



Platinum®
ASSET MANAGEMENT

ANNUAL REPORT 2014

PLATINUM ASSET MANAGEMENT LIMITED
ABN 13 050 064 287



DIRECTORS

Michael Cole	Andrew Clifford
Bruce Coleman	Elizabeth Norman
Margaret Towers	Philip Howard
Kerr Neilson	

COMPANY SECRETARY

Philip Howard

SHAREHOLDER LIAISON

Elizabeth Norman

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SECURITIES EXCHANGE LISTING

Ordinary Shares listed on the Australian Securities Exchange
ASX Code: PTM

WEBSITE

www.platinum.com.au/Shareholder-information/

Platinum Asset Management® does neither guarantee the repayment of capital nor the investment performance of the Company.

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CHAIRMAN'S REPORT

Performance

The amount of money that we manage, so-called funds under management (FUM), is the key variable for the Platinum business model and an important determinant of our profit.

FUM is significantly influenced by performance of our individual funds and investment mandates.

The average amount of FUM increased to \$22.3 billion in FY2014 from \$16.8 billion in FY2013, an increase of 32.8%. Performance fees earned lifted substantially from \$5.0 million in the previous year to \$27.4 million.

These factors combined to generate a net profit after tax of \$189.9 million (2013: \$129.1 million), an increase of 47.1%. This translated to diluted earnings per share of 32.44 cents per share, compared to 22.58 cents per share in FY2013.

The Company has a strong balance sheet with few liabilities.

Expenses have been closely monitored. The increase is largely explained by those costs that are linked to FUM growth and incentive payments. Staff costs have been one key area of expense growth.

The details on the new profit share plan, that has been offered for the first time to senior employees of the Company, is covered below in the section titled "Costs and Remuneration Matters" and in more operational detail in the Managing Director's Letter to Shareholders.

It is important to recognise that despite overall staff costs and total costs increasing, costs as a proportion of revenue have actually fallen from 21.1% for FY2013 to 18.4% for FY2014.

Funds Under Management (FUM)

The opening FUM for the year was \$19.8 billion and this increased to \$22.9 billion at 30 June 2014. This represents an increase of 16.1% year-on-year.

The major contributor to the increase in the closing FUM over the period was investment returns, which increased by approximately \$3.5 billion. Capital flows increased by \$0.2 billion and distributions net of reinvestments were a negative of \$0.5 billion.

2014 represents the 20th anniversary of Platinum. From a starting-point of a team of four investment professionals and a handful of support staff, Platinum now has a strong brand name and a reputation that is the envy of the financial services industry. This reputation has been achieved by staying true to Platinum's key objective – delivering above average returns and providing investors with superior performance. The company listed on the ASX in 2007 with majority ownership remaining with executive management and staff.

The flagship Platinum International Fund has appreciated 13.01% per annum compared to the return from the MSCI World Index of 5.60% since inception in 1995. The comparable return from the Australian All Ordinaries Accumulation Index has been 9.39% annually over the same period.

Dividends

A fully-franked dividend of 20 cents per share will be paid on 23 September 2014.

A fully-franked dividend of 14 cents per share was paid on 17 March 2014.

The total dividend for the year is 34 cents per share and this represents a substantial increase from the previous 12 months, in which total dividends paid out were 22 cents per share.

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

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

The Committees

Both the Nomination & Remuneration Committee and Audit, Risk & Compliance Committee had a productive year dealing with a number of material issues that impacted the Company's performance and compliance obligations.

Costs and Remuneration Matters

The Nomination & Remuneration Committee reviewed the remuneration framework for the investment analyst team and modified the short-term incentive plan and introduced a new long-term incentive plan for investment analysts.

The new long-term incentive plan is known as the profit share plan (PSP). The plan is confined to analysts because they drive investment return and performance. The plan specifically rewards absolute and relative performance and long-term contribution to the business, by giving senior analysts a bonus equivalent to a small share of profit. The profit share figure will not exceed 5% of profit before tax.

The Managing Director, Kerr Neilson, again waived his right to receive any bonus in the 2014 financial year and this has been ratified by the Nomination & Remuneration Committee.

There were no new options issued during the 2014 financial year.

CHAIRMAN'S REPORT

Continued

Offshore Developments

At the 2013 Annual General Meeting (AGM), I mentioned that the Board was considering launching a UCITS (Undertaking for Collective Investment in Transferable Securities) Fund, that would allow Platinum to grow its brand name offshore.

Due to difficulties and uncertainty created by Australian tax law, management has taken a conservative position and decided against offering the opportunity to invest in the Fund to external investors. The Managing Director's Letter highlights our frustrations on this issue.

We are anticipating new legislation from the Australian Government to remove the uncertainty and a new Fund may be offered once this legislative ambiguity is cleared up. The Company has been involved in discussions with Government officials to ensure that industry concerns are heard loud and clear. We await developments on this front with keen interest.

Commitment to Climate Action

The Company continues to monitor its carbon usage. Carbon credits have been purchased by the Manager to offset any material carbon emissions made by the Company, for electricity usage and travel, for the purposes of stock research, conducted by the investment analysts.

Conclusion

The Managing Director's Letter to Shareholders also addresses the key challenges being faced by the business and the funds management industry and discusses key growth opportunities.

Michael Cole

Chairman

21 August 2014

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

As a shareholder, you will appreciate that the principal driver of our business is the level of funds under management (FUM). One of the key determinants of this is our investment performance.

Investment Performance

Last year we went into some detail about our trailing performance and why we were not discouraged or perturbed. It is therefore gratifying that we had a strong burst of performance during the first half of this financial year, followed by a sideways movement in the second half. The achievements varied across funds with those with low or minimal hedging of stock market risk outperforming their relevant indices, while those with stock market hedging, achieved close to benchmark. We feel this is satisfactory on a risk-adjusted basis as these funds were typically 70% to 80% net invested, implying that the underlying stock-picking was sound.

The weighting of the MSCI All Country World Net Index is at present highly skewed in favour of the US; a weighting of 49% despite accounting for less than 20% of world GDP. This position has arisen from the earlier recovery of the US economy and good earnings growth. However, it is our experience that when markets are refulgent with promise, it is generally wise to direct one's activities to where there are low expectations and commensurately low valuations. Hence the disposition of our funds is very different from that of the index, and if our traditional pattern holds, fallow years should be followed by strong outperformance. The longer term record of outperformance by each and every one of our funds since inception attests to our approach and sets us apart from the majority of participants in the fund management industry.

The Investment Team

The investment team is the engine room of what we do. We have used earlier letters to explain the re-ordering of the team into specialist subsets either by industry or geographic segmentation, in the case of Asia. The latter segregation is on account of language, but in fact, the specialist teams cover their industries from a global perspective and hence there is an overlap.

Andrew Clifford, our co-founder and head of investments (CIO), has done a great job of finessing the workings of the investment team and there has been a clear improvement in idea generation and efficacy of the research. Helped by the work of the quant team, we are able to create a dynamic image of those areas that are extravagantly valued and those which reflect neglect, our favoured hunting ground. With the dealing team now spending greater effort to gauge sentiment and other indicators, we are pleased with the overall co-ordination in our quest for the rational allocation of economic resources, otherwise known as solid stock-picking.

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

Continued

Costs

As you are aware, staff costs are the most significant and variable of our outgoings. In general, the investment team receives base salaries that are probably at the lower end of the pay scale (in this well-remunerated industry) but their individual and group contributions do significantly influence their final income packages. As noted before, there is some upward drift in the investment staff's salaries on account of seniority and a gradual augmentation of the investment team to ensure adequate research coverage in an expanding universe of world stocks. This is a product of globalisation, which is expanding the number and diversity of available investment opportunities. Overall, however, our costs were reasonably well-contained.

