION (continued)

**b) Analysis of non-regular items excluded from segment results**

| | | | | Attributable to: | |
|---|---|---|---|---|---|
| **Year ended 31 July 2013** | **Before tax $'000** | **Tax $'000** | **After tax $'000** | **Non-controlling interest $'000** | **Members $'000** |
| Gain on deemed disposal of an associate | **737** | **(219)** | **518** | **-** | **518** |
| Gain on disposal of associate | **2,065** | **(609)** | **1,456** | **-** | **1,456** |
| Gain on acquisition of controlled entities | **5,319** | **-** | **5,319** | **1,656** | **3,663** |
| De-recognition of deferred taxes | **-** | **(1,742)** | **(1,742)** | **-** | **(1,742)** |
| Impairment (expense)/reversal | **(58,827)** | **5,459** | **(53,368)** | **(20,716)** | **(32,652)** |
| Share of significant (expenses) from associate entities | **(6,045)** | **-** | **(6,045)** | **-** | **(6,045)** |
| Deferred tax recognised on equity accounted associate entities | **-** | **(15,519)** | **(15,519)** | **-** | **(15,519)** |
| Restructuring costs | **(2,890)** | **304** | **(2,586)** | **(73)** | **(2,513)** |
| Other | **(2,140)** | **(44)** | **(2,184)** | **224** | **(2,408)** |
| **Total non-regular items – (loss)** | **(61,781)** | **(12,370)** | **(74,151)** | **(18,909)** | **(55,242)** |
| | | | | | |
| **Year ended 31 July 2012** | | | | | |
| Gain on deemed disposal of an associate | 4,030 | (1,209) | 2,821 | - | 2,821 |
| Tax consolidation benefits | - | 43,544 | 43,544 | 14,174 | 29,370 |
| De-recognition of deferred taxes | - | (8,246) | (8,246) | (8,130) | (116) |
| Impairment (expense)/reversal | (48,613) | 2,461 | (46,152) | (24,420) | (21,732) |
| Deferred tax recognised on equity accounted associate entities | - | (2,607) | (2,607) | (947) | (1,660) |
| Share of significant (expenses) from associate entities | (26,820) | - | (26,820) | - | (26,820) |
| Other | (840) | 731 | (109) | 372 | (481) |
| **Total non-regular items – (loss)** | (72,243) | 34,674 | (37,569) | (18,951) | (18,618) |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 4. REVENUE

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **From operating activities** | | |
| Sales revenue | **689,050** | 765,943 |
| **Other revenue** | | |
| Dividends received | | |
| - Other corporations | **20,973** | 34,423 |
| Interest received | | |
| - Associates | **121** | 7 |
| - Other corporations | **75,766** | 106,212 |
| Rental income | **821** | 919 |
| Other | **4,584** | 4,855 |
| Total other revenue | **102,265** | 146,416 |
| **Total revenue** | **791,315** | 912,359 |

## NOTE 5. OTHER INCOME

| | | |
|---|---|---|
| Gain on deemed disposal of equity accounted associates | **737** | 4,030 |
| (Losses) on investments fair valued through profit and loss | **(1,062)** | (8,623) |
| (Losses) on sale of long term equity investments | **(83)** | (27) |
| Gain on disposal of equity accounted associate | **2,065** | - |
| Gain on acquisition of controlled entity | **5,319** | 437 |
| Other items | **222** | 159 |
| **Total other income** | **7,198** | (4,024) |

## NOTE 6. EXPENSES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Profit before income tax expense includes the following specific expenses:** | | |
| Depreciation | | |
| Buildings | **971** | 1,012 |
| Plant and equipment | **46,380** | 42,831 |
| Total depreciation | **47,351** | 43,843 |
| Amortisation | | |
| Mining reserves and mine development | **9,581** | 11,647 |
| Exploration and evaluation assets | **-** | 40 |
| Intangible assets | **1,404** | 1,187 |
| Oil producing assets | **1,051** | - |
| Total amortisation | **12,036** | 12,874 |
| Impairment charges/(reversals) | | |
| Investments – Associates (a) | **2,538** | (8,949) |
| Goodwill in subsidiary (b) | **-** | 33,387 |
| Investments – Long term equity investments (c) | **50,889** | 19,813 |
| Property, plant and equipment | **-** | 6,299 |
| Other assets | **5,400** | 3,877 |
| Total impairment | **58,827** | 54,427 |
| Employee benefits expense | **123,651** | 124,879 |
| Finance costs | | |
| Interest and finance charges paid/payable | **2,980** | 3,303 |
| Rental expense relating to operating leases | **4,883** | 4,263 |
| Exploration costs expensed | **14,007** | 11,338 |

a) The recoverable amount of investments in equity accounted associates has been assessed as at 31 July 2013. Where the carrying values of the investments exceeded the recoverable amounts, the investment has been impaired. At each reporting date, an assessment will be made as to whether there are any circumstances that would indicate that the impairment recognised has decreased or no longer exists. Where evidence supports a reduction in the impairment expense, the impairment expense may be reversed through the income statement. During the year ended 31 July 2013, an impairment reversal of $10.614 million has been recognised in relation to Australian Pharmaceutical Industries Limited. In addition, an impairment expense of $13.286 million has been recognised in relation to Quantex Energy Inc. Refer to note 37f.

b) During the prior year, New Hope Corporation Limited (NHC) acquired the remaining interest in Northern Energy Corporation Limited (NEC). On attaining 100%, NEC became part of the New Hope tax consolidated group. Upon joining the tax consolidated group, NEC tax bases were reset which resulted in a reduction of $35.162 million in the deferred tax position. The decrease in assets led to a reassessment of the carrying value of Goodwill previously recognised and a subsequent impairment charge of $33.387 million.

c) During the year ended 31 July 2013, there were significant decreases in the share prices of certain listed equity investments held by the Group. In accordance with AASB 139, a 'prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment'. Where a long term equity investment's market bid price is lower than the original cost, and the investment is considered by management to be 'impaired', the Group has recognised an impairment expense in respect of these investments. An impairment recognised for a long term equity investment is prohibited from being reversed through profit and loss. Any future increments in the bid price of these investments will be recognised as a fair value increment in the asset revaluation reserve. During the year ended 31 July 2013, an impairment expense of $50.889 million was recognised for listed equity investments, including Dart Energy Limited $31.716 million, CMA Corporation Limited $10.770 million and Westside Corporation Limited $6.375 million.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 7. INCOME TAX EXPENSE

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **a) Income tax expense** | | |
| Current tax | **48,733** | 69,993 |
| Adjustment in current tax in respect of prior years | **(5,815)** | (3,261) |
| Deferred tax | | |
| - Deferred tax expense/(revenue) relating to the origination and reversal of temporary differences | **15,366** | (32,644) |
| - Adjustment in deferred tax in respect of prior years | **2,836** | - |
| - Petroleum resource rent tax benefit | **(1,509)** | - |
| | **59,611** | 34,088 |
| Deferred income tax/(revenue) included in income tax expense | | |
| (Increase) in deferred tax assets – (note 21) | **(1,789)** | (8,208) |
| Increase/(decrease) in deferred tax liabilities – (note 29) | **18,482** | (24,436) |
| | **16,693** | (32,644) |
| **b) Reconciliation of income tax expense to prima facie tax payable** | | |
| Profit before income tax | **193,863** | 223,398 |
| Tax at the Australian tax rate of 30% (2012: 30%) | **58,159** | 67,019 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Impairments and other amortisation | **12,605** | 8,856 |
| Tax consolidation benefit (1) | **-** | (43,544) |
| Tax offset for franked dividends | **(14,444)** | (17,504) |
| Tax losses and timing differences for which no deferred tax assets are recognised | **6,706** | 11,072 |
| Sundry items | **1,073** | 2,066 |
| Total tax expense | **64,099** | 27,965 |
| Petroleum rent resource tax | **(1,509)** | - |
| Prior year tax losses reversed in current year | **-** | 9,384 |
| (Over) provision in prior years | **(2,979)** | (3,261) |
| Total income tax expense | **59,611** | 34,088 |
| **c) Amounts recognised directly in equity** | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly charged or credited to equity | | |
| Net deferred tax – charged/(credited) directly to equity (notes 21 and 29) | **16,620** | (21,425) |
| **d) Tax effect of impairments** | | |
| Impairments and unused tax losses for which no deferred tax asset has been recognised | **279,775** | 217,112 |
| Potential tax benefit at 30% | **83,933** | 65,134 |

*(1)* Tax consolidation adjustments arise on taking 100% ownership in another entity. The tax consolidation benefits recognised in the prior year are due to Northern Energy Corporation Limited (NEC) joining the New Hope tax consolidated group ($35.162 million) and Souls Private Equity Limited joining the Washington H. Soul Pattinson and Company Limited tax consolidated group ($8.382 million).

## NOTE 8. DIVIDENDS – WASHINGTON H. SOUL PATTINSON AND COMPANY LIMITED

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **a) Ordinary shares** | | |
| Final dividend for the year ended 31 July 2012 of 27 cents (2011 – 25 cents) per fully paid share paid on 10 December 2012 (2011 – 5 December 2011) fully franked based on tax paid at 30%. | **64,637** | 59,660 |
| Interim dividend for the year ended 31 July 2013 of 18 cents (2012 – 17 cents) per fully paid share paid on 9 May 2013 (2012 – 10 May 2012) fully franked based on tax paid at 30%. | **43,091** | 40,697 |
| Total dividends provided for or paid | **107,728** | 100,357 |

**b) Dividends not recognised at year end**

| | | |
|---|---|---|
| In addition to the above dividends, since year end the directors have recommended the payment of: | | |
| A final dividend of 28 cents per fully paid ordinary share, (2012 – 27 cents) fully franked based on tax paid at 30%. | **67,031** | 64,637 |

This proposed dividend is expected to be paid on 9 December 2013 (2012 – 10 December 2012) out of retained profits as at 31 July 2013, and has not been recognised as a liability at year end.

**c) Franked Dividends**

The franked portions of the final dividends recommended after 31 July 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 July 2013.

| | | |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2012 – 30%). | **507,487** | 439,341 |
| The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of provision for income tax, franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date. | | |
| Subsequent to year end, the franking account will be reduced by the proposed final dividend to be paid on 9 December 2013 (2012 – 10 December 2012). | **(28,727)** | (27,701) |
| | **478,760** | 411,640 |

**d) Dividend reinvestment plans**

There were no dividend reinvestment plans in operation at any time during or since the end of the financial year.

## NOTE 9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash at bank and on hand | **28,078** | 78,173 |

**a) Reconciliation of cash balance at the end of the year**

| | | |
|---|---|---|
| Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:- | | |
| Cash and cash equivalents | **28,078** | 78,173 |

**b) Cash at bank and on hand and cash equivalents**

Cash includes deposits for which there is a short term identified use in the operating cashflows of the Group, and attracts interest at rates between 0% and 2.75% (2012: 0% and 3.7%).

**c) Risk exposure**

Information about the Group's exposure to credit risk and foreign exchange risk is detailed in note 32.

## NOTE 10. CURRENT ASSETS – TERM DEPOSITS

| | | |
|---|---|---|
| Term deposits | **1,499,724** | 1,721,075 |

Term deposits are held to their maturity of less than one year and carry a weighted average interest rate of 4.54% (2012: 5.21%).

Due to their short term nature, their carrying value is assumed to approximate their fair value. Information regarding the Group's exposure to credit risk is disclosed in note 32.

## NOTE 11. CURRENT ASSETS –TRADE AND OTHER RECEIVABLES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade receivables | **47,349** | 20,189 |
| Less: provision for impairment of receivables | **(115)** | (143) |
| | **47,234** | 20,046 |
| Loans and receivables to related entities | **1,231** | 2,338 |
| Less: impairment loss | **(1,171)** | (1,171) |
| | **60** | 1,167 |
| Loans to other parties – secured | **12,515** | 13,048 |
| Other receivables | **23,077** | 14,420 |
| Prepayments | **7,477** | 3,769 |
| | **90,363** | 52,450 |

**a) Credit, foreign exchange and interest rate risk**

Information about the Group's exposure to these risks in relation to trade and other receivables is provided in note 32.

**b) Fair value of receivables**

The fair value of receivables approximates their carrying values.

## NOTE 12. CURRENT ASSETS – INVENTORIES

| | 2013 | 2012 |
|---|---|---|
| Raw materials and stores – at cost | **27,542** | 21,566 |
| Work in progress – at cost | **11,834** | 15,535 |
| Finished goods – at cost | **40,859** | 45,020 |
| | **80,235** | 82,121 |

**Inventory expense**

Inventories recognised as expense during the year ended 31 July 2013 amounted to $278.646 million (2012: $294.669 million).

## NOTE 13. CURRENT ASSETS – INVESTMENTS FAIR VALUED THROUGH PROFIT AND LOSS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Investments held for the short to medium term | | |
| - Listed equity securities | **8,714** | 8,359 |
| - Other securities | **2,065** | 1,662 |
| | **10,779** | 10,021 |

Information regarding the Group's exposure to price risk is set out in note 32.

Listed equity securities are traded in an active market. The fair value of these investments is based on quoted market prices at the reporting date. The quoted market price used by the Group is the bid price at reporting date.

Other securities do not trade in an active market, therefore the fair value measurement of other financial assets is approximated by the cost price.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 14. NON-CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Loans to related entities | **12,023** | 12,036 |
| Less impairment on loans to related entities | **(11,007)** | (11,007) |
| | **1,016** | 1,029 |
| Prepayments | **1,244** | 1,759 |
| Other receivables | **2,842** | 7,449 |
| | **5,102** | 10,237 |

**a) Impairment – Loan receivables**

The provision for impairment relates to loans provided by a controlled entity to its related parties. At reporting date, these loans were determined to be unrecoverable and were fully impaired.

**b) Credit, foreign exchange, fair value and interest rate risk.**

Information about the Group's exposure to these risks in relation to trade and other receivables is provided in note 32.

The carrying value less impairment provisions of trade receivables are assumed to approximate their fair value.