We have introduced a new layer of performance-related income, which started this year. To the extent that the aggregate return of all funds under management exceed their benchmarks by 1% on a one and three year rolling basis, a commensurate percentage of our pre-tax profits is set aside to reward staff who are principally responsible for this achievement. For example, if the average of the one and three year rolling performance of our funds exceeds the weighted benchmark by say 2.2%, as was the case this year, then 1.2% of the Company's fee-based pre-tax profit is made available to this pool. This scheme has a maximum limit which is set at 5% of pre-tax profit. Ownership/participation in this pool will vary over time to reflect the business-building contribution of individual investment staff members. The idea is to dispense with share grants or options and to motivate the principal performers in the investment team in a manner that is directly tied to their making money for clients with due regard to costs and FUM. As the controlling shareholder, I feel there is no need for me to participate in this profit-sharing pool or to receive a performance bonus.

Funds Under Management

It has taken Australian investors a long time to heed our calls for more exposure to world stock markets. This is understandable given the strength of the Australian dollar since its collapse during the GFC, and the general sense of gloom around the recovery and the chase for yield. By late December there was a clear improvement in sentiment and flows turned positive in the first half of calendar 2014.

Fund Under Management (\$mn, to 30 June 2014)

FUND	OPENING BALANCE (30 JUNE 2013)	FLOWS	DISTRIBUTION	INVESTMENT PERFORMANCE	CLOSING BALANCE (30 JUNE 2014)
Platinum Trust Funds	13,170	964	(513)	2,240	15,861
MLC Platinum Global Fund	1,028	(160)	–	211	1,079
Management Fee Mandates	1,964	(215)	–	370	2,119
"Relative" Performance Fee Mandates	3,002	(320)	(8)	516	3,190
"Absolute" Performance Fee Mandates	600	(21)	–	114	693
TOTAL	19,764	248	(521)	3,451	22,942

Source: Platinum

The money we manage for institutional clients is encouraging and underscores the problems plan sponsors face when selecting global fund managers. Typically, the sums being allocated are large so they need to find a manager who has the experience and record of managing large amounts of money without it adversely affecting overall returns. The list is remarkably short when looking for those in business for over 15 years and with our returns.

FUM Retention

There are two clear patterns with retail investors. Their timing of entry and exit into managed funds tends to be poor, and secondly, even though these managed funds are sold on the basis of long-term records, investors tend to enter and exit their investment within five years of their initial investment. We have calculated that this entry-and-exit pattern results in a return to the client a full 6% less than a buy-and-hold return would have harvested. Fortunately, our analysis shows that our investors stay with us for about 7-8 years and as a consequence tend to do better than the index.

We are pursuing various avenues to try to modify and improve these patterns: we have changed the regular investment plan to a minimum initial investment of \$10,000 with a minimum \$200 per month or quarter contribution, we are using the website to try to connect more closely with existing clients and offering RSS feeds (a format for delivering regular updates in website content). Each quarter we mail out our quarterly report, which aims to lucidly communicate our prevailing views and current action within each portfolio. This entails a mail-out of 35,000 reports each quarter. This is in addition to the regular road shows where we present in the major Australian cities, separately to clients and investment advisers. Douglas Isles, Platinum's investment specialist, has been hugely

MANAGING DIRECTOR'S LETTER TO SHAREHOLDERS

Continued

energetic travelling the country presenting and talking with advisors or their clients. Unlike many in his role, Douglas has been an analyst and hence presents with the knowledge of a practitioner and conveys what really matters rather than simply pushing product.

We recently made a submission to the Senate enquiry about the dilution of the earlier provisions of the Future of Financial Advice (FoFA). In a very short letter we highlighted the huge concentration of power in the hands of this country's four large financial institutions. Their dominance of the financial advisory industry, and the prospect of limiting investor choice in the face of those same investors being legally obliged to save for their retirement, carry dangers.

To play a small part in raising the professionalism within the financial advisory industry, Platinum Asset Management and The Neilson Foundation are equally funding 20 bursaries collectively at five Australian universities¹. The choice of candidates is in the hands of each university with the proviso that the bursary goes to students who are majoring in financial planning. Platinum has further committed to giving two candidates a month's work experience on an annual basis.

We had a set back with our attempt to launch the UCITS (Undertaking for Collective Investment in Transferable Securities) product that we mentioned last year. It transpires that on account of some arcane tax legislation, investors, even if they have never set foot in this country and even if they pay tax in foreign countries, could face Australian tax by virtue of the portfolio being managed by an Australian manager. This legislation is currently under review by the government, and amendments were supposed to have been tabled in May 2014. However, it looks like the amendments will not be seen for some months, possibly not before next year. As a consequence we are waiting for the formal review of this legislation before taking in funds from investors. We are therefore in the ludicrous position of having brand awareness, particularly in Europe, and yet we cannot offer those investors a fund, based in Ireland or Luxembourg, for fear of exposing them to Australian tax. In the meantime, we have seeded the three funds we were going to offer and will gradually sell down these positions.

A development that could, however, give us an interesting opportunity is the launching of the mFund Settlement Service (mFund) on the Australian Securities Exchange. Our funds were rejected for eligibility for the first round of listings primarily on account of their ability to use derivatives and short sell. To counter this we will offer a product that invests in long-only global stocks; the Platinum Global Fund. This will be available for investors to purchase through their broker or to come directly to Platinum via the normal application route.

¹ The 20 annual scholarships, valued at \$15,000 each, are spread over the University of Canberra, University of Western Sydney, University of Wollongong, La Trobe University and Deakin University.

The mFund service operates much like the current direct application for units in the Platinum Trust funds, with the distinction of the order being placed via a broker who will have already have met the know-your-client (KYC) regimen and so the transaction and payment is somewhat streamlined. We will then get daily applications and withdrawals that will follow the same forward pricing process that applies to those coming directly to Platinum when dealing with any of our eight Platinum Trust products.

The initial application for the mFund has been reduced to \$10,000. Officially set for launch in September, it will likely expose us to a different style of customer and further enhance Platinum brand awareness.

We believe that the removal of trailing commissions on new products, and the other FoFA provisions, has reduced the efficacy of the investment platforms offered by the large banks. The mFund products, which are tantamount to a managed Exchange Traded Fund (ETF), could experience substantial demand, particularly from the self-managed superannuation funds. This \$550 billion pool of retirement savings has a reported exposure to global equities of only 7%.

In addition to these initiatives which will be supported by more active digital and traditional media expenditure, we are continuing to seek out large mandates where there is a fit of needs. Some balk at fees as a matter of principal, even though the performance is always calculated after all fees. As noted in earlier letters, to accommodate these concerns we offer institutions a low base fee and participate in superior performance by charging a fee that is levied upon the outperformance relative to the benchmark. This rations the number of prospects but equally ensures that we gradually build relationships with institutions who appreciate the scarcity value of performance driven managers.

Outlook

We are pleased with the development of the investment team and the breadth of our capability. We have made a greater commitment to embrace the planning community and continue to progressively develop relationships with professional investors both here and abroad.

We continue to find attractive investment opportunities in markets around the world which bodes well for our future.

Kerr Neilson

Managing Director

FINANCIAL STATEMENTS 2014

Platinum Asset
Management Limited

SHAREHOLDER INFORMATION

Substantial Shareholders

The following parties notified the Company that they have a substantial relevant interest in ordinary shares of Platinum Asset Management Limited as at 15 August 2014:

	NUMBER OF SHARES	%
J Neilson, K Neilson	322,074,841	55.50
J Clifford, Moya Pty Limited, A Clifford	32,831,449	5.66

Distribution of Securities

	CLASS OF EQUITY SECURITY ORDINARY
(i) DISTRIBUTION SCHEDULE OF HOLDINGS	
1 – 1,000	4,187
1,001 – 5,000	10,333
5,001 – 10,000	2,300
10,001 – 100,000	1,256
100,001 and over	51
Total number of holders	18,127
(ii) Number of holders of less than a marketable parcel	152
(iii) Percentage held by the 20 largest holders	85.98%

Twenty Largest Shareholders

The names of the 20 largest holders of each class of listed equity securities as at 15 August 2014 are listed below:

	NUMBER OF SHARES	%
Platinum Investment Management Limited (nominee)	215,782,323	37.18
J Neilson	136,250,000	23.48
JP Morgan Nominees Australia Limited	50,014,580	8.62
HSBC Custody Nominees (Australia) Limited	28,258,462	4.87
National Nominees Limited	20,566,802	3.54
Jilliby Pty Limited	8,000,000	1.38
Citicorp Nominees Pty Limited	7,128,564	1.23
BNP Paribas Nominees Pty Limited	7,003,526	1.21
J Clifford	5,000,000	0.86
Charmfair Pty Limited	4,240,694	0.73
RBC Investor Services Australia Nominees	3,813,383	0.66
Charmfair Pty Limited	3,472,269	0.60
Xetrov Pty Limited	2,000,000	0.34
Citicorp Nominees Pty Limited	1,670,842	0.29
RBC Investor Services Australia Nominees	1,423,689	0.24
National Nominees Limited	1,223,235	0.21
HSBC Custody Nominees (Australia) Limited	850,863	0.15
HSBC Custody Nominees (Australia) Limited	848,288	0.14
AMP Life Limited	799,789	0.14
Jilliby Pty Limited	623,000	0.11

SHAREHOLDER INFORMATION

Continued

Voting Rights

Ordinary Shares

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

Other Securities on Issue

The Company has other securities on issue in the form of options. As at 21 August 2014, the Company still has 6,342,758 options outstanding to 8 holders, with each holder being granted over 100,000 options. Further details on the grant of these options are contained in Note 8 of the Notes to the Financial Statements.

No voting rights attach to the options, however any ordinary shares that are allotted to the option holders upon exercise will have the same voting rights as all other ordinary shares.

Company's Commitment to Carbon Action

The Company continues to monitor its carbon usage. Carbon credits have been purchased by the Manager to offset any material carbon emissions made by the Company, for electricity usage and travel associated with investment research.

Distribution of Annual Report to Shareholders

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

Financial Calendar

Ordinary shares trade ex-dividend	28 August 2014
Record (books close) date for dividend	1 September 2014
Dividend paid	23 September 2014
Annual General Meeting	6 November 2014

These dates are indicative and may be changed.

Questions for the AGM

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

DIRECTORS' REPORT

The Directors present the following report on the consolidated entity consisting of Platinum Asset Management Limited (the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

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

Michael Cole	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Margaret Towers	Non-Executive Director
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director and Chief Investment Officer
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Philip Howard	Executive Director and Company Secretary

Principal Activity

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

Operating and Financial Review

The three key variables that drive the profitability of the consolidated entity are average funds under management (FUM) growth, investment performance fees earned and expense growth.

Over the financial year, average FUM increased from \$16.8 billion to \$22.3 billion, an increase of 32.8%.

The key driver to the success of the consolidated entity over the last 12 months has been investment performance. Over the last 12 months, the performance of most of the key Funds and Mandates that Platinum Investment Management Limited managed have been solid. Over the medium to long-term, returns in both a relative and absolute sense have been very good, particularly in comparison to returns from Australian equities. This has contributed to increased FUM, management fees and profit.

Performance fees increased substantially to \$27.4 million from \$5.0 million in the previous year.

Expenses have been closely monitored, with the increase being explained by those expenses that are linked to FUM and profit.

DIRECTORS' REPORT

Continued

These factors combined to produce a consolidated profit after income tax expense of \$189,867,000 (2013: \$129,112,000).

Profit before income tax expense was \$261,045,000 (2013: \$183,169,000).

The consolidated entity is in a strong financial position, with a strong balance sheet. The key drivers of future growth of the business are average FUM, investment performance and capital flows. Capital flows will benefit through the winning of new institutional mandates, the increasing trend for Australian investors to diversify their portfolio into global shares and the growth of self-managed superannuation funds (SMSFs).

During the year, Platinum Investment Management Limited provided A\$79.4 million in seed capital to start its offshore UCITS Fund, incorporated in the Republic of Ireland. Due to difficulties and uncertainty created by Australian tax law, the UCITS Fund has not taken on external investors and a decision was taken to wind down the UCITS Fund. A new UCITS Fund will be created when this legislative ambiguity is cleared up.

Further information in relation to the Company can be found in the Chairman's Report and Managing Director's Letter to Shareholders.

Dividends

Since the end of the financial year, the Directors have declared a 20 cents per share fully-franked dividend payable to shareholders on 23 September 2014. A fully-franked dividend of 14 cents per share (\$81,152,000) was paid on 17 March 2014. A fully-franked dividend of 14 cents per share (\$80,950,000) was paid on 23 September 2013.

Likely Developments and Expected Results of Operations

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

Rounding of Amounts

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

Auditor

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

Significant Changes in the State of Affairs

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

Audit and Non-Audit Services

The Directors, in accordance with advice received from the Audit, Risk & Compliance Committee, are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* and APES110: *Code of Ethics for Professional Accountants*. During the year the following fees were paid and payable to the auditor and its related practices.

	2014 \$	2013 \$
Audit services – statutory		
<i>PricewaterhouseCoopers Australian firm:</i>		
Audit and review of the consolidated entity's financial statements	91,320	83,000
<i>Overseas PricewaterhouseCoopers firms</i>		
Audit of financial statements	20,958	–
Total audit services attributable to the consolidated entity	112,278	83,000
Audit and review of managed funds for which the consolidated entity acts as responsible entity	217,871	200,420
	330,149	283,420
Taxation services – compliance		
<i>PricewaterhouseCoopers Australian firm:</i>		
Taxation services – compliance services for the consolidated entity	83,713	296,400
Taxation services – compliance services for the managed funds for which the operating subsidiary acts as responsible entity	325,989	374,166
<i>Overseas PricewaterhouseCoopers firms</i>		
Taxation services – foreign tax agent	22,104	15,639
	431,806	686,205
Other services		
<i>PricewaterhouseCoopers Australian firm:</i>		
Remuneration services (see page 31 for further information)	15,500	–
Other regulatory, audit and assurance services	202,581	221,799
	218,081	221,799
Total	980,036	1,191,424

DIRECTORS' REPORT

Continued

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33.

Information on Directors

Michael Cole BECON, MECON, FFIN

Independent Non-Executive Director, Chairman and member of the Audit, Risk & Compliance and Nomination & Remuneration Committees since 10 April 2007. (Age 66)

Mr Cole has over 36 years experience in the investment banking and funds management industry. He was an Executive Director/Executive Vice President at Bankers Trust Australia for over 10 years. Mr Cole is Chairman of Ironbark Capital Limited and IMB Limited. Mr Cole is the Chairman and Director of Challenger Listed Investments Limited.

Bruce Coleman BSC, BCOM, CA, FFIN

Independent Non-Executive Director, Chair of the Nomination & Remuneration Committee and member of the Audit, Risk & Compliance Committee since 10 April 2007. (Age 64)

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

Margaret Towers CA, GAICD

Independent Non-Executive Director, Chair of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee since 10 April 2007. (Age 56)

Ms Towers is a Chartered Accountant with over 32 years experience in financial markets. She was formerly an Executive Vice President at Bankers Trust Australia and worked at Price Waterhouse. Ms Towers acts as an independent consultant and compliance committee member to Australian Financial Institutions. Ms Towers is a Non-Executive Director of IMB Limited.