## NOTE 15. NON-CURRENT ASSETS – EQUITY ACCOUNTED ASSOCIATES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Shares in associated companies (refer note 37) | **813,648** | 782,506 |

## NOTE 16. NON-CURRENT ASSETS – LONG TERM EQUITY INVESTMENTS

| | | |
|---|---|---|
| **Listed securities** | | |
| Equity securities | **542,128** | 502,295 |
| Preference shares | **-** | 3,281 |
| | **542,128** | 505,576 |
| **Unlisted securities** | | |
| Equity securities | **3** | 3 |
| | **542,131** | 505,579 |

Information regarding the Group entity's exposure to price risk is set out in note 32.

Long term equity investments are traded in an active market. The fair value of these investments is based on quoted market prices at the reporting date. The quoted market price used by the Group is the bid price at reporting date.

## NOTE 17. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

| | | |
|---|---|---|
| Other financial assets – at cost or fair value | **22,387** | 17,601 |

Other financial assets at reporting date do not trade in an active market.
The cost or impaired cost approximates the fair value.

## NOTE 18. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| 2013 | Land $'000 | Buildings $'000 | Plant, fixtures, motor vehicles $'000 | Oil producing assets $'000 | Mining reserves and leases $'000 | Mine development $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **At 1 August 2012** | | | | | | | |
| Cost or fair value | 139,001 | 26,093 | 558,250 | - | 256,660 | 79,160 | 1,059,164 |
| Accumulated depreciation/amortisation | - | (4,847) | (238,222) | - | (10,570) | (45,167) | (298,806) |
| Net book amount | 139,001 | 21,246 | 320,028 | - | 246,090 | 33,993 | 760,358 |
| **Year ended 31 July 2013** | | | | | | | |
| Opening net book amount | 139,001 | 21,246 | 320,028 | - | 246,090 | 33,993 | 760,358 |
| Asset acquired by purchase of subsidiaries | 989 | - | 3,205 | 47,512 | - | - | 51,706 |
| Additions | 4,946 | 4,538 | 97,990 | 14,971 | 2,412 | 5,062 | 129,919 |
| Transfers in/(out) | 50 | 3 | (2,165) | - | - | 1,985 | (127) |
| Disposal of assets | - | (205) | (1,080) | - | - | - | (1,285) |
| Impairment of assets | - | - | - | - | - | - | - |
| Depreciation/amortisation charge | - | (971) | (46,380) | (1,051) | (2,840) | (6,741) | (57,983) |
| **Closing net book amount** | 144,986 | 24,611 | 371,598 | 61,432 | 245,662 | 34,299 | 882,588 |
| **At 31 July 2013** | | | | | | | |
| Cost or fair value | 144,986 | 30,429 | 656,200 | 62,483 | 259,072 | 86,207 | 1,239,377 |
| Accumulated depreciation/amortisation | - | (5,818) | (284,602) | (1,051) | (13,410) | (51,908) | (356,789) |
| **Net book amount** | 144,986 | 24,611 | 371,598 | 61,432 | 245,662 | 34,299 | 882,588 |

**i. Pledged assets**

For the year ending 31 July 2013, $5.094 million of the Group's property, plant and equipment was pledged as security.

## NOTE 18. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

| 2012 | Land $'000 | Buildings $'000 | Plant, fixtures, motor vehicles $'000 | Mining reserves and leases $'000 | Mine development $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 1 August 2011** | | | | | | |
| Cost or fair value | 114,937 | 27,595 | 545,660 | 256,660 | 85,312 | 1,030,164 |
| Accumulated depreciation/amortisation | - | (3,835) | (206,831) | (7,017) | (36,877) | (254,560) |
| Net book amount | 114,937 | 23,760 | 338,829 | 249,643 | 48,435 | 775,604 |
| **Year ended 31 July 2012** | | | | | | |
| Opening net book amount | 114,937 | 23,760 | 338,829 | 249,643 | 48,435 | 775,604 |
| Asset acquired by purchase of subsidiaries | 4,338 | 821 | 699 | - | - | 5,858 |
| Additions | 19,726 | 42 | 28,403 | - | - | 48,171 |
| Transfers in/(out) | - | 934 | (1,446) | - | (6,348) | (6,860) |
| Disposal of assets | - | - | (626) | - | - | (626) |
| Impairment of assets | - | (3,299) | (3,000) | - | - | (6,299) |
| Depreciation/amortisation charge | - | (1,012) | (42,831) | (3,553) | (8,094) | (55,490) |
| **Closing net book amount** | 139,001 | 21,246 | 320,028 | 246,090 | 33,993 | 760,358 |
| **At 31 July 2012** | | | | | | |
| Cost or fair value | 139,001 | 26,093 | 558,250 | 256,660 | 79,160 | 1,059,164 |
| Accumulated depreciation/amortisation | - | (4,847) | (238,222) | (10,570) | (45,167) | (298,806) |
| Net book amount | 139,001 | 21,246 | 320,028 | 246,090 | 33,993 | 760,358 |

**i. Pledged assets**

For the year ending 31 July 2012, $5.094 million of the Group's property, plant and equipment was pledged as security.

## NOTE 19. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Investment properties** | | |
| Investment properties under development | **50,223** | - |
| **Reconciliation** | | |
| Opening net book amount | **-** | - |
| Additions | **50,223** | - |
| **Closing net book amount** | **50,223** | - |

**a) Amounts recognised in income statement for investment properties**

As the investment properties are currently under construction, no rental income nor depreciation expense has been recognised for the 2013 year.

**b) Valuation Basis**

For investment properties under construction, fair value is determined based on the market value of the property on an assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

**c) Non-current assets pledged as security**

Refer to note 25 for information on non-current assets pledged as security by the Group.

## NOTE 20. NON-CURRENT ASSETS – EXPLORATION AND EVALUATION ASSETS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Exploration and evaluation at cost | **129,628** | 41,334 |
| **Reconciliation** | | |
| Opening net book amount | **41,334** | 8,508 |
| Additions | **26,602** | 32,866 |
| Asset acquired by purchase of subsidiaries | **63,678** | - |
| Amortisation | **-** | (40) |
| Transfers (out) | **(1,986)** | - |
| **Closing net book amount** | **129,628** | 41,334 |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 21. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributed to:** | | |
| *Amounts recognised in income statement* | | |
| Provisions | **24,851** | 18,859 |
| Receivables and accrued expenses | **1,963** | 762 |
| Impairment losses | **9,692** | 6,031 |
| Tax value of losses carried-forward | **48,152** | 48,310 |
| Other | **7,891** | 9,516 |
| | **92,549** | 83,478 |
| *Amounts recognised directly in equity* | | |
| Cash flow hedges | **12,429** | - |
| Long term equity investments | **5,798** | 12,797 |
| Share issue costs | **10** | 10 |
| | **18,237** | 12,807 |
| Total deferred tax assets | **110,786** | 96,285 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (notes 1f and 29) | **(89,671)** | (53,079) |
| **Net deferred tax assets** | **21,115** | 43,206 |
| **Movements:** | | |
| Opening balance at 1 August | **96,285** | 72,416 |
| Amounts recognised on acquisition of subsidiaries | **7,282** | 8,713 |
| Credited to the income statement – operating profit (note 7a) | **1,789** | 8,208 |
| Credited to equity (note 7c) | **5,430** | 6,948 |
| **Closing balance at 31 July** | **110,786** | 96,285 |

## NOTE 22. NON-CURRENT ASSETS – INTANGIBLE ASSETS

| | Goodwill $'000 | Other $'000 | Total $'000 |
|---|---|---|---|
| **At 31 July 2011** | | | |
| Cost | 62,197 | 11,309 | 73,506 |
| Accumulated amortisation and impairment | (10,712) | (6,744) | (17,456) |
| **Net book amount** | 51,485 | 4,565 | 56,050 |
| **Year ended 31 July 2012** | | | |
| Opening net book amount | 51,485 | 4,565 | 56,050 |
| Additions | - | 285 | 285 |
| Amortisation (charge) | - | (1,187) | (1,187) |
| Impairment | (33,387) | - | (33,387) |
| Disposals | - | (277) | (277) |
| Transfers in | - | 513 | 513 |
| **Closing net book amount** | 18,098 | 3,899 | 21,997 |
| **At 31 July 2012** | | | |
| Cost | 62,197 | 11,830 | 74,027 |
| Accumulated amortisation and impairment | (44,099) | (7,931) | (52,030) |
| **Net book amount** | 18,098 | 3,899 | 21,997 |
| **Year ended 31 July 2013** | | | |
| Opening net book amount | **18,098** | **3,899** | **21,997** |
| Assets acquired on purchase of subsidiary | **4,732** | **-** | **4,732** |
| Additions | **-** | **851** | **851** |
| Amortisation (charge) | **-** | **(1,404)** | **(1,404)** |
| Impairment | **-** | **-** | **-** |
| Disposals | **-** | **(2)** | **(2)** |
| Transfers in | **-** | **2,137** | **2,137** |
| **Closing net book amount** | **22,830** | **5,481** | **28,311** |
| **At 31 July 2013** | | | |
| Cost | **66,929** | **14,816** | **81,745** |
| Accumulated amortisation and impairment | **(44,099)** | **(9,335)** | **(53,434)** |
| **Net book amount** | **22,830** | **5,481** | **28,311** |

Amortisation of $1.404 million (2012: $1.187 million) is charged to the income statement (note 6).

## NOTE 22. NON-CURRENT ASSETS – INTANGIBLE ASSETS (continued)

### a) Impairment of goodwill

Intangible assets, which have indefinite lives are allocated to the Group's cash generating units (CGU's) identified according to business segment and country of operation.

A segment-level summary of the goodwill allocation is presented below:

| | Country of operation | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| ***Coal mining*** | | | |
| - Goodwill | Australia | | |
| Carrying amount at beginning of year | | **18,098** | 51,485 |
| Acquisition of subsidary | | **4,157** | - |
| Impairment of goodwill (i) | | **-** | (33,387) |
| | | **22,255** | 18,098 |
| ***Consulting*** | | | |
| - Goodwill | Australia | | |
| Carrying amount at beginning of year | | **-** | - |
| Acquisition of subsidiary (ii) | | **575** | - |
| | | **575** | - |
| **Closing net book value** | | **22,830** | 18,098 |

The recoverable amount of the cash generating units has been determined based on value–in-use calculations and contracted business sales values, as appropriate. Assumptions and methodology applied to each cash-generating unit are as follows:

*(i) Coal Mining*

Impairment relates to goodwill previously recognised on the acquisition of Northern Energy Corporation Limited.

Brought forward goodwill relates to the acquisition of Northern Energy Corporation Limited. The increase in goodwill in the current year relates to the acquisition of Bridgeport Energy Limited (Bridgeport) in an arm's length transaction as set out in note 36. The recoverable amount of the cash generating units (being the mining tenements in Northern Energy Corporation Limited) is determined based on fair values less cost to sell. This assessment is based on observable external market data for reserve and resource trading and transaction multiplies, and is based on similar coal exploration companies. The Bridgeport recoverable amount of the cash generating units has been based on fair value less cost to sell. These calculations use post-tax cash flow projections over the remaining life of the fields (8-11 years) discounted using a post-tax real nominal discount rate, average long term oil price of approximately of US $108/bbl and an AUD/USD exchange rate of $0.88. The equivalent pre-tax discount rate is 13%. These assumptions are consistent with external sources of information.

*(ii) Consulting*

The increase in goodwill in the current year relates to obtaining control of Pitt Street Real Estate Partners Pty Limited (formerly BW Partners Pty Limited).

## NOTE 23. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade payables and other payables | 59,629 | 54,995 |

## NOTE 24. CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Deposits from related parties - Directors (note 25a) | **49,317** | 47,377 |
| Short term borrowings (note 25c) | **1,750** | 3,036 |
| Lease liability (note 25d) | **98** | 242 |
| | **51,165** | 50,655 |

Further information relating to interest bearing liabilities is set out in note 25.

## NOTE 25. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

| | 2013 | 2012 |
|---|---|---|
| Long term borrowings (c) | **7,806** | 2,174 |
| Lease liabilities (d) | **94** | 36 |
| | **7,900** | 2,210 |

**a) Director deposits**

The Parent entity accepts deposits from Directors and Director related entities under normal commercial agreements and consistent with deposits received from other parties. Deposits are repayable at call and carry an interest rate of 3.69% (2012: 5.18%) at the reporting date. The effective interest rate applicable to these Directors and Director related deposits is consistent with the interest rate that deposits of the parent entity receives and ensures a margin of at least 25 basis points is earned by the parent entity.

**b) Fair value disclosures**

The carrying value of financial liabilities as disclosed approximates their fair values.

**c) Borrowings**

**Secured financing facilities and assets pledged as security**

The total secured financing facilities are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade finance facility (i) | **5,000** | 5,000 |
| Business flexible rate loan (i) | **2,500** | 2,500 |
| Bank loan facility (ii) | **33,400** | - |
| Lease liabilities (d) | **192** | 278 |
| | **41,092** | 7,778 |

(i) The Trade finance facility and the business flexible rate loan facility are jointly guaranteed by a subsidiary of Souls Private Equity Limited (SPEL). The two facilities are secured against a fixed and floating charge over the company and a registered mortgage over the property owned by the subsidiary of SPEL. The trade finance facility matures within 6 months and the business flexible rate loan facility matures in 2 years.

(ii) The bank loan facility is secured by a registered mortgage over the individual properties classified as investment properties under development in the financial statements. The bank loan facility is fixed for a period of 5 years; with a variable interest rate facility. A 5 year interest rate swap arrangement has also been established to manage fluctuations in interest rates over the term of the facility. The interest rate is effectively fixed at 6.555% per annum until the completion of the investment property, and thereafter reduces to 6.155% per annum. Refer to note 19.

**d) Lease liabilities**

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 25. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES (continued)

**e) Other financing arrangements**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| The consolidated entity has access to facilities as follows: | | |
| **Bank overdraft** | | |
| Total facility | **1,000** | 1,000 |
| Used at balance date | **-** | - |
| Unused at balance date | **1,000** | 1,000 |
| **Bank guarantees** | | |
| Total facilities | **79,374** | 92,817 |
| Used at balance date | **(67,475)** | (66,729) |
| Unused at balance date | **11,899** | 26,088 |

The major facilities relate to bank guarantees of New Hope Corporation Limited, are unsecured, for no fixed term and bear variable rates:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| *i. Mining restoration and rehabilitation* | | |
| The liability has been recognised by New Hope Corporation Limited in relation to its rehabilitation obligations. | **38,230** | 37,474 |
| *ii. Statutory body suppliers* | | |
| No liability was recognised by New Hope Corporation Limited in relation to these guarantees as no losses are foreseen on these contingent liabilities. | **24,871** | 24,161 |
| | **63,101** | 61,635 |

## NOTE 26. DERIVATIVE FINANCIAL INSTRUMENTS

New Hope Corporation Limited, and certain of its controlled entities, as well as the Australian Logistics Property Fund and its subsidiary trusts, are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign currency exchange rates and fluctuations in interest rates.

These instruments are used in accordance with the Group's financial risk management policies. The portion of the gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group reclassifies the gain or loss into the income statement.

Refer to note 1(m) for additional information on the accounting policy for derivatives.

At reporting date the details of outstanding contracts at fair value are (AUD Equivalents):

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| - Forward exchange contracts | **-** | 20,393 |
| **Non-current assets** | | |
| - Forward exchange contracts | **-** | 9,971 |
| | **-** | 30,364 |
| **Current liabilities** | | |
| - Forward exchange contracts | **29,721** | - |
| - Interest rate swaps | **816** | - |
| | **30,537** | - |
| **Non-current liabilities** | | |
| - Forward exchange contracts | **11,707** | - |
| | **42,244** | - |

## NOTE 26. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

| Sell US dollars | Buy Australian dollars | | Average exchange rate | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Maturity | **$'000** | $'000 | | |
| 0 to 6 months | **129,884** | 106,225 | **1.00090** | 0.93198 |
| 6 to 12 months | **121,122** | 83,397 | **0.98250** | 0.91130 |
| 1 to 2 years | **130,854** | 29,483 | **0.94760** | 0.91579 |
| 2 to 5 years | **45,955** | 84,568 | **0.84870** | 0.86321 |
| | **427,815** | 303,673 | | |

**Credit risk exposures of derivative financial instruments – forward exchange contracts**

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. A material exposure arises from forward exchange contracts and the Group is exposed to losses in the event that counterparties fail to deliver the contracted amount.

At reporting date $427.815 million (2012: $303.673 million) was receivable (AUD equivalents).

The fair value meaurement of forward exchange contracts is determined using forward exchange market rates at the reporting date.

## NOTE 27. CURRENT LIABILITIES – PROVISIONS

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Mining restoration and site rehabilitation | **6,415** | 6,015 |
| Employee benefits | **28,967** | 25,705 |
| Native title claims | **117** | - |
| | **35,499** | 31,720 |

| **Movements in total provisions 2013** | **Native title claims $'000** | **Mining restoration and site rehabilitation $'000** |
|---|---|---|
| **Carrying amount at beginning of year** | **-** | **40,231** |
| Additional provisions recognised | **137** | **10,719** |
| **Carrying amount at end of year** | **137** | **50,950** |
| Disclosed as: | | |
| Current liabilities | **117** | **6,415** |
| Non-current liabilities | **20** | **44,535** |
| | **137** | **50,950** |

## NOTE 28. NON-CURRENT LIABILITIES – PROVISIONS

| | | |
|---|---|---|
| Mining restoration and site | **44,535** | 34,216 |
| Employment benefits | **5,655** | 5,094 |
| Native title claims | **20** | - |
| | **50,210** | 39,310 |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 29. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributed to:** | | |
| *Amounts recognised in income statement* | | |
| Property, plant and equipment | **30,354** | 30,693 |
| Mine reserves | **66,899** | 66,275 |
| Capitalised exploration | **14,916** | 4,542 |
| Arising on Petroleum Rent Resource Tax | **4,701** | - |
| Inventories | **5,989** | 5,170 |
| Investments | **71,144** | 57,052 |
| Receivables | **1,626** | 7,766 |
| Other | **3,334** | 1,425 |
| | **198,963** | 172,923 |
| *Amounts recognised directly in equity* | | |
| Long term equity investments | **72,981** | 46,623 |
| Cash flow hedges | **-** | 9,109 |
| Property, plant and equipment | **7,160** | 7,160 |
| Other investments | **4,302** | (499) |
| | **84,443** | 62,393 |
| Total deferred tax liabilities | **283,406** | 235,316 |
| Set-off of deferred tax liabilities pursuant to set-off provisions (notes 1f and 21) | **(89,671)** | (53,079) |
| **Net deferred tax liabilities** | **193,735** | 182,237 |
| **Movements:** | | |
| Opening balance 1 August | **235,316** | 264,528 |
| Charged/(credited) to the income statement – operating profit (note 7a) | **18,482** | (24,436) |
| Charged/(credited) to equity (note 7c) | **22,050** | (14,477) |
| Amounts recognised on acquisition of subsidiaries | **7,558** | 9,701 |
| **Closing balance at 31 July** | **283,406** | 235,316 |

## NOTE 30. SHARE CAPITAL

| | Parent entity | | Parent entity | |
|---|---|---|---|---|
| | **2013 No of shares** | **2013 $'000** | 2012 No of shares | 2012 $'000 |
| **(a) Share capital** | | | | |
| Fully paid ordinary shares | **239,395,320** | **43,232** | 239,395,320 | 43,232 |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value.

**(b) Movements in ordinary share capital**

| Date | Details | Notes | No of shares | Issue price | $'000 |
|---|---|---|---|---|---|
| 1 August 2011 | Opening balance | | 238,640,580 | | 32,900 |
| 4 January 2012 | Takeover of Souls Private Equity Limited | (i) | 754,740 | $13.69 | 10,332 |
| **31 July 2012** | **Closing balance** | | **239,395,320** | | **43,232** |
| **31 July 2013** | **Closing balance** | | **239,395,320** | | **43,232** |

**Prior year movements in ordinary share capital**

(i) On 19 September 2011, Washington H. Soul Pattinson and Company Limited announced a proposal to acquire all of the outstanding Souls Private Equity Limited (ASX: SOE) shares not already owned by Washington H. Soul Pattinson and Company Limited for $0.163 per share. The proposal valued Souls Private Equity Limited at approximately $97.5 million (fully diluted, including options). Under the proposal, Souls Private Equity Limited shareholders were able to receive consideration in cash or in Washington H. Soul Pattinson and Company Limited shares.

On 4 January 2012, 754,740 fully paid ordinary shares in Washington H. Soul Pattinson and Company Limited were issued as part of the consideration for the acquisition by Washington H. Soul Pattinson and Company Limited of all the ordinary shares in Souls Private Equity Limited other than those held by Washington H. Soul Pattinson and Company Limited under the Share Scheme.

**Capital Management**

The Group's capital management approach is conservative with the objective to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain the future development of the consolidated entity. The Board also monitors the level of dividends ensuring that ordinary dividends are paid from profits before non-regular items.

There were no changes to the Group's approach to capital management during the year.

The Group's capital consists of shareholders' equity plus net debt. The movement in equity is shown in the statement of changes in equity.

At 31 July 2013, the parent entity has no external borrowings from financial institutions. The parent entity is not subject to any externally imposed capital requirements.

## NOTE 31. RESERVES AND RETAINED PROFITS

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **a) Reserves** | | |
| General reserve | **404,548** | 404,548 |
| Asset revaluation reserve | **210,361** | 117,248 |
| Capital profits reserve | **11,368** | 11,368 |
| Hedging reserve | **(18,181)** | 12,511 |
| Share-based payments reserve | **1,165** | 1,045 |
| Foreign currency translation reserve | **(2,494)** | (3,028) |
| Treasury share reserve | **(327)** | (327) |
| Equity reserve | **(9,191)** | (4,652) |
| **Balance 31 July** | **597,249** | 538,713 |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 31. RESERVES AND RETAINED PROFITS (continued)

| **b) Movements:** | **2013 $'000** | 2012 $'000 |
|---|---|---|
| *General reserve* | | |
| Balance 31 July | **404,548** | 404,548 |
| *Asset revaluation reserve* | | |
| Balance 1 August | **117,248** | 144,892 |
| Revaluation of long term equity investments, gross | **95,439** | (53,463) |
| Revaluation of long term equity investments, deferred tax | **(33,896)** | 18,802 |
| Transfer on sale of long term equity investments to profit, gross | **(67)** | 315 |
| Transfer on sale of long term equity investments to profit, deferred tax | **(54)** | (425) |
| Transfer on impairment of long term equity investments to profit, gross | **9,991** | 14,009 |
| Transfer on impairment of long term equity investments to profit, deferred tax | **2,352** | (4,203) |
| Transfer of Exco Resources Limited to a controlled entity previously classified as an long term equity investment, gross | **6,201** | - |
| Transfer of Exco Resources Limited to a controlled entity previously classified as an long term equity investment, deferred tax | **(1,864)** | - |
| Share of associates increments/(decrements) | **15,011** | (2,679) |
| Balance 31 July | **210,361** | 117,248 |
| *Capital profits reserve* | | |
| Balance 31 July | **11,368** | 11,368 |
| *Hedging reserve* | | |
| Balance 1 August | **12,511** | 17,217 |
| Revaluation, gross | **(34,767)** | 9,131 |
| Revaluation, deferred tax | **10,186** | (2,739) |
| Transfer to profit, gross | **(8,894)** | (15,294) |
| Transfer to profit, deferred tax | **2,668** | 4,588 |
| Shares of associates increments/(decrements) | **115** | (392) |
| Balance 31 July | **(18,181)** | 12,511 |
| *Share-based payments reserve* | | |
| Balance 1 August | **1,045** | (73) |
| Share-based payment and option expense | **617** | 1,188 |
| Transfer to equity | **(497)** | (70) |
| Balance 31 July | **1,165** | 1,045 |
| *Foreign currency translation reserve* | | |
| Balance 1 August | **(3,028)** | (3,414) |
| Exchange difference on translation of foreign controlled entity and associates | **(3)** | 6 |
| Share of associates increments | **537** | 380 |
| Balance 31 July | **(2,494)** | (3,028) |
| *Treasury share reserve* | | |
| Balance 31 July | **(327)** | (327) |
| *Equity reserve* | | |
| Balance 1 August | **(4,652)** | (4,119) |
| Share of associates (decrements) and deferred taxes on associates | **(4,539)** | (533) |
| Balance 31 July | **(9,191)** | (4,652) |

## NOTE 31. RESERVES AND RETAINED PROFITS (continued)

### c) Nature and purpose of reserves

*General reserve*

The general reserve records funds set aside for future requirements of the Group.

*Asset revaluation reserve*

This reserve includes net revaluation increments and decrements arising from the revaluation of non-current assets. Changes in the fair value and exchange differences arising from translation of investments, such as equities classified as long term equity investments, are taken to the asset revaluation reserve as described in note 1(l). Amounts are recognised in income statement when the associated assets are sold or impaired.

*Capital profits reserve*

This reserve represents amounts allocated from retained profits that were profits of a capital nature.

*Hedging reserve*

The hedging reserve is used to record the gains and losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(m). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

*Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

*Foreign currency translation reserve*

The foreign currency translation reserve records the foreign currency differences which arise from the translation of self-sustaining foreign operations, and foreign exchange movements.

*Treasury share reserve*

The treasury share reserve represents the value of shares held by an equity compensation plan. The reserve will be reversed against share capital when the underlying shares vest with employees.

*Equity reserve*

This reserve includes the tax effect of movements in the carrying value of equity accounted associates where this movement has been recognised directly in equity.

### d) Retained profits movements

*Increases in ownership of controlled entities*

In accordance with AASB 127 *Consolidated and Separate Financial Statements* and the Group's accounting policy for changes in ownership of a subsidiary (without gain or loss of control), any excess purchase consideration paid to non-controlling interest holders, over the net assets acquired, is recognised directly in equity as a transaction between equity holders of the Group. The Group applies this policy by adjusting retained profits.

Refer to note 36 for the Parent entity's interest in controlled entities.

## NOTE 32. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, price risk and interest risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Entities within the Group use derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are used exclusively for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analyses in the case of interest rate, foreign exchange and other price risks and ageing analyses for credit risk.

Risk management policies cover specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of forward exchange contracts and investment of excess liquidity.

| The Group holds the following financial instruments: | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **28,078** | 78,173 |
| Term deposits | **1,499,724** | 1,721,075 |
| Loans and receivables | **95,465** | 62,687 |
| Investments fair valued through profit and loss | **10,779** | 10,021 |
| Derivative financial instruments | **-** | 30,364 |
| Long term equity investments | **542,131** | 505,579 |
| Other financial assets | **22,387** | 17,601 |
| **Total financial assets** | **2,198,564** | 2,425,500 |
| **Financial liabilities** | | |
| Trade and other payables | **59,629** | 54,995 |
| Deposits accepted | **49,317** | 47,377 |
| Derivative financial instruments | **42,244** | - |
| Borrowings | **9,556** | 5,210 |
| Lease liabilities | **192** | 278 |
| **Total financial liabilities** | **160,938** | 107,860 |

### a) Market Risk

*i. Foreign exchange risk*

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk arising from currency exposures to the US Dollar.

Forward contracts are used to manage foreign exchange risk. Senior management is responsible for managing exposures in each foreign currency by using external forward currency contracts. Contracts are designated as cash flow hedges. External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific future transactions.

The Group's export coal sales risk management policy is to hedge up to 65% of anticipated transactions in US Dollars for the subsequent year, up to 57% of anticipated revenue beyond a year but less than two years and up to 50% for revenue beyond two years but less than three years. All hedges of projected export coal sales qualify as "highly probable" forecast transactions for hedge accounting purposes.

The Group's exposure to foreign currency risk at the reporting date was as follows:

| **US dollar exposure** | **2013 USD $'000** | 2012 USD $'000 |
|---|---|---|
| Cash and cash equivalents | **5,919** | 37,590 |
| Trade receivables | **21,575** | 2,196 |
| Forward exchange contracts – sell foreign currency (cash flow hedge) | **412,000** | 275,000 |
| Trade payables | **-** | 752 |
| **Total exposure to USD** | **439,494** | 315,538 |

## NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

### a) Market Risk (continued)

*Sensitivity analysis*

Based on the trade receivables and cash held at 31 July 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have increased/ (decreased) by $2.382 million/($1.998 million) (2012: $3.052 million/($2.537 million)), mainly as a result of foreign exchange gains/(losses) on translation of US dollar receivables and cash balances as detailed in the above table. The Group's equity as at reporting date would have increased/(decreased) by the same amounts.