Kerr Neilson BCOM, ASIP

Managing Director since 12 July 1993. (Age 64)

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

Andrew Clifford BCOM (HONS)

Director and Chief Investment Officer since 8 May 2013. (Age 48)

Mr Clifford joined Platinum as a co-founding member in 1994 in the capacity of Deputy Chief Investment Officer. He is a Director of Platinum Investment Management Limited and Platinum Capital Limited. Previously he was a Vice President at Bankers Trust Australia covering Asian equities and managing the BT Select Market Trust – Pacific Basin Fund. Mr Clifford is a portfolio manager for the Platinum Asia Fund and a sub-manager for Platinum International Fund.

Elizabeth Norman BA, GRADUATE DIPLOMA IN FINANCIAL PLANNING

Director of Investor Services and Communications since 8 May 2013. (Age 46)

Ms Norman joined Platinum in February 1994 in a role of Investor Services and Communications Manager. Previously she worked at Bankers Trust Australia in product development and within the retail funds management team. Ms Norman's role as a Director of Investor Services and Communications reflects the widening of Platinum's client base and the consolidated entity's greater commitment to supporting retail and institutional clients with dedicated investment specialists.

Philip Howard BCOM, CA

Finance Director and Company Secretary since 31 March 2011. (Age 53)

Mr Howard is a Director of Platinum Investment Management Limited and a Director of Platinum Capital Limited. Prior to being appointed a Director, Mr Howard was Platinum's Chief Operating Officer for nearly 10 years. Mr Howard is a Chartered Accountant with over 28 years experience in the financial services industry. Prior to Platinum, Mr Howard held senior roles in finance, operations and management with State Street Australia, Bankers Trust Australia and Price Waterhouse, Sydney.

DIRECTORS' REPORT

Continued

Directors' Meetings

The number of meetings held and attended by the Company's Directors during the year ended 30 June 2014 was as follows.

NAME	BOARD		AUDIT, RISK & COMPLIANCE COMMITTEE		NOMINATION & REMUNERATION COMMITTEE	
	HELD WHILE A DIRECTOR	ATTENDED	HELD WHILE A MEMBER	ATTENDED	HELD WHILE A MEMBER	ATTENDED
Michael Cole	4	4	4	4	5	5
Bruce Coleman	4	4	4	4	5	5
Margaret Towers	4	4	4	4	5	5
Kerr Neilson	4	3	—	—	—	—
Andrew Clifford	4	4	—	—	—	—
Elizabeth Norman	4	4	—	—	—	—
Philip Howard	4	4	—	—	—	—

Remuneration Report (audited)

Introduction

The Company's Directors present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the Company and consolidated entity for the year ended 30 June 2014.

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

Summary of Remuneration Outcomes for 2014

- there was a review of the remuneration framework for the investment analyst team conducted by the Nomination & Remuneration Committee during the year. This led to modifications to the short-term incentive plan for investment analysts and the introduction of a new long-term incentive plan for investment analysts. Both are described in further detail in the Remuneration Report;
- there were no fund appreciation rights granted during the year;
- there were no options granted during the year;
- the Managing Director waived his ability to receive a bonus in 2014 and this was ratified by the Nomination & Remuneration Committee; and
- the Company's share price remained above the strike price, and therefore employees were able to exercise options that were granted to them in June 2009.

Key Management Personnel ("KMP")

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

NAME	POSITION
Michael Cole	Chairman and Non-Executive Director
Bruce Coleman	Non-Executive Director
Margaret Towers	Non-Executive Director
Kerr Neilson	Managing Director
Andrew Clifford	Executive Director and Chief Investment Officer (CIO)
Elizabeth Norman	Executive Director and Director of Investor Services and Communications
Philip Howard	Executive Director and Company Secretary

There were no employees that held a KMP position within the Company or consolidated entity, other than those disclosed above.

Shareholders' Approval of the 2013 Remuneration Report

A 25% or higher "no" vote on the Remuneration Report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed. At the last AGM, the Company received a unanimous "yes" vote for the Remuneration Report on a show of hands.

Platinum takes the opportunity to fully explain the basis and structure of the remuneration paid to KMP.

Guiding Principles of KMP and Staff Remuneration

Platinum attracted, retained and motivated team members by providing incentives and working conditions that enabled them to achieve above-average performance.

Structure of Remuneration for Directors and all Platinum Staff

Fixed remuneration consists of salary and compulsory contributions to superannuation funds. Salaries approximated applicable market rates and were augmented by performance incentives.

Variable remuneration consists of performance-based bonuses and profit share amounts. Bonuses were discretionary and were paid after assessing individual performance against predetermined and individually set targets. Bonuses took the form of an annual cash payment and were designed to reward superior performance. The Platinum Group has established two Short-Term Incentive Plans (STIP) that had specific criteria as the basis for paying bonuses.

An additional Long-Term Incentive Plan was established this year.

DIRECTORS' REPORT

Continued

Short-Term Incentive Plans

Two short-term variable incentive plans operated during the year, with specific participation determined by whether the employee was a member of the investment analyst team or otherwise. A member of the investment analyst team was defined as anyone who researched stocks and provided stock selection services. The plans are detailed below.

Investment Analyst Plan

A new remuneration framework for investment analyst bonuses was ratified by the Nomination & Remuneration Committee this year. Under this new framework, the bonus pool was determined as a percentage of the aggregate base salary of analysts able to receive a bonus this year. The percentage level was related to the average 1 year and 3 year outperformance of funds under management. Individual bonus figures for the investment analyst team were based on both quantitative and qualitative measures of contribution to the investment team and performance criteria. The bonus pool was exhaustively allocated to analysts.

The quantitative elements of the contribution assessment remain similar to prior years and are as follows:

- (a) performance of all funds under management on a weighted average basis. Portfolio managers were measured on the performance of their portfolios calculated on a 1 year and 3 year relative performance versus the applicable MSCI benchmark;
- (b) performance of the sector teams' stocks within the main funds calculated on a 1 year and 3 year relative performance versus the applicable MSCI benchmark and dollars invested;
- (c) performance of the individual analyst's stocks within the main funds calculated on a 1 year and 3 year relative performance versus the applicable MSCI benchmark and dollars invested; and
- (d) performance of the analyst's own stocks within a portfolio of stocks calculated on a 1 year and 3 year relative performance versus the relative sector benchmark.

The bonus pool is dependent upon the overall performance of the consolidated entity during the year.

General Employee Plan

For all other employees, performance is assessed against predetermined operational benchmarks relevant to each employee as assessed by the Directors of the Platinum Group and ratified by the Nomination & Remuneration Committee.

Impact of these Plans on the Executive Directors

The bonus of Andrew Clifford was determined according to the Investment Analyst Plan. The bonuses of Elizabeth Norman and Philip Howard were determined according to the General Employee Plan. Kerr Neilson continued to waive his ability to receive a bonus. This has been ratified by the Nomination & Remuneration Committee.

Long-Term Incentive Plans

The Platinum Group has three long-term incentive plans in place, which are discussed below.

Profit Share Plan (PSP)

The Nomination & Remuneration Committee ratified the PSP this year. The PSP was designed to provide key members of the investment analyst team with a share in the future value of the Company. Individual members of the investment team are issued notional units in the profit share plan. The notional units have no capital value and cannot be sold or transferred to a third party. Notional units are adjusted each year based upon the assessment of each staff member's long-term contribution potential to the future development of the Group. Each year the profit share percentage is determined based upon the weighted average 1 year and 3 year outperformance of all funds under management. There is no profit share until weighted average 1 year and 3 year outperformance is greater than 1%, inclusive of prior year underperformance carry forward. The profit share figure is limited to 5% of net profit before tax.

The profit share scheme is not a firm commitment of the Company. Potential reasons for variation downward may include (but not be limited to) stakeholders not earning adequate absolute returns in the periods being measured. Andrew Clifford was eligible to participate in the PSP for his ongoing contribution and development of the Company. This share of the PSP applied to the current year (the start-up year) and the year ending 30 June 2015.

DIRECTORS' REPORT

Continued

Options and Performance Rights Plan (OPRP)

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

Had a staff member ceased employment at any time prior to the vesting of these options or performance rights, then all options or performance rights granted were cancelled.

All options had a four year vesting period, and once vested, had a two year exercise period. Options were granted to staff under this plan in 2007 and 2009. All options (net of forfeitures) that were granted in 2007 were exercised.

A total of 8,783,205 new options were granted to certain staff in June 2009. All of these options vested on 17 June 2013. Elizabeth Norman exercised 80,000 options and Philip Howard exercised 391,100 options during the year. No other KMP exercised options during the year.

The strike price for the 2009 grant was \$4.50 per option. The consolidated entity did not provide loans to any KMP or staff member to exercise their options. In addition, no KMP had margin loans secured over the Company's shares. No KMP had ever received performance rights.

KMP did not receive and had never received any dividends on unvested or unexercised options.

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

No performance rights had been granted since 2007 and no options have been granted since 2009.

Fund Appreciation Rights Plan (FARP)

The Group established a Fund Appreciation Rights Plan (FARP) on 1 April 2009 to assist with the retention and motivation of the Group's investment analysts. Under the FARP, short-term incentives may be converted to notional investments in Platinum Trust Funds that are intended to align the interest of the analyst with the shareholder in deriving greater value over time. The operation of the FARP is explained in Note 8(b).

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

Actual Remuneration Outcomes for Executive Directors

The table below presents the remuneration received by the Executive Directors of the Company. The actual remuneration received are not based on the disclosure requirements of the accounting standards.

NAME	CASH SALARY \$	SUPER- ANNUATION ⁽¹⁾ \$	SHORT-TERM INCENTIVES ⁽²⁾ \$	LONG-TERM INCENTIVES ⁽³⁾ \$	TOTAL \$
Kerr Neilson					
FY 2014 ⁽⁴⁾	450,000	17,775	–	–	467,775
FY 2013 ⁽⁴⁾	400,000	16,470	–	–	416,470
Andrew Clifford					
FY 2014	425,000	17,775	856,250	748,400	2,047,425
FY 2013	350,000	16,470	350,000	–	716,470
Elizabeth Norman					
FY 2014	400,000	17,775	650,000	581,168	1,648,943
FY 2013 ⁽⁵⁾	32,500	2,745	245,000	–	280,245
Philip Howard					
FY 2014	400,000	17,775	300,000	2,896,403	3,614,178
FY 2013	400,000	16,470	257,500	143,396	817,366
Total remuneration					
FY 2014	1,675,000	71,100	1,806,250	4,225,971	7,778,321
FY 2013	1,182,500	52,155	852,500	143,396	2,230,551

(1) Amounts relate to the mandatory superannuation guarantee charge.

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

(3) See the Long-Term Incentive Plan section for further details. Philip Howard and Elizabeth Norman were the only Directors to exercise options and sell shares during the year. The amounts shown represents share proceeds received for the disposal of shares.

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

(5) Elizabeth Norman's 2013 total remuneration has been disclosed as \$280,245 as this represents what she was paid from the date of appointment on 8 May 2013 to 30 June 2013.

DIRECTORS' REPORT

Continued

Details of Remuneration of Executive Directors Presented in Accordance with Accounting Standards

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

NAME	CASH SALARY \$	OTHER ⁽¹⁾ \$	SUPER- ANNUATION BENEFITS \$	SHORT-TERM INCENTIVES ⁽²⁾ \$	LONG-TERM INCENTIVES ⁽³⁾ \$	TOTAL \$
Kerr Neilson						
FY 2014 ⁽⁴⁾	450,000	6,628	17,775	—	—	474,403
FY 2013 ⁽⁴⁾	400,000	23,062	16,470	—	—	439,532
Andrew Clifford						
FY 2014	425,000	8,099	17,775	856,250	748,400	2,055,524
FY 2013						
(appointed 8 May 2013) ⁽⁵⁾	350,000	19,884	16,470	350,000	1,049,976	1,786,330
Elizabeth Norman						
FY 2014	400,000	1,232	17,775	650,000	—	1,069,007
FY 2013						
(appointed 8 May 2013) ⁽⁵⁾	32,500	29,447	2,745	245,000	292,547	602,239
Philip Howard						
FY 2014	400,000	350	17,775	300,000	—	718,125
FY 2013	400,000	52,833	16,470	257,500	234,038	960,841
Total remuneration						
FY 2014	1,675,000	16,309	71,100	1,806,250	748,400	4,317,059
FY 2013	1,182,500	125,226	52,155	852,500	1,576,561	3,788,942

(1) Represents the increase/(decrease) in the accounting provision for annual and long service leave. These amounts were not received by the Executive Directors and represent provisions made in the consolidated entity's Balance Sheet.

(2) See the Short-Term Incentive Plan section for further details. The figures contained in the table represent cash bonuses.

(3) See the Long-Term Incentive Plan section for further details. There was no share-based payments expense attributable to options in 2014 because all options vested in 2013. No options were granted to any of the Directors during the year, or since year-end. The amount disclosed for Andrew Clifford represents amounts received under the Profit Share Plan, as reward for his contribution to the consolidated entity's long-term development.

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

(5) Elizabeth Norman's 2013 total remuneration under accounting standards has been disclosed as \$602,239. This represents the exercise of options in May 2013 (3) and what she was paid from the date of appointment on 8 May 2013 to 30 June 2013. Andrew Clifford's remuneration has been disclosed for the full 2013 financial year, because Andrew Clifford was a KMP for the full financial year.

Components of Remuneration

The table below illustrates the relative proportions of fixed and variable remuneration as a percentage of total remuneration extrapolated from the "Details of Remuneration of Executive Directors Presented in Accordance with Accounting Standards" table. For the prior year, we have included as part of "variable remuneration", the accounting cost relating to share-based payments as per the requirements prescribed in the Corporations Law Regulations.

NAME	FIXED REMUNERATION ⁽¹⁾	VARIABLE REMUNERATION ⁽²⁾
Kerr Neilson		
FY 2014	100%	0%
FY 2013	100%	0%
Andrew Clifford		
FY 2014	22%	78%
FY 2013	22%	78%
Elizabeth Norman		
FY 2014	39%	61%
FY 2013	11%	89%
Philip Howard		
FY 2014	58%	42%
FY 2013	49%	51%

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

(2) Variable remuneration refers to short- and long-term incentive bonuses and any accounting fair value expense relating to share-based payments.

DIRECTORS' REPORT

Continued

Options and Performance Rights Plan (OPRP)

The table below provides details of options that were granted to the Directors in 2009 and details about any options that have vested or have been exercised.

NAME	GRANT DATE	NUMBER OF OPTIONS GRANTED	FAIR VALUE PER OPTION (ROUNDED) (\$)	FAIR VALUE AT GRANT DATE ⁽¹⁾ (\$)	VESTING DATE	EXPIRY DATE	NUMBER OF OPTIONS VESTED AND UNEXERCISED	NUMBER OF OPTIONS EXERCISED	ACCOUNTING EXPENSE ⁽¹⁾ (\$)
Kerr Neilson	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Andrew Clifford	17/6/09	3,844,350	1.14	4,367,181	17/6/2013	17/6/2015	3,844,350	–	–
Elizabeth Norman	17/6/09	1,071,123	1.14	1,216,796	17/6/2013	17/6/2015	991,123	80,000	–
Philip Howard	17/6/09	856,898	1.14	973,436	17/6/2013	17/6/2015	465,798	391,100	–
Vested and exercised								471,100	
Vested and unexercised							5,301,271		
Outstanding (unvested)								–	

(1) Independently determined using an appropriate option pricing model, in accordance with AASB 2: *Share-Based Payments*.

For further details, refer to accounting policy Note 1(m). There was no accounting expense in 2014, as all options vested in 2013.

No options or Fund Appreciation Rights were granted to any of the Directors during the year, or since balance date.