Based on the forward exchange contracts held at 31 July 2013, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's equity would have increased/ (decreased) by $41.820 million/($46.003 million) (2012: $23.751 million/($26.126 million)). There is no effect on post-tax profits. Shareholders equity in 2013 is more sensitive to movements in the Australian dollar / USD exchange rates than in 2012 because of the increased value of outstanding forward exchange contracts compared to 2012.

*ii. Price Risk*

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the statement of financial position as either long term equity investments or investments fair valued through profit and loss. The majority of the Group's investments are publicly traded on the Australian Securities Exchange.

Investments held for the long-term are classified on the statement of financial position as 'long term equity investments'. As the market value of individual companies fluctuate, the fair value of the portfolio changes with the movement being recognised directly to equity. Where an investment's value falls below its cost, management may consider the investment to be impaired. An impairment expense is recognised in the income statement. Long term equity investments represent 14.5% (2012: 13.4 %) of the Group's net assets.

Investments held for the short to medium term are classified on the statement of financial position as 'investments fair valued through profit and loss'. As the market value of individual companies fluctuate, the fair value of this portfolio changes with the movement being recognised through the income statement. 'Investments fair valued through profit and loss' represent 0.3% (2012: 0.3 %) of the Group's net assets.

The performance of the investment portfolios are monitored by the individual Board's of the Group. The Group seeks to reduce market risk by ensuring that it is not exposed to one Group or one particular sector of the market.

*Sensitivity analysis*

The following table summarises the financial impacts of a hypothetical 5% decrease in the market value of investments for the Group as at reporting date. Where this decrease results in an individual security being valued below its cost, the reduction below cost may be recognised in the income statement where Directors consider the investment to be impaired. For long term equity investments, a 5% increase in market values would have no impact on the income statement as all increases are recognised directly in equity.

| | **Impact to post-tax profit** | | **Impact on reserves** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Investments fair valued through profit and loss | **(305)** | (293) | **-** | - |
| Long term equity investments | **(1,550)** | (1,148) | **(17,930)** | (16,668) |
| Total | **(1,855)** | (1,441) | **(17,930)** | (16,668) |

*iii. Fair value interest rate risk*

Refer to (e) below.

### b) Credit Risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to export and domestic customers, including outstanding receivables and committed transactions.

## NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

### b) Credit Risk (continued)

The Group has no significant concentrations of credit risk. The Group's derivative counterparties, term deposits and cash transactions are limited to financial institutions with a rating of at least BBB. The Group has policies that limit the maximum amount of credit exposure to any one financial institution.

Credit risk further arises in relation to financial guarantees given to certain parties (refer note 25e). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

The credit quality of financial assets that are neither past due nor impaired, can be assessed by reference to historical information about counterparty defaults. To mitigate credit risk, management within each of the Group entities apply policies to assess and monitor the credit worthiness of customers and set appropriate credit limits for each customer, taking into account their financial positions, past experience and other factors pertaining to each industry segment.

The maximum exposure to credit risk at the reporting date is the carrying amount of assets as stated in the statement of financial position. The following table summarises these assets:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Cash and cash equivalents | **28,078** | 78,173 |
| Term deposits | **1,499,724** | 1,721,075 |
| Loans and receivables | **95,465** | 62,687 |
| Derivative financial instruments | **-** | 30,364 |
| | **1,623,267** | 1,892,299 |

The loans and receivables balances as stated above reflect the recoverable value and are net of any impairments or provisions. Refer notes 11 and 14 for further description on certain impairments.

### c) Liquidity risk

Liquidity risk is the risk that an entity is unable to meet its financial obligations as they fall due.

Prudent liquidity risk management is adopted by the Group through maintaining sufficient cash and marketable securities, the ability to borrow funds from credit providers and to close-out market positions.

The Group entities manage liquidity risk by continually monitoring forecast and actual cashflows and matching maturity profiles of financial assets and liabilities. Surplus funds are only invested in conservative financial instruments such as term deposits with major banks.

In addition, 14.8% (2012: 13.7%) of the Group's net assets are in the form of readily tradeable listed investments which could be liquidated through on-market sales if necessary.

*Financing arrangements*

Details of financial facilities available are set out in note 25.

### d) Maturity of financial liabilities

The Group's trade and other payables are all payable within one year.

The Group's maturity analysis for derivative financial instrument is set out in note 26.

The Group's maturity analysis for other financial liabilities is described in note 25.

### e) Cash flow and fair value interest rate risk

The Group currently has significant interest-bearing assets which are placed with reputable investment counterparties for up to 12 months. The Group has treasury investment policies approved by each of the relevant entity's Board which stipulates the maximum exposure to each financial institution. Significant changes in market interest rates may have an effect on the Group's income and operating cash flows. Cash flow interest rate risk is managed by placing excess funds in term deposits and other fixed interest bearing assets. Refer to notes 9 and 10 for details. Based on the deposits held at reporting date, the sensitivity to a hypothetical 1% per annum increase or decrease in interest rates would increase/(decrease) after tax profit by $10.695 million (2012: $12.600 million). This scenario assumes all cash and term deposits at balance date continue to remain invested for the whole year.

The Group is exposed to interest rate risk arising from long term borrowings. Long term borrowing facilities have been issued at variable rates. The Group has hedged the majority of the Group's exposure to cash flow interest rate risk by entering into a derivative financial instrument, an interest rate swap, to effectively convert the variable interest rate facility into a fixed interest rate facility. Refer to note 25 for further details.

## NOTE 32. FINANCIAL RISK MANAGEMENT (continued)

**f) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

## NOTE 33. CONTINGENT LIABILITIES

The Group had contingent liabilities at 31 July in respect of:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Not secured by a charge on the Consolidated entity's assets | | |
| i. Undertakings and guarantees issued by a Controlled entity's bankers to the Department of Minerals & Energy, Statutory Power Authorities and various other entities. | **19,196** | 18,730 |
| ii. Undertakings and guarantees issued by a Controlled entity's bankers for stages 1 and 2 of the Wiggins Island Coal Export Terminal expansion project and expansion of rail facilities | **10,049** | 10,317 |
| | **29,245** | 29,047 |

For contingent liabilities relating to associates refer to note 37.

## NOTE 34. COMMITMENTS FOR EXPENDITURE

**a) Capital commitments**

Capital expenditure contracted for at the reporting date

*Property, plant and equipment and investment properties*

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Payable: | | |
| Within one year | **82,983** | 7,586 |

**b) Lease commitments:**

Commitments in relation to leases consist of:

*i. Operating leases*

The Group's main leases relates to the leasing of port facilities under non-cancellable operating leases expiring within one to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

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

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Within one year | **7,137** | 8,012 |
| Later than one year but not later than five years | **15,928** | 14,783 |
| Later than five years | **48,012** | 52,141 |
| | **71,077** | 74,936 |

*ii. Finance leases*

The Consolidated entity leases various plant and equipment under finance leases expiring within one to five years.

Commitments for minimum lease payments in relation to finance leases are payable as follows:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Within one year | **106** | 272 |
| Later than one year but not later than five years | **99** | 40 |
| | **205** | 312 |
| Future finance charges | **(13)** | (34) |
| Recognise as a liability | **192** | 278 |
| Representing lease liabilities: | | |
| Current (note 24) | **98** | 242 |
| Non-current (note 25) | **94** | 36 |
| | **192** | 278 |

The weighted average interest rate implicit in the leases is 9.04% (2012: 9.81%)

For commitments relating to associates refer to note 37.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 35. PARENT ENTITY FINANCIAL INFORMATION

### a) Summary financial information

The individual financial statements for the Parent entity show the following aggregate amounts:

| Statement of financial position | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **2,182** | 6,491 |
| Term deposits | **226,000** | 268,000 |
| Trade and other receivables | **14,114** | 29,936 |
| Inventories | **1,064** | 1,061 |
| Investments fair valued through profit and loss | **10,779** | 10,021 |
| Current tax asset | **3,277** | - |
| **Total current assets** | **257,416** | 315,509 |
| **Non-current assets** | | |
| Trade and other receivables | **69,653** | 64,588 |
| Long term equity investments | **512,287** | 432,811 |
| Other financial assets | **695,354** | 535,075 |
| Property, plant and equipment | **2,789** | 3,077 |
| Deferred tax assets | **27,331** | 10,374 |
| **Total non-current assets** | **1,307,414** | 1,045,925 |
| **Total assets** | **1,564,830** | 1,361,434 |
| **Current liabilities** | | |
| Trade and other payables | **1,069** | 2,725 |
| Interest bearing liabilities | **69,065** | 63,640 |
| Current tax liability | **-** | 2,807 |
| Provisions | **720** | 691 |
| **Total current liabilities** | **70,854** | 69,863 |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **40,217** | 6,803 |
| Provisions | **2,057** | 1,194 |
| **Non-current liabilities** | **42,274** | 7,997 |
| **Total liabilities** | **113,128** | 77,860 |
| **Net assets** | **1,451,702** | 1,283,574 |
| **Equity** | | |
| Share capital | **43,232** | 43,232 |
| *Reserves* | | |
| General reserve | **402,206** | 402,206 |
| Asset revaluation reserve | **166,360** | 85,435 |
| Retained profits | **839,904** | 752,701 |
| **Total equity** | **1,451,702** | 1,283,574 |
| **Profit for the year** | **194,931** | 220,612 |
| **Other comprehensive income** | | |
| Net movement in the fair value of long term equity investments, net of tax | **80,925** | (18,254) |
| **Total comprehensive income for the year** | **275,856** | 202,358 |

## NOTE 35. PARENT ENTITY FINANCIAL INFORMATION (continued)

### b) Guarantees entered into by the Parent entity

During the year, the Parent entity provided an additional guarantee for an environmental bond of $504,000 to CopperChem Limited. Total guarantees provided by the Parent entity to CopperChem Limited amount to $4.374 million.

During the prior year, the Parent entity provided a guarantee for an environmental bond of $3.870 million to CopperChem Limited.

### c) Contingent liabilities of the Parent entity

The Parent entity did not have any contingent liabilities as at 31 July 2013 or 31 July 2012.

### d) Contractual commitments for the acquisition of property, plant or equipment

The Parent entity did not have any contractual commitments as at 31 July 2013 or 31 July 2012.

## NOTE 36. SUBSIDIARIES

| Name of entity | Country of incorporation | Equity holding in subsidiaries 2013 % | 2012 % |
|---|---|---|---|
| **a) Parent entity** | | | |
| Washington H. Soul Pattinson and Company Limited * | Australia | | |
| **b) Controlled entities** | | | |
| **SP Laboratories Pty. Limited *** | Australia | **100.0** | 100.0 |
| **SP Newcastle Pty. Limited *** | Australia | **100.0** | 100.0 |
| **SP Runaway Bay Pty. Limited *** | Australia | **100.0** | 100.0 |
| **Exco Resources Limited*** | Australia | **100.0** | - |
| Boomara Mines Pty Limited* | Australia | **100.0** | - |
| Eliza Creek Mines Limited* | Australia | **100.0** | - |
| Exco Cloncurry Operations Pty Limited* | Australia | **100.0** | - |
| Exco Operations (SA) Limited* | Australia | **100.0** | - |
| Exco Resources (QLD) Pty Limited* | Australia | **100.0** | - |
| Exco Resources (SA) Pty Limited* | Australia | **100.0** | - |
| Exco Resources (WA) Pty Limited* | Australia | **100.0** | - |
| Mitchell River Exploration Pty Limited* | Australia | **100.0** | - |
| Polymetals (White Dam) Pty Limited* | Australia | **100.0** | - |
| Polymetals Operations Pty Limited* | Australia | **100.0** | - |
| **CopperChem Limited** | Australia | **100.0** | 93.4 |
| **Souls Private Equity Limited *** | Australia | **100.0** | 100.0 |
| PCP Holdings 1 Pty. Limited* | Australia | **100.0** | 100.0 |
| PCP Holdings 2 Pty. Limited* | Australia | **100.0** | 100.0 |
| Cromford Group Pty. Limited* | Australia | **100.0** | 100.0 |
| Cromford Pipe Pty Limited* | Australia | **100.0** | 100.0 |
| Food and Beverage Company Limited | Australia | **100.0** | 100.0 |
| Austgrains Pty Limited | Australia | **51.0** | 51.0 |
| **Pitt Capital Partners Limited** | Australia | **100.0** | 100.0 |
| Corporate & Administrative Services Pty. Ltd | Australia | **100.0** | 100.0 |
| Pitt Capital Nominees Pty. Ltd | Australia | **100.0** | 100.0 |
| Pitt Street Real Estate Partners Pty Limited | Australia | **75.0** | - |
| Pitt Capital Asia Ltd (Deregistered) | Hong Kong | **-** | 100.0 |
| **Australian Logistics Property Fund** | Australia | **100.0** | - |
| ALPF No. 1 SRG Sydney | Australia | **100.0** | - |
| ALPF No. 2 SRG Brisbane | Australia | **100.0** | - |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 36. SUBSIDIARIES (continued)