Non-Executive Director Remuneration

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

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

The Executive Directors determined the remuneration of the Non-Executive Directors within the maximum approved shareholder limit. The Non-Executive Directors were not entitled to any other remuneration and this was ratified by the Nomination & Remuneration Committee.

Principles, Policy and Components of Non-Executive Directors' Remuneration

Remuneration paid to the Non-Executive Directors is designed to ensure that the Company can attract and retain suitably-qualified and experienced directors. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Non-Executive Directors received a fixed fee and mandatory superannuation payments that are made in accordance with legislative requirements. Non-Executive Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans. The Executive Directors examine the base pay of the Non-Executive Directors annually and may utilise the services of an external adviser.

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

Remuneration of Non-Executive Directors

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

NAME	CASH SALARY \$	SUPER- ANNUATION \$	SHORT-TERM INCENTIVES \$	LONG-TERM INCENTIVES \$	TOTAL
Michael Cole					
FY 2014	200,000	17,775	—	—	217,775
FY 2013	200,000	16,470	—	—	216,470
Margaret Towers					
FY 2014	175,000	16,188	—	—	191,188
FY 2013	175,000	15,750	—	—	190,750
Bruce Coleman					
FY 2014	175,000	16,188	—	—	191,188
FY 2013	175,000	15,750	—	—	190,750
Total Non-Executive remuneration					
FY 2014	550,000	50,151	—	—	600,151
FY 2013	550,000	47,970	—	—	597,970

The small increase in remuneration is attributable to the increase in the mandatory superannuation guarantee rate from 9% to 9.25%.

DIRECTORS' REPORT

Continued

The key aspects of the KMP contracts are outlined below:

- Remuneration and other terms of employment for Non-Executive Directors are formalised in service agreements. Remuneration and other terms of employment for Directors are formalised in employment contracts with Platinum Investment Management Limited.
- All contracts (both Executive and Non-Executive) include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.
- Each contract is for an unlimited duration. The tenure of all Directors is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.
- In the event of termination, all KMP are entitled to receive their statutory leave entitlements and superannuation benefits. In relation to incentive plans, upon termination, where an Executive resigns, short-term incentives are only paid if the Executive is employed at the date of payment. The Board retains discretion to make pro-rata short-term incentive payments in special circumstances, such as retirement.

Link between Performance and Remuneration Paid the Consolidated Entity

	2014	2013	2012	2011	2010
Revenue (\$'000)	319,796	232,152	226,727	264,619	248,355
Expenses (\$'000)	58,751	48,983	47,279	50,863	49,963
Operating profit after tax (\$'000)	189,867	129,112	126,378	150,059	136,852
Basic earnings per share (cents per share)	32.79	22.92	22.51	26.73	24.39
Dividends (cents per share)	34	22	21	25	22
Closing share price (\$) (30 June)	6.30	5.47	3.89	4.12	4.68
Total aggregate fixed remuneration paid \$(⁽¹⁾)	2,346,251	1,832,625	1,794,650	1,845,820	1,736,766
Total aggregate variable remuneration paid \$(⁽²⁾)	2,554,650	852,500	414,000	434,500	630,000

(1) Aggregate fixed remuneration refers to the aggregate total of salaries and superannuation paid to all Executive and Non-Executive Directors. Included in the aggregate fixed remuneration paid for 2010 and 2011 is remuneration paid to Malcolm Halstead, who retired as a Director in March 2011. Elizabeth Norman joined the Board on 8 May 2013 and the fixed remuneration paid for 2014 includes her full 12 months of remuneration paid.

(2) Total aggregate variable remuneration paid represents short-term and long-term incentive bonuses.

Interests of Non-Executive and Executive Directors in Shares

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

	2013 QUANTITY	ACQUISITIONS	DISPOSALS	2014 QUANTITY
Michael Cole	300,000	–	(100,000)	200,000
Bruce Coleman	200,000	–	(100,000)	100,000
Margaret Towers	20,000	–	–	20,000
Kerr Neilson	322,074,841	–	–	322,074,841
Andrew Clifford	32,831,449	–	–	32,831,449
Elizabeth Norman	766,748	80,000	(80,000)	766,748
Philip Howard	104,281	391,100	(391,100)	104,281

Use of Remuneration Consultants

In October 2013, PricewaterhouseCoopers (PwC) was engaged by the Nomination & Remuneration Committee to provide an overview of equity instruments. This included a review of the Fund Appreciation Rights Plan (FARP) and to review the accounting and tax treatment associated with the Plan. Under the terms of the engagement, PwC provided remuneration recommendations and was paid \$15,500 for these services.

PwC has confirmed that these recommendations were made free from undue influence by members of the Group's Key Management Personnel. PwC was engaged by, and reported directly to, the Chair of the Nomination & Remuneration Committee. In addition to providing remuneration services, PwC provided various audit, assurance and tax services. Details of these services are disclosed on page 17 of the Directors' Report and in Note 19 of the financial statements.

Directors' Interests in Contracts

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

Directors' Insurance

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

DIRECTORS' REPORT

Continued

Environmental Regulation

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

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



Michael Cole

Chairman



Kerr Neilson

Director

Sydney, 21 August 2014

AUDITOR'S INDEPENDENCE DECLARATION



As lead Auditor for the audit of Platinum Asset Management Limited and its controlled entities for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Platinum Asset Management Limited and its controlled entities during the period.

A handwritten signature in black ink, appearing to read 'S J Smith'.

S J Smith

Partner

PricewaterhouseCoopers

21 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757

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CORPORATE GOVERNANCE STATEMENT

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

The Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations – 2nd edition* ("Governance Principles"), except where indicated.

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

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

1. The Board of Directors

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

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

1.1 Role of the Board

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

1.2 Responsibilities of the Board

The principal responsibilities of the Board include:

- considering and approving the strategy of the Company;
- monitoring the performance and financial position of the Company;
- overseeing the integrity of the Group's financial accounts and reporting;
- monitoring for significant risks to the Company;
- appointing and reviewing the performance of the Managing Director;
- appointing the Chair, Board and Committee members;
- appointing/removing the Company Secretary;
- developing/actioning Board succession plans;
- assessing the performance of Management and itself;

- reviewing the operations and findings of the Company's risk management, compliance and control frameworks;
- monitoring the Company's compliance with regulatory, legal and ethical standards;
- considering the diversity in the workplace; and
- considering and approving key policies of the Company (including the Business Rules of Conduct).

1.3 Structure of the Board

The Board currently comprises seven Directors: three Non-Executive Directors (M Cole, B Coleman and M Towers) and four Executive Directors (K Neilson, A Clifford, E Norman and P Howard).

Details on the background, experience and professional skills of each Director are set out in the Directors' Report on pages 18 and 19.

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

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

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

Questions and resolutions arising at a Board meeting shall be decided by a majority of votes of Executive and Non-Executive Directors present and voting. Further, should all Executive Directors vote in agreement with each other (exercising their majority on the Board), that resolution will only be carried with the support of the majority of Non-Executive Directors. Any such decision shall be taken to be a decision of all Directors.

1.4 Director Independence

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

The Board regularly assesses the independence of each Director. For this purpose, an Independent Director is a Non-Executive Director that the Board considers to be independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of unfettered and independent judgement.

CORPORATE GOVERNANCE STATEMENT

Continued

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

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

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

In assessing whether Directors are independent, the Board takes into account (in addition to the matters set out above):

- the specific disclosures made by each Director as referred to above;
- where applicable, the related party dealings referable to each Director, noting whether those dealings are 'material';
- whether a Director is (or is associated directly with) a substantial shareholder of the Company;
- whether the Director has ever been employed by the Group;
- whether the Director is (or is associated with) a 'material' professional adviser, consultant, supplier, or customer of the Group; and
- whether the Director personally carries on any role for the Group other than as a Director of the Company.