| Name of entity | Country of incorporation | Equity holding in subsidiaries 2013 % | 2012 % |
|---|---|---|---|
| **b) Controlled entities (continued)** | | | |
| **New Hope Corporation Limited*** | Australia | **59.7** | 59.7 |
| Jeebropilly Collieries Pty. Limited * | Australia | **59.7** | 59.7 |
| Fowlers Engineering Pty. Limited * | Australia | **59.7** | 59.7 |
| Tivoli Coal (Hawaii) Pty. Limited * | Australia | **59.7** | 59.7 |
| New Hope Collieries Pty. Limited * | Australia | **59.7** | 59.7 |
| Tivoli Collieries Pty. Limited * | Australia | **59.7** | 59.7 |
| Andrew Wright Holdings Pty. Limited * | Australia | **59.7** | 59.7 |
| Tetard Holdings Pty. Limited * | Australia | **59.7** | 59.7 |
| Queensland Bulk Handling Pty. Limited | Australia | **59.7** | 59.7 |
| New Oakleigh Coal Pty. Limited * | Australia | **59.7** | 59.7 |
| New Hope Exploration Pty. Limited * | Australia | **59.7** | 59.7 |
| Seven Mile Coal Pty. Limited * | Australia | **59.7** | 59.7 |
| New Acland Coal Pty. Limited * | Australia | **59.7** | 59.7 |
| Acland Pastoral Co. Pty Limited * | Australia | **59.7** | 59.7 |
| Arkdale Pty. Limited * | Australia | **59.7** | 59.7 |
| New Lenton Coal Pty. Limited * | Australia | **59.7** | 59.7 |
| New Saraji Coal Pty. Limited * | Australia | **59.7** | 59.7 |
| New Hope Water Pty. Limited * | Australia | **59.7** | 59.7 |
| New Hope Coal Marketing Pty. Limited * | Australia | **59.7** | 59.7 |
| New Hope Energy Pty. Limited * | Australia | **59.7** | 59.7 |
| New Hope Energy (USA) Inc | USA | **59.7** | 59.7 |
| New Hope Services Pty. Limited * | Australia | **59.7** | 59.7 |
| Hueridge Pty. Limited * | Australia | **59.7** | 59.7 |
| Uniford Pty. Limited * | Australia | **59.7** | 59.7 |
| eCOALogical Pty. Limited * | Australia | **59.7** | 59.7 |
| Lenton Management and Marketing Pty Limited * | Australia | **59.7** | 59.7 |
| Krestlake Pty Limited * | Australia | **59.7** | 59.7 |
| Mattvale Pty Limited * | Australia | **59.7** | 59.7 |
| Estwood Pty Limited * | Australia | **59.7** | 59.7 |
| Northern Energy Corporation Limited * | Australia | **59.7** | 59.7 |
| Taroom Coal Proprietary Limited * | Australia | **59.7** | 59.7 |
| Colton Coal Pty Limited * | Australia | **59.7** | 59.7 |
| Yamala Coal Pty Limited * | Australia | **59.7** | 59.7 |
| Elimatta Pastrol Pty Limited * | Australia | **59.7** | 59.7 |
| Elmsvale Pty Limited* | Australia | **59.7** | - |
| Bridgeport Energy Limited* | Australia | **59.7** | - |
| Bridgeport Drilling Pty Limited* | Australia | **59.7** | - |
| Bridgeport Eromanga Pty Limited* | Australia | **59.7** | - |
| Bridgeport Energy (QLD) Pty Limited* | Australia | **59.7** | - |
| Bridgeport (Cooper Basin) Pty Limited* | Australia | **59.7** | - |
| Oilwells Inc of Kentucky (Sole Risk) Pty Limited* | Australia | **59.7** | - |
| Oilwells Inc of Kentucky | USA | **59.7** | - |

*Companies marked with an asterisk are part of tax consolidation groups.

## NOTE 36. SUBSIDIARIES (continued)

### c) Acquisition of controlled entities

*i) Acquisitions during the year included:*

During the year ended 31 July 2013, the Group acquired control of the following entities:

**Bridgeport Energy Limited – held by a subsidiary of New Hope Corporation Limited**

On 1 August 2012, New Hope Corporation Limited's wholly owned subsidiary, Mattvale Pty Ltd, acquired 69.62% of the issued share capital of Bridgeport Energy Limited. Bridgeport Energy Limited is an oil and gas exploration company with interests in a portfolio of projects in Queensland that are being progressed towards development.

Details of the purchase consideration and the net assets acquired are as follows:

| | 2013 |
|---|---|
| Purchase consideration (refer below (i)) | $'000 |
| Previously held interest | 18,876 |
| Revaluation of previous interest to $0.41 cents per share | 4,109 |
| Cash paid – current year | 45,488 |
| | 68,473 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair Value 2013 $'000 |
|---|---|
| Cash | 1,228 |
| Trade receivables | 685 |
| Term deposits | 838 |
| Other receivables and prepayments | 157 |
| Inventory | 87 |
| Oil producing assets | 47,512 |
| Exploration assets | 16,807 |
| Property, plant and equipment | 1,118 |
| Accounts payables | (968) |
| Provisions | (1,768) |
| Deferred tax liability | (1,380) |
| Net identifiable assets acquired | 64,316 |
| Add: Goodwill | 4,157 |
| Net assets acquired | 68,473 |

Goodwill arising on consolidation of $4.157 million is calculated in accordance with the requirement in IFRS to recognise a deferred tax liability on the difference between the provisional fair value of newly consolidated assets and liabilities and their tax base. None of the goodwill is expected to be deductible for tax purposes.

*Revenue and profit contribution*

The revenues and profits contributed by Bridgeport Energy Limited to WHSP consolidated revenues and profits for the full year ended 31 July 2013 are considered to be of an immaterial nature.

*(i). Purchase consideration*

Outflow of cash to acquire subsidiary, net of cash acquired

| | 2013 $'000 |
|---|---|
| Total cash consideration | 45,488 |
| Less: Cash balances acquired | (1,228) |
| Outflow of cash – investing activities | 44,260 |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 36. SUBSIDIARIES (continued)

### c) Acquisition of controlled entities (continued)

**Bridgeport Energy Limited – held by a subsidiary of New Hope Corporation Limited (continued)**

*Acquisition related costs*

Acquisition costs of $3.199 million are included in other expenses in the income statement and in operating cash flows in the statement of cash flows.

**Exco Resources Limited (Exco) – held by WHSP**

On 12 November 2012, Washington H. Soul Pattinson and Company Limited (WHSP) announced on 9 November 2012, that it had acquired 90% interest in Exco and that it was moving to acquire the remaining shares in Exco which it did not already own. Subsequently, WHSP acquired the remaining shares by 28 December 2012.

Exco is an exploration and mining company with exploration interests in northwest Queensland and a gold mine at White Dam in South Australia.

Details of the purchase consideration and the net assets acquired are as follows:

| Purchase consideration (refer below (i)) | 2013<br>$'000 |
|---|---|
| Previously held interest | 11,366 |
| Revaluation of previous interest to $0.265 cents per share | 7,410 |
| Cash paid | 78,555 |
| | 97,331 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair Value<br>2013<br>$'000 |
|---|---|
| Cash | 51,353 |
| Trade and other receivables | 2,829 |
| Inventory | 2,859 |
| Property, plant and equipment | 1,713 |
| Exploration and evaluation assets | 46,871 |
| Deferred tax asset | 806 |
| Trade and other payables | (4,534) |
| Income tax payable | (3,442) |
| Provisions | (830) |
| Deferred tax liability | (294) |
| Net identifiable assets acquired | 97,331 |

*Revenue and profit contribution*

The revenues and profits contributed by Exco to WHSP consolidated revenues and profits for the full year ended 31 July 2013 are considered to be of an immaterial nature.

*(i). Purchase consideration*

Outflow of cash to acquire subsidiary, net of cash acquired

| | 2013<br>$'000 |
|---|---|
| Total cash consideration | 78,555 |
| Less: Cash balances acquired | (51,353) |
| Outflow of cash – investing activities | 27,202 |

*Acquisition related costs*

There were no external acquisition costs included in other expenses in the income statement and in operating cash flows in the statement of cash flows.

## NOTE 36. SUBSIDIARIES (continued)

*ii) Details of acquisitions completed during the prior year include:*

During the year ended 31 July 2012, the Group acquired control of the following entities:

**Austgrains Limited – held by Souls Private Equity Limited**

On 1 September 2011, a controlled entity of WHSP, Souls Private Equity Limited, increased its shareholding in Austgrains Pty Limited to 51%. From this date, results and balances of Austgrains have been consolidated. Austgrains Limited was previously held as an equity accounted associate.

### d) Transactions during the year

**Australian Logistics Property Fund – held by WHSP**

On the 27 February 2013, Washington H. Soul Pattinson and Company Limited established the Australian Logistics Property Fund. Subsidiary trusts, ALPF No. 1 SRG Sydney (established 27 February 2013) and ALPF No. 2 SRG Brisbane (established 14 March 2013) are constructing two distribution centres for Super Retail Group Limited in Sydney and Brisbane respectively. As at 31 July 2013, total equity invested into the property trusts was $47.049 million.

### e) Loss of control and disposals of controlled entities

*i) Transactions during the year:*

The Group did not dispose of any controlled entities during the current year.

*ii) Transactions during the prior year:*

The Group did not dispose of any controlled entities during the prior year.

### f) Changes in ownership of controlled entities

**Washington H. Soul Pattinson and Company Limited's - Increase in share holding of CopperChem Limited**

On 27 May 2013, Washington H. Soul Pattinson and Company Limited's shareholding in CopperChem Limited increased from 93.4% to 100% on acquisition of the remaining ordinary shares for $3 million. The acquisition was recognised by the Group as an increase in non-controlling interests of $1.897 million. WHSP's share of the decrease in equity attributable to owners was $4.897 million.

### g) Changes in ownership of controlled entities in the prior year

**New Hope Corporation Limited – Northern Energy Corporation Limited take over**

On 11 November 2011, Northern Energy Corporation Limited (Northern Energy) became 100% owned by New Hope Corporation Limited (New Hope), with the remaining interest of 19.17% purchased for $50.207 million. The acquisition was recognised by the Group as a decrease in non-controlling interests of $44.177 million. WHSP's share of the decrease in equity reserves attributable to the owners was $3.599 million.

**Washington H. Soul Pattinson and Company Limited's - Increase in share holding of CopperChem Limited**

On 9 October 2011, Washington H. Soul Pattinson and Company Limited's shareholding in Copperchem Limited increased from 52.4% to 93.4% on conversion of Class B shares into ordinary shares of the company. No additional consideration was paid in respect of the conversion. The acquisition was recognised by the Group as a decrease in non-controlling interests of $19.998 million.

**Washington H. Soul Pattinson and Company Limited - Souls Private Equity Limited takeover**

On 4 January 2012, WHSP obtained 100% of share capital by way of cash paid of $74.200 million for all outstanding Souls Private Equity Limited shares that were not converted into WHSP shares (WHSP ASX: SOL) and 754,740 of new shares issued by WHSP in scrip consideration to shareholders and option holders. The acquisition was recognised by the Group as a decrease in non-controlling interests of $8.219 million.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 36. SUBSIDIARIES (continued)

### h) Deed of cross guarantee

During 2012, Washington H. Soul Pattinson and Company Limited and Souls Private Equity Limited entered into a deed of cross guarantee under which each company guarantees the debts of the other. During 2013, Exco Resources Limited and its wholly-owned subsidiaries became party to the deed of cross guarantee.

By entering into the deed, Souls Private Equity Limited and Exco Resources Limited are relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

### *i) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained profits and consolidated balance sheet*

The above companies represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Washington H. Soul Pattinson and Company Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement, a consolidated statement of comprehensive income, a summary of movements in consolidated retained earnings for the year ended 31 July 2013 of the closed group and a consolidated balance sheet as at 31 July 2013 for the closed group.

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Consolidated income statement – closed group** | | |
| **Profit before income tax** | **210,903** | 198,543 |
| Income tax expense | **(1,105)** | (1,727) |
| **Profit after income tax** | **209,798** | 196,816 |
| **Profit after tax attributable to parties outside the closed group** | **-** | 6,538 |
| **Profit after tax attributable to closed group** | **209,798** | 203,354 |
| **Other comprehensive income** | | |
| Net movement in fair value of long term equity investments, net of tax | **95,935** | (18,254) |
| Share of other comprehensive income movements, net of tax | **(4,023)** | (3,223) |
| **Total other comprehensive income for the year, net of tax** | **91,912** | (21,477) |
| **Total comprehensive income attributable to the closed group** | **301,710** | 181,877 |
| **Summary of movements in consolidated retained earnings** | | |
| **Retained profits attributable to the closed group** | | |
| Retained profits at the beginning of the year | **1,043,150** | 925,341 |
| Profit for the year | **209,798** | 203,354 |
| Increase in ownership of Souls Private Equity Limited | **-** | (4,293) |
| Dividends declared and paid | **(87,293)** | (81,252) |
| **Retained profits at the end of the year** | **1,165,655** | 1,043,150 |

## NOTE 36. SUBSIDIARIES (continued)

### h) Deed of cross guarantee (continued)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Consolidated balance sheet – closed group** | | |
| **Current assets** | | |
| Cash and cash equivalents | **2,299** | 7,608 |
| Term deposits | **266,500** | 268,000 |
| Trade and other receivables | **16,762** | 34,539 |
| Inventories | **3,017** | 1,061 |
| Investments fair valued through profit and loss | **10,779** | 10,021 |
| Current tax asset | **3,391** | - |
| **Total current assets** | **302,748** | 321,229 |
| **Non-current assets** | | |
| Trade and other receivables | **106,019** | 88,642 |
| Equity accounted associates | **821,956** | 758,045 |
| Long term equity investments | **511,916** | 432,439 |
| Other financial assets | **129,726** | 74,905 |
| Property, plant and equipment | **5,888** | 3,077 |
| Exploration and evaluation costs | **52,298** | - |
| Deferred tax assets | **28,491** | 13,083 |
| **Total non-current assets** | **1,656,294** | 1,370,191 |
| **Total assets** | **1,959,042** | 1,691,420 |
| **Current liabilities** | | |
| Trade and other payables | **2,578** | 2,814 |
| Interest bearing liabilities | **51,293** | 49,733 |
| Current tax liability | **-** | 2,807 |
| Provisions | **1,446** | 691 |
| **Total current liabilities** | **55,317** | 56,045 |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **114,253** | 61,183 |
| Provisions | **2,057** | 1,194 |
| **Total non-current liabilities** | **116,310** | 62,377 |
| **Total liabilities** | **171,627** | 118,422 |
| **Net assets** | **1,787,415** | 1,572,998 |
| **Equity** | | |
| Share capital | **43,232** | 43,232 |
| Reserves | **578,528** | 486,616 |
| Retained profits | **1,165,655** | 1,043,150 |
| **Total equity** | **1,787,415** | 1,572,998 |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 37. INVESTMENTS IN ASSOCIATES

### a) Carrying amounts

Investments in associates are accounted for using the equity method of accounting. Information relating to investments in associates is set out in (f) below.