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

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

Materiality

The Board determines 'materiality' on both a quantitative and qualitative basis. An item that either affects the Company's net assets by approximately 5% or affects the Company's distributable income in a forecast period by more than approximately 5% of the Company's net profit before tax is likely to be material. However, these quantitative measures must be supplemented with a qualitative examination. The facts (at the time) and the context in which the item arises will influence the determination of materiality.

1.5 Access to Information and Independent Advice

All Directors have unrestricted access to records and information of the Group.

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

The Board of Directors' Charter provides that the Directors may (in connection with their duties and responsibilities) seek independent professional advice at the Company's expense, after first notifying the Board. The Board will review the estimated costs for reasonableness, but will not impede the seeking of advice.

1.6 Performance Assessment

The Board of Directors' Charter requires:

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

These assessments were undertaken.

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

2. Board Committees

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

Each Committee operates under an approved Charter.

CORPORATE GOVERNANCE STATEMENT

Continued

2.1 Audit, Risk & Compliance Committee

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

The purpose of the Committee is to assist the Board in fulfilling its responsibilities. Its key responsibilities are:

- serving as an independent and objective party to review the accounting practices and financial information of the Company reported by Management to shareholders and regulators;
- ensuring a risk management framework is in place that identifies, evaluates, monitors and reports significant operational risks to the Company;
- considering the adequacy and effectiveness of the Company's administrative, operating and accounting controls as a means of ensuring that the Company's affairs are being conducted by Management in compliance with legal, regulatory and policy requirements;
- overseeing and assessing the quality of audits conducted by the external Auditor and internal Auditor;
- reviewing the Company's corporate standards of behaviour; and
- maintaining (by scheduling regular meetings) open lines of communication among the Board, the external Auditor and the Internal Auditor to exchange views and information, as well as confirm their respective authority and responsibilities.

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

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

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

Attendance at Committee meetings is provided in the Directors' Report on page 20.

2.2 Nomination & Remuneration Committee

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

The role of the Committee is to make recommendations to the Board on:

- the appointment and re-election of Directors;
- the development of a process for the evaluation of the performance of the Board, its committees and Directors; and
- remuneration and incentive policies and practices generally, and specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Ultimate responsibility for nomination and remuneration practices rests with the full Board.

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

Attendance at the Nomination & Remuneration Committee meetings is provided in the Directors' Report on page 20.

Evaluation, Selection and Appointment of Directors

When making recommendations to the Board on the evaluation, selection, appointment and re-election of Directors, the Nomination & Remuneration Committee considers amongst other things:

- the candidate's competencies, qualifications and expertise and his/her fit with the current membership of the Board;
- the candidate's knowledge of the industry in which the Company operates;
- directorships previously held by the candidate and his/her current commitments to other boards and companies;
- existing and previous relationships with the Company and Directors;
- the candidate's independence status; and
- requirements of the *Corporations Act 2001*, ASX Listing Rules, the Company's Constitution and other relevant Board Policies.

CORPORATE GOVERNANCE STATEMENT

Continued

The Board seeks to ensure that:

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

Under the terms of the Company's Constitution:

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

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

Remuneration Policies

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

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

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

Further information is provided in the Remuneration Report.

Remuneration Paid

Remuneration paid to the Executive and Non-Executive Directors for the 2013/2014 reporting year is set out on pages 20 to 31 of the Directors' Report.

3. Company Auditor

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

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

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

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

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

4. Company Policies

4.1 Directors' Code of Conduct

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

4.2 Trading in Company Securities

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

- when aware of unpublished price-sensitive information;
- from the first day of the month until announcement of the Company's monthly funds under management figure to the ASX;
- from 1 January (each year) until the next business day following the Analyst Briefing. The Analyst Briefing typically occurs on the next business day following the announcement of the half-yearly financial results of the Company to the ASX (*usually around mid-February each year*);
- from 1 July (each year) until the next business day following the Analyst Briefing. The Analyst Briefing typically occurs on the next business day following the announcement of the annual financial results of the Company to the ASX (*usually around mid-August each year*); and
- during any other black-out period (as notified).

Directors and staff who receive equity-based remuneration are prohibited from entering into hedging transactions in products that limit the economic risk (i.e. the equity price risk) of participating in unvested entitlements.

CORPORATE GOVERNANCE STATEMENT

Continued

4.3 Financial Reporting

In respect of the year ended 30 June 2014, the Managing Director and Finance Director have made the following certifications to the Board:

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

4.4 Continuous Disclosure

The Board is committed to:

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

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

4.5 Shareholder Communication

The Board has adopted a Communications Plan that describes the Board's policy for ensuring that shareholders and potential investors of the Company receive or obtain access to information publicly released by the Company. The Company's primary portals are its website, Annual Report, Annual General Meeting, Half-Yearly Financial Report and monthly notices to the ASX.

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

4.6 Risk Management and Compliance

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

- there are effective systems in place to identify, assess, monitor and manage the risks of the Company; and
- internal controls and arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

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

- emphasis is placed on maintaining a strong control environment;
- accountability and delegations of authority are clearly identified;
- risk profiles are in place and regularly reviewed and updated;
- timely and accurate reporting is provided to Management and respective committees; and
- compliance with the laws (applicable to the Company) and the Group's policies (including business rules of conduct) is communicated and demonstrated.

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

4.7 Business Rules of Conduct

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

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

CORPORATE GOVERNANCE STATEMENT

Continued

4.8 Diversity

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

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

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

The Board has developed the following objectives:

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

4.9 Diversity Statistics

DIVERSITY CRITERIA	PLATINUM (%)	AUSTRALIA (%)
Women on the Board	28.6 (2 of 7)	18.1 ⁽¹⁾
Women in senior executive positions	25 (1 of 4)	9.7 ⁽²⁾
Women in the workforce	30.9 (25 of 81)	45.9 ⁽³⁾
Women in line roles	18.8 (3 of 16)	6.0 ⁽⁴⁾
Women employed on a part-time basis	52.0 (13 of 25)	46.4 ⁽⁵⁾
Workforce over 55 years of age	8.6 (7 of 81)	17.4 ⁽⁶⁾
Workforce made up of people born outside of Australia	43.2 (35 of 81)	29.4 ⁽⁷⁾
Workforce made up of people with tertiary qualifications	81.5 (66 of 81)	27.9 ⁽⁸⁾
Workforce made up of people identified as Aboriginal or Torres Strait Islander people	0.0 (0 of 81)	1.6 ⁽⁹⁾

(1) Australian Institute of Company Directors, 30 April 2014

(2) Equal Opportunity for Women in the Workplace Agency ("EOWA"), Australian Census of Women in Leadership 2012, Women Executive Key Management Personnel

(3) Workplace Gender Equality Agency ("WGEA"), Gender workplace statistics at a glance, February 2014

(4) EOWA, Australian Census of Women in Leadership 2012

(5) WGEA, Gender workplace statistics at a glance, February 2014

(6) Australian Bureau of Statistics ("ABS"), Cat. 6291.0.55.001, Labour Force, Australia, March 2014

(7) ABS, Cat. 6291.0.55.001, Labour Force, Australia, March 2014

(8) ABS, Cat. 6227.0, Education and Work, Australia, May 2013

(9) ABS, Cat. 4704.0, The Health & Welfare of Australia's Aboriginal and Torres Strait Islander Peoples 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