| b) Movement in carrying amounts | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Carrying amount at 1 August | **782,506** | 764,498 |
| New investments during the period | **49,630** | 6,075 |
| Bridgeport Energy Limited transferred from an equity accounted associate to a controlled entity | **(68,473)** | - |
| Gain on deemed disposal of equity accounted associates | **737** | 4,030 |
| Other equity accounted associate transferred (to) controlled entity | **(354)** | (859) |
| Share of profits after income tax, before write downs | **78,997** | 35,037 |
| Impairment (expense)/reversal of equity accounted associate | **(2,538)** | 8,949 |
| Dividends received/receivable | **(54,644)** | (50,364) |
| Add back share of dividends received by associate | **20,435** | 19,105 |
| Share of associates increment/(decrement) in reserves | **15,789** | (3,965) |
| Disposal of equity accounted associates | **(8,437)** | - |
| **Carrying amount at 31 July** | **813,648** | 782,506 |

### c) Summarised share of associates financial information

| | | |
|---|---|---|
| Assets | **2,025,426** | 1,993,664 |
| Liabilities | **(727,478)** | (752,459) |
| Net assets | **1,297,948** | 1,241,205 |

The share of associate's net assets of $1.298 billion (2012: $1.241 billion) includes the Group's share of the total net assets of Brickworks Limited. Brickworks Limited owns 42.72% (2012: 42.72%) of the issued capital in Washington H. Soul Pattinson and Company Limited. The equity accounted carrying value of this associate of $360.574 million (2012: $352.158 million) excludes the Group's share of Brickworks Limited's equity accounted carrying value of Washington H. Soul Pattinson and Company Limited.

| | | |
|---|---|---|
| Revenue | **1,710,542** | 1,662,004 |
| Profit before income tax | **106,820** | 60,267 |
| Income tax expense | **(27,823)** | (25,230) |
| Profit after income tax | **78,997** | 35,037 |

### d) Share of associates' expenditure commitments

| | | |
|---|---|---|
| Capital commitments | **17,532** | 9,667 |
| Lease commitments | **135,764** | 127,132 |

### e) Contingent liabilities of associates

| | | |
|---|---|---|
| Share of incurred jointly with other investors | **10,369** | 9,500 |

## NOTE 37. INVESTMENTS IN ASSOCIATES (continued)

### f) Details of investments and results in associates

| Name and principal activity | Balance date | Group's percentage of holding at balance dates – Balance date Company 2013 % | 2012 % | Balance date Associate 2013 % | 2012 % | Contribution to Group net profit 2013 $'000 | 2012 $'000 | Fair value of listed investments 2013 $'000 | 2012 $'000 |
|---|---|---|---|---|---|---|---|---|---|
| ***Associates – held by WHSP*** | | | | | | | | | |
| Apex Healthcare Berhad | | | | | | | | | |
| *Pharmaceutical manufacturer and distributor* | **31 Dec** | **30.3** | 30.3 | **30.3** | 30.3 | **2,921** | 2,571 | **46,970** | 24,875 |
| Australian Pharmaceutical Industries Limited | | | | | | | | | |
| *Pharmaceutical wholesaler* | **31 Aug** | **24.6** | 24.6 | **24.6** | 24.6 | **6,115** | 7,424 | **52,895** | 41,474 |
| BKI Investment Company Limited (i) | | | | | | | | | |
| *Listed investment company* | **30 June** | **13.0** | 13.5 | **13.0** | 13.5 | **4,422** | 4,073 | **92,611** | 70,602 |
| Brickworks Limited (ii) | | | | | | | | | |
| *Manufacturer of clay products* | **31 July** | **44.4** | 44.5 | **44.4** | 44.5 | **13,632** | (16,601) | **800,871** | 661,703 |
| Clover Corporation Limited | | | | | | | | | |
| *Refinement and processing of natural oil* | **31 July** | **28.6** | 28.6 | **28.6** | 28.6 | **1,735** | 1,248 | **25,467** | 18,629 |
| KH Roberts Group Pte Ltd. (iii) | | | | | | | | | |
| *Manufacturer of flavours, essences and colours* | **31 July** | **-** | 49.0 | **-** | 49.0 | **586** | 513 | n/a | n/a |
| Ruralco Holdings Limited | | | | | | | | | |
| *Rural supplies and services* | **30 Sept** | **23.5** | 23.5 | **23.5** | 23.5 | **790** | 3,468 | **40,757** | 45,803 |
| TPG Telecom Limited | | | | | | | | | |
| *Telecommunications and internet provider* | **31 July** | **26.9** | 26.9 | **26.9** | 26.9 | **40,169** | 24,420 | **783,181** | 411,863 |
| ***Associates – held by 100% controlled entities*** | | | | | | | | | |
| Ampcontrol Pty Limited (iv)* | | | | | | | | | |
| *Supplier of electrical and electronic products* | **30 June** | **43.3** | 43.4 | **43.3** | 43.4 | **6,855** | 7,390 | n/a | n/a |
| Austgrains Pty Limited* | | | | | | | | | |
| *Agricultural supplies* | **30 June** | **-** | - | **-** | - | **-** | (6) | n/a | n/a |
| Belaroma Coffee Pty Ltd* | | | | | | | | | |
| *Coffee roaster and distributor* | **30 June** | **40.0** | 40.0 | **40.0** | 40.0 | **411** | 247 | n/a | n/a |
| InterRISK Australia Pty Ltd (v)* | | | | | | | | | |
| *Insurance broker* | **30 June** | **-** | 40.0 | **-** | 40.0 | **935** | 711 | n/a | n/a |
| Heritage Brands Limited* | | | | | | | | | |
| *Distribution of hair care and skin care products* | **30 June** | **25.1** | 25.1 | **25.1** | 25.1 | **96** | 316 | n/a | n/a |
| Specialist Oncology Property Pty Limited* | | | | | | | | | |
| *Specialist medical services* | **30 June** | **26.1** | 26.1 | **26.1** | 26.1 | **208** | 192 | n/a | n/a |
| Supercorp Pty Limited* | | | | | | | | | |
| *Financial services administration* | **30 June** | **34.6** | 34.6 | **34.6** | 34.6 | **393** | 146 | n/a | n/a |
| Pitt Street Real Estate Partners Pty Limited (Formerly BW Partners Pty Limited) (vi) | | | | | | | | | |
| *Property investment advisory service* | **31 July** | **-** | 50.0 | **-** | 50.0 | **(28)** | (428) | n/a | n/a |
| Xact Property Solutions Pty Limited (vii) | | | | | | | | | |
| *Property management services* | **30 June** | **33.8** | - | **33.8** | - | **143** | - | n/a | n/a |
| ***Associates – held by New Hope Corporation Limited*** | | | | | | | | | |
| Bridgeport Energy Ltd (viii) | | | | | | | | | |
| *Oil and gas production* | **30 June** | **-** | 36.0 | **-** | 36.0 | **-** | 394 | n/a | n/a |
| Quantex Energy Inc | | | | | | | | | |
| *Developing Coal to liquid oil technologies* | **31 July** | **25.0** | 25.0 | **25.0** | 25.0 | **(386)** | (955) | n/a | n/a |
| Quantex Research Inc | | | | | | | | | |
| *Researching Coal to liquid oil technologies* | **31 July** | **25.0** | 25.0 | **25.0** | 25.0 | **-** | (86) | n/a | n/a |
| **Share of results from equity accounted associates before impairment** | | | | | | **78,997** | 35,037 | | |
| **Impairment (expense)/reversal** | | | | | | | | | |
| - Australian Pharmaceutical Industries Limited | | | | | | **10,614** | 6,208 | | |
| - Ruralco Holdings Limited | | | | | | **-** | 2,741 | | |
| - Quantex Energy Inc | | | | | | **(13,286)** | - | | |
| - Other associates | | | | | | **134** | - | | |
| **Total impairment (expense)/reversal of investment in associates** | | | | | | **(2,538)** | 8,949 | | |
| **Share of results and impairment from equity accounted associates** | | | | | | **76,459** | 43,986 | | |

## NOTE 37. INVESTMENTS IN ASSOCIATES (continued)

All associates are incorporated in Australia except for Apex Healthcare Berhad (incorporated in Malaysia), KH Roberts Group Pte Ltd (incorporated in Singapore) and Quantex Energy Inc and Quantex Reserach Inc (both incorporated in Canada).

The percentage holding of each Associate represents the Group's total holding in each associate.

* For the year ended 31 July 2013, these associates were held by Souls Private Equity Limited (SPEL), a 100% controlled entity of WHSP. For the current period, WHSPs' members are entitled to 100% of associates contributions, being $8.898 million. For the corresponding period ending 31 July 2012, WHSP only held a 13.36% interest in SPEL until 4 January 2012 at which date WHSP's interest increased to 100%. Contributions for the corresponding period totalled $8.996 million and are allocated between members ($5.260 million) and non-controlling interest ($3.736 million). The largest contribution was by Ampcontrol, being $6.855 million for the current period (2012: $3.987 million).

Contribution to Group net profit represents the amount included in profit after tax including the non-controlling interest's share.

*(i)* During the year, BKI Investment Limited (BKI) issued shares as part of its dividend reinvestment plans (DRP) on 30 August 2012 and 28 February 2013 of which WHSP did not participate. On 8 November 2012, BKI issued shares as part of their share purchase plan of which WHSP participated. As a result of these issues of shares, WHSP decreased its shareholding from 13.5% (31 July 2012) to 13.0%.

*(ii)* On 3 October 2012, Brickworks Limited issued shares as part of its employee share scheme. As a result of this transaction, WHSP's percentage holding in Brickworks decreased by 0.07% to 44.4%.

*(iii)* On 2 May 2013, WHSP disposed of its equity accounted associate, KH Roberts Group Pte Ltd, for $2.0 million.

*(iv)* During the year, Ampcontrol Pty Limited's employees exercised options through their employee share scheme. As a result of the conversion of these options into shares, Souls Private Equity Limited's shareholding decreased from 43.4% to 43.3% as at 31 July 2013.

*(v)* On 12 June 2013, a controlled entity of WHSP, Souls Private Equity Limited, disposed of an equity accounted associate, InterRISK Australia Pty Ltd and recognised a net gain after tax of $2.5 million.

*(vi)* On 13 February 2013, a controlled entity of WHSP, Pitt Capital Partners Limited increased its ownership of Pitt Street Real Estate Partners Pty Limited (formerly BW Partners Pty Limited) from 50% to 75%. From this date, Pitt Street Real Estate Partners Pty Limited was accounted for as a controlled entity.

*(vii)* On 26 April 2013, a controlled entity of WHSP, Pitt Street Real Estate Partners Pty Limited, acquired 45% of the issued share capital of Xact Property Solutions Pty Limited (XPS). From this date, XPS was accounted for as an equity accounted associate.

*(viii)* On 1 August 2012, a controlled entity of WHSP, New Hope Corporation Limited, acquired the remaining issued capital of Bridgeport Energy Limited (Bridgeport) that it did not already own. From this date, Bridgeport was accounted for as a controlled entity. Refer to note 36 for further details.

### g) Fair value

The recoverable amount of investments in equity accounted associates is reviewed at each reporting date after taking into consideration any applicable impairment indicators. During the year ended 31 July 2013, $10.748 million (2012: $8.949 million) of previously recognised impairment has been reversed. During the year ended 31 July 2013, an impairment expense of $13.289 million was recognised in relation to Quantex Energy Inc.

The fair value of listed equity accounted investments represents unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

## NOTE 38. INTERESTS IN JOINT VENTURES

### a) Lenton Joint Venture

A subsidiary of New Hope Corporation Limited has entered into a joint venture to develop the Lenton project. The subsidiary has a 90% participating interest in this joint venture and is entitled to 90% of the output of the Lenton project. The group's interests employed in the joint venture are included in the statement of financial position, in accordance with the accounting policy described in note 1(b).

### b) Taroom-Yamala Joint Venture

In March 2006, New Hope Corporation Limited, entered into a joint venture in relation to its Yamala (EPC927) project on the follow terms:

An external company will earn a 30% Joint Venture interest in the Yamala project (EPC927) through sole funding a three-stage $5.300 million exploration and evaluation programme designed to take the project from its current status as an exploration target to completion of a bankable feasibility study for establishment of a mine within the tenement. On completion of the funding of the $5.300 million farm-in, the external company will have the option to acquire a further 19% joint venture interest for $6.650 million.

As at 31 July 2013 the first two stages had been completed by funding of $3 million and had earned a 17% interest in the project. At 31 July 2013 $nil is carried as exploration expenditure in relation to EPC927.

## NOTE 38. INTERESTS IN JOINT VENTURES (continued)

### c) Ashford Joint Venture

In February 2005, New Hope Corporation Limited, entered into a joint venture in relation to the Ashford project. This project allows for the exploration and evaluation, and if warranted, development and exploitation of the tenements and all of the minerals within the tenements. New Hope Corporation Limited acquired a 50% participating interest in the tenements with an option to acquire a further 25% participating interest in the tenements by sole funding certain expenditure.

### d) Oilwells Inc. of Kentucky Joint Venture

New Hope Corporation Limited has a 60% interest in the Oilwells Inc. of Kentucky Joint Venture. The principle activity of this joint venture is to extract oil from PL 214 of which the subsidiary is entitled to 60% of the output. The group's interests employed in the joint venture are included in the statement of financial position, in accordance with the accounting policy described in note 1(b).

### e) Bridgeport Bounty Exploration Joint Venture

New Hope Corporation Limited has a 60% interest in the Bridgeport Bounty Exploration Joint Venture. The principle activity of this joint venture is to conduct exploration on ATP 560 of which the subsidiary is entitled to 60% of the output. The group's interests employed in the joint venture are included in the statement of financial position, in accordance with the accounting policy described in note 1(b).

## NOTE 39. KEY MANAGEMENT PERSONNEL

### a) Directors

The following persons were Directors of Washington H. Soul Pattinson and Company Limited during the financial year:

*i. Chairman – non-executive*

Mr R D Millner

*ii. Executive Director*

Mr P R Robinson

*iii. Non-executive Directors*

Mr D J Fairfull

Mr M J Hawker (appointed 10 October 2012)

Mr T C D Millner

Mr R G Westphal

Mr D E Wills

*iv. Deputy Chairman – non-executive*

Mr M J Millner (resigned 1 October 2012)

### b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| *Name* | *Position* | *Company* |
|---|---|---|
| Mr I D Bloodworth | Company Secretary | Washington H. Soul Pattinson and Company Limited |
| Mr M J Busch | Financial Controller and Company Secretary | New Hope Corporation Limited |
| Mr B D Denney | Chief Operations Officer | New Hope Corporation Limited |
| Mr R C Neale | Managing Director and Chief Executive Officer | New Hope Corporation Limited |
| Ms M R Roderick | Chief Financial Officer | Washington H. Soul Pattinson and Company Limited |
| Mr S O Stephan | Chief Financial Officer | New Hope Corporation Limited |

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 39. KEY MANAGEMENT PERSONNEL (continued)

### c) Key management personnel (KMP) compensation

| | Paid to KMP of the Consolidated entity | | Paid to KMP of the Parent entity | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Short-term employee benefits | **7,439** | 8,558 | **3,223** | 2,924 |
| Post-employment benefits | **450** | 331 | **384** | 267 |
| Share-based payments | **1,259** | 2,152 | **-** | - |
| Other | **31** | 2,303 | **-** | 2,272 |
| | **9,179** | 13,344 | **3,607** | 5,463 |

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

### d) Equity instrument disclosures relating to key management personnel

*i. Share holdings*

The numbers of shares in each Group entity held during the financial year by each Director of Washington H. Soul Pattinson and Company Limited and other key management personnel of the Group, including their personally related parties, are set out below:

| **Shares in Washington H. Soul Pattinson and Company Limited** | Balance at start of year | Acquired during year | Received on exercise of options | Disposed of during the year | Balance at end of year |
|---|---|---|---|---|---|
| **2013** | | | | | |
| ***Directors of Washington H. Soul Pattinson and Company Limited*** | | | | | |
| R D Millner | **19,844,630** | **342,600** | **-** | **-** | **20,187,230** |
| P R Robinson | **74,210** | **-** | **-** | **-** | **74,210** |
| D J Fairfull | **163,587** | **-** | **-** | **-** | **163,587** |
| M J Hawker (from 10 October 2012) | **N/A** | **7,680** | **-** | **-** | **7,680** |
| T C D Millner | **16,727,191** | **334,600** | **-** | **-** | **17,061,791** |
| R G Westphal | **12,739** | **-** | **-** | **-** | **12,739** |
| D E Wills | **256,323** | **-** | **-** | **-** | **256,323** |
| M J Millner (to 1 October 2012) | **19,285,207** | **237,600** | **-** | **-** | **N/A** |
| ***Other key management personnel of the Group*** | | | | | |
| M R Roderick | **500** | **-** | **-** | **-** | **500** |
| R C Neale | **4,000** | **-** | **-** | **-** | **4,000** |
| **2012** | | | | | |
| ***Directors of Washington H. Soul Pattinson and Company Limited*** | | | | | |
| R D Millner | 19,474,256 | 370,374 | - | - | 19,844,630 |
| M J Millner | 19,097,126 | 188,081 | - | - | 19,285,207 |
| P R Robinson | 74,210 | - | - | - | 74,210 |
| D J Fairfull | 60,000 | 103,587 | - | - | 163,587 |
| T C D Millner | 16,547,669 | 179,522 | - | - | 16,727,191 |
| R G Westphal | 10,000 | 2,739 | - | - | 12,739 |
| D E Wills | 138,866 | 117,457 | - | - | 256,323 |
| ***Other key management personnel of the Group*** | | | | | |
| M R Roderick | - | 500 | - | - | 500 |
| R C Neale | 4,000 | - | - | - | 4,000 |

## NOTE 39. KEY MANAGEMENT PERSONNEL (continued)

### d) Equity instrument disclosures relating to key management personnel (continued)

| Shares in New Hope Corporation Limited | Balance at start of year | Acquired during year | Received on exercise of rights | Disposed of during the year | Balance at end of year |
|---|---|---|---|---|---|
| **2013** | | | | | |
| ***Directors of New Hope Corporation Limited*** | | | | | |
| R D Millner | **3,681,962** | **-** | **-** | **-** | **3,681,962** |
| R C Neale | **2,171,425** | **-** | **116,311** | **-** | **2,287,736** |
| D J Fairfull | **11,000** | **-** | **-** | **-** | **11,000** |
| W H Grant | **30,000** | **-** | **-** | **-** | **30,000** |
| S J Palmer (from 1 November 2012) | **N/A** | **-** | **-** | **-** | **-** |
| P R Robinson | **109,234** | **10,000** | **-** | **-** | **119,234** |
| I M Williams (from 1 November 2012) | **N/A** | **-** | **-** | **-** | **-** |
| ***Other key management personnel of the Group*** | | | | | |
| M J Busch | **655,020** | **-** | **9,025** | **-** | **664,045** |
| B D Denney | **-** | **-** | **8,010** | **-** | **8,010** |
| S O Stephan | **10,040** | **14,200** | **18,472** | **-** | **42,712** |
| **2012** | | | | | |
| ***Directors of New Hope Corporation Limited*** | | | | | |
| R D Millner | 3,670,573 | 11,389 | - | - | 3,681,962 |
| R C Neale | 2,005,500 | - | 165,925 | - | 2,171,425 |
| D J Fairfull | 11,000 | - | - | - | 11,000 |
| W H Grant | 30,000 | - | - | - | 30,000 |
| P R Robinson | 109,234 | - | - | - | 109,234 |
| D C Williamson (to 11 July 2012) | 20,000 | - | - | - | n/a |
| ***Other key management personnel of the Group*** | | | | | |
| M J Busch | 650,000 | - | 5,020 | - | 655,020 |
| S O Stephan | - | - | 10,040 | - | 10,040 |

| Shares in Souls Private Equity Limited | Balance at start of year | Acquired during year | Received on exercise of options | Disposed of during the year | Balance at end of year |
|---|---|---|---|---|---|
| **2013** | | | | | |
| None | | | | | |
| **2012** | | | | | |
| ***Directors of Souls Private Equity Limited*** | | | | | |
| R D Millner | 1,725,193 | - | - | 1,725,193 | - |
| D J Fairfull | 8,700,001 | - | - | 8,700,001 | - |
| R G Westphal | 370,000 | - | - | 370,000 | - |
| D E Wills | 623,277 | - | - | 623,277 | - |

Souls Private Equity Limited became a wholly owned subsidiary of WHSP on 4 January 2012.

# Notes to the Financial Statements (continued) For the year ended 31 July 2013

## NOTE 39. KEY MANAGEMENT PERSONNEL (continued)

### d) Equity instrument disclosures relating to key management personnel (continued)

*ii. Rights holdings*

The numbers of rights over ordinary shares in each Group entity held during the financial year by each Director of Washington H. Soul Pattinson and Company Limited and other key management personnel of the Group, including their personally related parties, are set out below:

| **New Hope Corporation Limited - rights** | Balance at start of year | Granted during year | Exercised during year | Expired during year | Balance at end of year |
|---|---|---|---|---|---|
| **2013** | | | | | |
| ***Directors of New Hope Corporation Limited*** | | | | | |
| R C Neale | **262,783** | **156,951** | **116,311** | **-** | **303,423** |
| The rights held at the end of the year were not vested. | | | | | |
| ***Other key management personnel of the Group*** | | | | | |
| M J Busch | **31,080** | **33,632** | **9,025** | **-** | **55,687** |
| B D Denney | **32,040** | **44,843** | **8,010** | **-** | **68,873** |
| S O Stephan | **63,848** | **44,843** | **18,472** | **-** | **90,219** |
| The rights held at the end of the year were not vested. | | | | | |
| **2012** | | | | | |
| ***Directors of New Hope Corporation Limited*** | | | | | |
| R C Neale | - | 428,708 | 165,925 | - | 262,783 |
| The rights held at the end of the year were not vested. | | | | | |
| ***Other key management personnel of the Group*** | | | | | |
| M J Busch | - | 36,100 | 5,020 | - | 31,080 |
| B D Denny | - | 32,040 | - | - | 32,040 |
| S O Stephan | - | 73,888 | 10,040 | - | 63,848 |
| The rights held at the end of the year were not vested. | | | | | |

For further information refer to note 43.

## NOTE 39. KEY MANAGEMENT PERSONNEL (continued)

### d) Equity instrument disclosures relating to key management personnel (continued)

*iii. Option holdings*

The numbers of options over ordinary shares in each Group entity held during the financial year by each Director of Washington H. Soul Pattinson and Company Limited and other key management personnel of the Group, including their personally related parties, are set out below:

| **Souls Private Equity Limited - options** | Balance at start of year | Expired during year | Exercised during year | Disposed of during the year | Balance at end of year |
|---|---|---|---|---|---|
| **2013** | | | | | |
| None | | | | | |
| **2012** | | | | | |
| ***Directors of Souls Private Equity Limited*** | | | | | |
| R D Millner | 153,151 | - | - | 153,151 | - |
| D J Fairfull | 1,087,501 | - | - | 1,087,501 | - |
| R G Westphal | 46,250 | - | - | 46,250 | - |
| D E Wills | 52,910 | - | - | 52,910 | - |
| The above options were vested and exercisable during the year. | | | | | |

### e) Loans to key management personnel

No loans have been made to the Directors of Washington H. Soul Pattinson and Company Limited (WHSP) or other key management personnel of the Group.

### f) Other transactions with key management personnel

The key management personnel and their related entities received dividends during the year in respect of their shareholdings in the Group companies consistent with other shareholders.

Unsecured deposits are accepted from Directors and their related entities and interest is paid at normal commercial rates. Interest paid during the current financial year amounted to $2,209,058 (2012: $2,644,443). The balance of deposits at 31 July 2013 was $49,317,385 (2012: $47,377,797).

Deposits were received from Mr R D Millner, Mr M J Millner, Mr T C D Millner, Mr D J Fairfull, Mr P R Robinson and Mr R G Westphal and/or their related entities.

Mr R D Millner and Mr P R Robinson are Directors of Pitt Capital Partners Limited (PCP) which is a 100% (2012: 100%) controlled entity of WHSP.

During the current financial year PCP and its controlled entities provided services to Associate entities:

1. Clover Corporation Limited $66,667 (2012: $nil);
2. Pitt Street Real Estate Partners Pty Limited (as an Associate) $22,750 (2012: $39,000);
3. Bridgeport Energy Limited (as an Associate) $877,785 (2012: $65,000);
4. BKI Investment Company Limited $166,000 (2012: $111,000); and
5. Xact Property Solutions Pty Limited $178,420 (2012: $nil).

Mr R D Millner and Mr T C D Millner are Directors of BKI Investment Company Limited (BKI), an Associate company of WHSP.

WHSP charged BKI $6,880 (2012: $6,880) for rental of office space in its own premises during the financial year.

## NOTE 40. RELATED PARTIES

### a) Parent entities

The ultimate Parent entity is Washington H. Soul Pattinson and Company Limited.

### b) Subsidiaries, Associates and Joint Ventures

Interests in Subsidiaries, Associates and Joint Ventures are set out in note 36, note 37 and note 38 respectively.

### c) Key management personnel

Disclosures relating to key management personnel are set out in note 39.

### d) Related parties transactions and balances

*i. Subsidiaries*

Transactions between the Parent entity and its subsidiaries and between subsidiaries are at normal commercial terms and conditions. Transactions consist of the transfer of funds for day to day financing, provision of consulting, management and advisory services, loans advanced and repaid, interest, dividend and rental payments.

Transactions between each parent company and its subsidiaries, which are related parties of that company, are eliminated on consolidation and are not disclosed in this note.

*ii. Associates*

Transactions with associates are at normal commercial terms and conditions.

Transactions consist of the supply of pharmaceutical products to the Parent entity, advisory, consulting, underwriting, management fees and insurance commissions received from/paid to associates, loans advanced and repaid, interest and dividend payments.

| **Summary of transactions** | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Advisory, consulting, underwriting and management fees: | | |
| - received by subsidiaries from associates | **1,537** | 215 |
| - received by associates from subsidiaries | **1,516** | 123 |
| Purchases of pharmaceutical products from associate | **5,653** | 5,571 |
| Insurance commissions paid by Parent entity/subsidiaries to associate | **211** | 241 |
| Interest income from associate | **101** | 92 |

**Loans to associates**

During the year, the Parent entity was repaid the outstanding loan balance of $127,000 and interest of $10,123 from KH Roberts Private Limited. Interest was charged at market rates.

Pitt Street Real Estate Partners Pty Limited (formerly BW Partners Pty Limited) was acquired on the 26 April 2013 by a controlled entity of the Parent. In the prior year, the loan balance owing to a controlled entity of the Parent entity from Pitt Street Real Estate Partners Pty Limited was $800,000.

## NOTE 41. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor.

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **a) Audit Services** | | |
| Moore Stephens Sydney for audit and review of financial reports and other audit work under the Corporations Act 2001 | **433** | 318 |
| Other audit firms for the audit or review of financial reports of any entity in the Group | **434** | 374 |
| **Total remuneration for audit services** | **867** | 692 |
| **b) Other services** | | |
| Moore Stephens Sydney | | |
| Tax compliance services | **170** | 79 |
| Other auditors | | |
| Transaction advisory services | **421** | 908 |
| Tax compliance services | **433** | 673 |
| Other services | **334** | 550 |
| **Total remuneration for other services** | **1,358** | 2,210 |

## NOTE 42. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Profit after tax for the year** | **134,252** | 189,310 |
| Adjustments for non-cash items: | | |
| Depreciation and amortisation | **59,387** | 56,717 |
| Impairment losses | **58,827** | 54,427 |
| Bad and doubtful debts | **144** | 131 |
| Dividends received (non-cash) | **(1)** | (4,719) |
| Net losses on financial assets | **359** | 8,650 |
| Net (profit) on sale of non-current assets | **(184)** | (153) |
| Share based payments | **1,259** | 1,216 |
| Share of (profits)/losses of associates not received as dividends or distributions | **(24,353)** | 15,486 |
| Net exchange (gain)/losses | **(2,895)** | 4,186 |
| (Gain) on acquisition of controlled entity | **(5,319)** | (437) |
| Net (profit) on sale of equity accounted associate | **(2,065)** | - |
| (Gain) on deemed disposal of associate | **(737)** | (4,030) |
| Changes in operating assets and liabilities, net of effects from purchase and sales of business | | |
| (Increase)/decrease in trade debtors, other debtors and prepayments | **(37,723)** | 41,434 |
| Decrease/(increase) in inventory | **4,804** | (4,667) |
| (Decrease)/increase in trade creditors and accruals | **(2,313)** | 584 |
| Increase in employee entitlements, other liabilities and provisions | **17,150** | 23,329 |
| (Increase) in current tax asset | **(4,401)** | - |
| (Decrease) in current tax payable | **(4,322)** | (149,130) |
| Increase/(decrease) in deferred tax liability | **18,842** | (24,436) |
| (Increase) in deferred tax asset | **(1,789)** | (8,208) |
| **Net cash inflow from operating activities** | **208,922** | 199,690 |

## NOTE 43. SHARE-BASED PAYMENTS

New Hope Corporation Limited grants rights under the New Hope Corporation Ltd Employee Performance Rights Share Plan. Membership of the Plan is open to those senior employees and those Directors of New Hope Corporation Limited, its subsidiaries and associated bodies corporate whom, the Directors believe have a significant role to play in the continued development of the Group's activities.

Rights are granted for no consideration. Rights will vest and automatically convert to ordinary shares in the company following the satisfaction of the relevant service conditions. Service conditions applicable to each issue of rights are determined by the New Hope Corporation Limited's Board at the time of the grant. Total expense arising from rights issued under the employee performance share rights plan during the financial year was $1.259 million (2012 - $2.225 million).

## NOTE 43. SHARE-BASED PAYMENTS (continued)

*Performance rights*

Set out below are the summaries of rights granted under the plan:

**2013**

| Grant date | Vesting date | Value of right at grant date | Balance at beginning of the year Number | Granted during the year Number | Vested during the year Number | Expired during the year Number | Balanced at the end of the year Number |
|---|---|---|---|---|---|---|---|
| 27 Oct 2011 | 1 Aug 2012 | $5.170 | 94,834 | - | (94,834) | - | - |
| 27 Oct 2011 | 1 Aug 2013 | $5.170 | 64,059 | - | - | - | 64,059 |
| 27 Oct 2011 | 1 Aug 2014 | $5.170 | 39,458 | - | - | - | 39,458 |
| 17 Dec 2011 | 1 Aug 2012 | $6.020 | 20,447 | - | (20,447) | - | - |
| 17 Dec 2011 | 1 Dec 2012 | $6.020 | 36,537 | - | (36,537) | - | - |
| 17 Dec 2011 | 1 Aug 2013 | $6.020 | 56,984 | - | - | - | 56,984 |
| 17 Dec 2011 | 1 Aug 2014 | $6.020 | 56,985 | - | - | - | 56,985 |
| 17 Dec 2011 | 1 Aug 2015 | $6.020 | 20,447 | - | - | - | 20,447 |
| 28 Nov 2012 | 1 Aug 2013 | $4.140 | - | 30,830 | - | - | 30,830 |
| 28 Nov 2012 | 1 Aug 2014 | $4.140 | - | 30,830 | - | - | 30,830 |
| 28 Nov 2012 | 1 Aug 2015 | $4.140 | - | 30,830 | - | - | 30,830 |
| 28 Nov 2012 | 1 Aug 2016 | $4.140 | - | 30,828 | - | - | 30,828 |
| **Total** | | | **389,751** | **123,318** | **(151,818)** | **-** | **361,251** |
| Weighted average exercise price | | | | $4.1400 | $5.4890 | | $5.1347 |

**2012**

| Grant date | Vesting date | Value of right at grant date | Balance at beginning of the year Number | Granted during the year Number | Vested during the year Number | Expired during the year Number | Balanced at the end of the year Number |
|---|---|---|---|---|---|---|---|
| 27 Oct 2011 | 1 Jan 2012 | $5.170 | - | 180,985 | (180,985) | - | - |
| 27 Oct 2011 | 1 Aug 2012 | $5.170 | - | 94,834 | - | - | 94,834 |
| 27 Oct 2011 | 1 Aug 2013 | $5.170 | - | 64,059 | - | - | 64,059 |
| 27 Oct 2011 | 1 Aug 2014 | $5.170 | - | 39,458 | - | - | 39,458 |
| 17 Dec 2011 | 1 Aug 2012 | $6.020 | - | 20,447 | - | - | 20,447 |
| 17 Dec 2011 | 1 Dec 2012 | $6.020 | - | 36,537 | - | - | 36,537 |
| 17 Dec 2011 | 1 Aug 2013 | $6.020 | - | 56,984 | - | - | 56,984 |
| 17 Dec 2011 | 1 Aug 2014 | $6.020 | - | 56,985 | - | - | 56,985 |
| 17 Dec 2011 | 1 Aug 2015 | $6.020 | - | 20,447 | - | - | 20,447 |
| **Total** | | | **-** | **570,736** | **(180,985)** | **-** | **389,751** |
| Weighted average exercise price | | | | $5.4551 | $5.1700 | | $5.5874 |

The weighted average share price at the date of exercise of rights vested during the 2013 year was $4.02 (2012: $5.57). The weighted average remaining contractual life of share rights outstanding at the end of the period was 2.2 years (2012: 1.7 years).

## NOTE 44. EVENTS AFTER THE REPORTING DATE

Since the end of the financial year the following matters or circumstances not referred to elsewhere in this report have arisen that have or will significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years:

During the quarter ending 31 July 2013, New Hope Corporation Limited entered into a contract to acquire a 15% interest in the Cuisinier tenement from Arrow Energy subject to government approvals and transfer of title. This additional tenement will increase oil production by approximately 240 barrels of oil per day, based on current rates.

# Directors' Declaration

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 36 to 103 are in accordance with the *Corporations Act 2001* and:
    a) comply with *Accounting Standards and the Corporations Regulations 2001*;
    b) give a true and fair view of the financial position as at 31 July 2013 and the performance for the year ended on that date of the consolidated group;
    c) in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
    d) at the date of this declaration, there are reasonable grounds to believe that the Company and the wholly owned subsidiaries identified in Note 36 to the financial statements as being parties to a Deed of Cross Guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the Deed.
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
    a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
    b) the financial statements and notes for the financial year comply with Accounting Standards; and
    c) the financial statements and notes for the financial year give a true and fair view;

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

**R D MILLNER**
***Director***

**P R ROBINSON**
***Director***

Dated this 22nd day of October 2013.

# Independent Auditor's Report

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

Level 15, 135 King Street
Sydney NSW 2000

T +61 (0)2 8236 7700
F +61 (0)2 9233 4636

www.moorestephens.com.au

## INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF WASHINGTON H. SOUL PATTINSON AND COMPANY LIMITED

We have audited the accompanying financial report of Washington H. Soul Pattinson and Company Limited, which comprises the consolidated statement of financial position as at 31 July 2013, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising Washington H. Soul Pattinson and Company Limited 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 Washington H. Soul Pattinson and Company Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 AASB 101: *Presentation of financial Statements that the financial statements comply with International Financial Reporting Standards.*

### *Auditor's Responsibility*

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

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 controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporation Act 2001*. We confirm that the independence declaration required by the *Corporation Act 2001*, provided to the directors of Washington H. Soul Pattinson and Company Limited on 21 October 2013, would be in the same terms if provided to the directors as at the date of signing this auditor's report.

Moore Stephens Sydney ABN 90 773 984 843. Liability limited by a scheme approved under Professional Standards Legislation*

*Other than for the acts or omissions of financial services licensees. An independent member of Moore Stephens International Limited - members in principal cities throughout the world. The Sydney Moore Stephens firm is not a partner or agent of any other Moore Stephens firm.

MOORE STEPHENS
ACCOUNTANTS & ADVISORS

***Auditor's Opinion***

In our opinion,

a. the financial report of Washington H. Soul Pattinson and Company Limited and its Controlled Entities is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of Washington H. Soul Pattinson and Company Limited’s consolidated financial position as at 31 July 2013 and of its performance for the year ended on that date; and

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

***Report on the Remuneration Report***

We have audited the Remuneration Report included in pages 23 to 27 of the directors’ report for the year ended 31 July 2013. The directors of Washington H. Soul Pattinson and Company Limited 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 Washington H. Soul Pattinson and Company Limited for the year ended 31 July 2013, complies with section 300A of the *Corporations Act 2001*.

***Matters Relating to the Electronic Publication of the Audited Financial Report***

This auditor’s report relates to the financial report for the year ended 31 July 2013 included on Washington H. Soul Pattinson and Company Limited’s website. The Company’s directors are responsible for the integrity of Washington H. Soul Pattinson and Company Limited’s website. We have not been engaged to report on the integrity of Washington H. Soul Pattinson and Company Limited’s website. The auditor’s report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

Moore Stephens Sydney

**Moore Stephens Sydney**
Chartered Accountants

**Martin J. (Joe) Shannon**
Partner

Dated in Sydney this 22nd day of October 2013.

Moore Stephens Sydney ABN 90 773 984 843. Liability limited by a scheme approved under Professional Standards Legislation*

*Other than for the acts or omissions of financial services licensees. An independent member of Moore Stephens International Limited - members in principal cities throughout the world. The Sydney Moore Stephens firm is not a partner or agent of any other Moore Stephens firm.

# ASX Additional Information

## DISTRIBUTION OF EQUITY SECURITIES AS AT 8 OCTOBER 2013

| Size of Shareholding | Number of Shareholders | Number of Shares |
|---|---|---|
| 1 – 1,000 | 4,497 | 2,285,724 |
| 1,001 – 5,000 | 4,097 | 10,469,396 |
| 5,001 – 10,000 | 985 | 7,422,291 |
| 10,001 – 100,000 | 832 | 21,747,311 |
| 100,001 and over | 87 | 197,470,598 |
| **TOTAL** | **10,498** | **239,395,320** |
| Holding less than a marketable parcel | 206 | 1,182 |

## SUBSTANTIAL SHAREHOLDERS AS AT 8 OCTOBER 2013

As disclosed in notices received by the Company.

| | Ordinary Shares Held | % of Issued Shares |
|---|---|---|
| Brickworks Limited | 102,257,830 | 42.72 |
| Perpetual Limited and subsidiaries (Perpetual Group) | 29,318,700 | 12.25 |

By reason of an agreement with Perpetual Investment Management Limited the Carnegie Group lodged a substantial holder notice in respect of 28,553,113 ordinary shares held by the Perpetual Group. The notice was lodged on 26 November 2012 and may be viewed on the ASX announcements list for WHSP (ASX code: SOL).

## TOP 20 SHAREHOLDERS AS AT 8 OCTOBER 2013

| | Ordinary Shares Held | % of Issued Shares |
|---|---|---|
| Brickworks Limited | 102,257,830 | 42.72 |
| RBC Dexia Investor Services Australia Nominees Pty Limited (PI Pooled A/C) | 14,611,844 | 6.10 |
| Milton Corporation Limited | 9,134,840 | 3.82 |
| Dixson Trust Pty Limited | 8,499,940 | 3.55 |
| J S Millner Holdings Pty Limited | 7,990,232 | 3.34 |
| J P Morgan Nominees Australia Limited | 4,633,381 | 1.94 |
| National Nominees Limited | 3,770,166 | 1.57 |
| T G Millner Holdings Pty Limited | 3,221,051 | 1.35 |
| Hexham Holdings Pty Limited | 2,793,127 | 1.17 |
| Mr Robert Dobson Millner & Mr Michael John Millner (Est James S Millner A/C) | 2,522,092 | 1.05 |
| Citicorp Nominees Pty Limited | 2,485,445 | 1.04 |
| Citicorp Nominees Pty Limited (Colonial First State Inv A/C) | 2,321,251 | 0.97 |
| HSBC Custody Nominees (Australia) Limited | 2,226,792 | 0.93 |
| Argo Investments Limited | 2,182,606 | 0.91 |
| RBC Investor Services Australia Nominees Pty Limited (PIIC A/C) | 2,010,168 | 0.84 |
| BNP Paribas Noms Pty Ltd (DRP) | 1,545,901 | 0.65 |
| Australian Foundation Investment Company Limited | 1,458,571 | 0.61 |
| Farjoy Pty Ltd | 1,344,463 | 0.56 |
| UBS Nominees Pty Ltd | 1,327,759 | 0.55 |
| Dixson Trust Pty Limited (A/C NO 1) | 1,175,290 | 0.49 |

## VOTING RIGHTS

Votes of Members – The Company's Constitution provides:

Subject to the Constitution, the Listing Rules, the Corporations Act and to any rights or restrictions attaching to any class of shares, at a meeting of the Company's members:

a) on a show of hands, each member has one vote;

(b) subject to section 250L(4) on a poll, each member has:

(i) for each fully paid share held by the member, one vote; and

(ii) for each partly-paid share held by the member, a fraction of a vote equivalent to the proportion which the amount paid (not credited nor paid in advance of a call) is of the total amounts paid and payable (excluding amounts credited) for the share.

## UNQUOTED EQUITY SECURITIES

The Company had no unquoted equity securities at any time during the year ended 31 July 2013 or for the period to the date of this report.

## ON-MARKET BUY-BACK

No on-market buy-back was current at any time during the year ended 31 July 2013 or during the period to the date of this report.

## AUSTRALIAN SECURITIES EXCHANGE LISTING

Washington H. Soul Pattinson and Company Limited shares are listed on the Australian Securities Exchange under the ASX Code: SOL.

## REGISTERED OFFICE

LEVEL 1, 160 PITT STREET MALL
SYDNEY NSW 2000
Telephone: (02) 9232 7166
Facsimile: (02) 9233 1025
Internet Website Address: www.whsp.com.au

## SHARE REGISTER

ADVANCED SHARE REGISTRY LIMITED
150 Stirling Highway, Nedlands WA 6009
Telephone: (08) 9389 8033 (within Australia)
(02) 8003 6825 (NSW)
(07) 3103 3838 (Qld)
(03) 9018 7102 (Vic)
Telephone: +61 8 9389 8033 (outside Australia)
Facsimile: +61 8 9389 7871
Internet Website Address: www.advancedshare.com.au

## AUDITORS

MOORE STEPHENS SYDNEY
Level 15, 135 King Street, Sydney NSW 2000
GPO Box 473, Sydney NSW 2001
Telephone: (02) 8236 7700
Facsimile: (02) 9233 4636