	NOTE	2014 \$'000	2013 \$'000
Revenue			
Management fees		271,834	205,491
Performance fees		27,435	4,994
Administration fees	23(c)	13,309	10,492
Total revenue		312,578	220,977
Other income (including investment gains and losses)			
Interest		9,480	9,594
Dividends		676	–
Net (losses) on financial assets at fair value through profit or loss		(3,300)	(775)
Net gains/(losses) on foreign currency contracts		15	(29)
Net gains on foreign currency bank accounts		343	2,352
Distributions		4	33
Total other income		7,218	11,175
Total revenue and other income		319,796	232,152
Expenses			
Staff		31,096	23,849
Custody, administration, trustee and unit registry		13,781	10,691
Business development		4,035	2,962
Research		1,908	1,268
Rent and other occupancy		1,731	1,632
Technology		1,567	1,534
Legal and compliance		1,016	623
Depreciation		676	635
Miscellaneous		618	478
Other professional		573	651
Share-based payments	8	455	3,503
Mail house and periodic reporting		427	361
Share registry		401	407
Statutory audit fee	19	330	283
Withholding tax on foreign dividends		85	–
Good value claims		52	106
Total expenses		58,751	48,983
Profit before income tax expense		261,045	183,169
Income tax expense	3(a)	71,178	54,057
Profit after income tax expense		189,867	129,112
Other comprehensive income			
Other comprehensive income for the period	9(b)	(5,405)	–
Total comprehensive income for the year		184,462	129,112
Total comprehensive income for the year attributable to:			
Controlling interests		184,462	129,112
Non-controlling interests		–	–
		184,462	129,112
Basic earnings per share (cents per share)	10	32.79	22.92
Diluted earnings per share (cents per share)	10	32.44	22.58

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

CONSOLIDATED BALANCE SHEET

As at 30 June 2014

	NOTE	2014 \$'000	2013 \$'000
Current assets			
Cash and cash equivalents	14(a)	24,854	24,052
Financial assets at fair value through profit or loss	2	69,746	2,144
Term deposits		273,813	308,313
Receivables	5	33,445	28,693
Total current assets		401,858	363,202
Non-current assets			
Net deferred tax assets	3(b)	1,484	94
Fixed assets	4	2,784	2,727
Total non-current assets		4,268	2,821
Total assets		406,126	366,023
Current liabilities			
Payables	6	9,363	5,099
Financial liabilities at fair value through profit or loss	2	911	–
Current tax payable		17,977	14,429
Provisions	7	2,619	2,421
Total current liabilities		30,870	21,949
Total liabilities		30,870	21,949
Net assets		375,256	344,074
Equity			
Contributed equity	9(a)	722,812	712,955
Reserves	9(b)	(593,549)	(562,146)
		129,263	150,809
Retained profits	11	245,993	193,265
Total equity		375,256	344,074

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	NOTE	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	RETAINED PROFITS \$'000	TOTAL \$'000
Balance at 30 June 2012		629,091	(564,628)	182,036	246,499
Profit after income tax expense		—	—	129,112	129,112
Transactions with equity holders in their capacity as equity owners:					
Exercise of options	9(a)	83,864	—	—	83,864
Share-based payments reserve	9(b)	—	2,482	—	2,482
Dividends paid	12	—	—	(117,883)	(117,883)
Balance at 30 June 2013		712,955	(562,146)	193,265	344,074
Profit after income tax expense		—	—	189,867	189,867
Transactions with equity holders in their capacity as equity owners:					
Exercise of options	9(a)	9,857	—	—	9,857
Share-based payments reserve	9(b)	—	(1,035)	—	(1,035)
Transfer from share-based payments reserve	9(b), 11	—	(24,963)	24,963	—
Foreign currency translation reserve	9(b)	—	(5,405)	—	(5,405)
Dividends paid	12	—	—	(162,102)	(162,102)
Balance at 30 June 2014		722,812	(593,549)	245,993	375,256

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	NOTE	2014 \$'000	2013 \$'000
Cash flow from operating activities			
Receipts from operating activities		306,947	214,659
Payments for operating activities		(54,372)	(45,617)
Income taxes paid		(69,023)	(50,241)
Cash flow from operating activities	14(b)	183,552	118,801
Cash flow from investing activities			
Interest received		10,360	9,715
Proceeds on maturity of term deposits		765,125	448,725
Purchases of term deposits		(730,625)	(531,325)
Receipts from sale of financial assets		158,952	1,260
Payments for purchases of financial assets		(230,591)	(2,095)
Purchase of fixed assets		(742)	(1,070)
Dividends received		467	–
Distributions received		2	34
Cash flow from investing activities		(27,052)	(74,756)
Cash flow from financing activities			
Dividends paid		(162,050)	(117,859)
Receipts from the issue of shares	9(a)	9,857	83,864
Cash flow from financing activities		(152,193)	(33,995)
Net increase/(decrease) in cash and cash equivalents		4,307	10,050
Cash and cash equivalents held at the beginning of the financial year		24,052	11,879
Effects of exchange rate changes on cash and cash equivalents		(3,505)	2,123
Cash and cash equivalents held at the end of the financial year	14(a)	24,854	24,052

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated. Comparative information has been reclassified where appropriate to enhance comparability and has been consistently applied to all periods presented, unless otherwise stated.

The financial report comprises the financial statements of Platinum Asset Management Limited as a consolidated entity, which consists of Platinum Asset Management Limited and its subsidiaries. The *Corporations Amendment (Corporate Reporting Reform) Act 2010* provides entities that present consolidated financial statements with the option of not having to present separate parent entity financial statements (and instead present key financial disclosures relating to the parent entity in a separate note to the accounts).

The parent entity financial disclosures have been prepared based on the same accounting policies used to prepare the consolidated financial report, with the exception of investments in subsidiaries. The financial report was authorised for issue by the Directors of the Company on 21 August 2014. The Directors have the power to amend the financial statements after issue.

(a) Basis of Preparation of Financial Statements

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

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

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Critical accounting estimates

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the consolidated entity's accounting policies, which are included on the following pages.

1. Summary of Significant Accounting Policies *Continued*

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by Platinum Asset Management Limited (the "Company") and the results of all controlled entities for the year ended 30 June 2014. Platinum Asset Management Limited and its subsidiaries together are referred to in this financial report as "the consolidated entity".

The consolidated entity has applied AASB 10: *Consolidated Financial Statements* from 1 July 2013. This is a new standard and is mandatory for reporting periods beginning on or after 1 January 2013.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127: *Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.

AASB 10 introduces a single definition of control that applies to all entities. It focuses on the need to have power, rights or exposure to variable returns and the ability for the consolidated entity to use its power to affect those returns before control is present. Power is the current ability to direct activities that significantly influence returns.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

1. Summary of Significant Accounting Policies *Continued*

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

The consolidated entity has applied AASB 13: *Fair Value Measurement* from 1 July 2013. This is a new standard and is mandatory for reporting periods beginning on or after 1 January 2013. The standard is to be applied prospectively and hence the disclosure requirements do not need to be applied to comparative information for periods before initial application.

AASB 13 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. The new standard increases transparency about fair value measurements, including the valuations techniques and inputs used to measure fair value.

For the consolidated entity, the key change is the removal of the requirement to use bid and ask prices for actively-quoted financial assets and liabilities respectively. Instead, the most representative price within the bid-ask spread should be used. With respect to the consolidated entity, the last-sale or “last” price is the most representative price within the bid-ask spread, because it represents the last price at which an investment last changed hands from buyer to seller. The consolidated entity has decided to apply last-sale pricing as the fair value measurement basis for financial assets held from 1 July 2013.

AASB 13 also requires reporting entities to disclose its valuation techniques and inputs. This is described below.

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets uses quoted market prices at reporting date without any deduction for estimated future selling costs. Financial assets are valued using “last-sale” pricing. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the consolidated Statement of Comprehensive Income in the period they arise.

Fair value in an inactive market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm’s length market transactions, discounted cash flow techniques or any other valuation techniques that provides a reliable estimate of prices obtained in actual market transactions.

Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the consolidated Balance Sheet as “financial assets at fair value through profit or loss”.

1. Summary of Significant Accounting Policies *Continued*

(c) Financial Assets/Liabilities at Fair Value through Profit or Loss *Continued*

Fair value in an inactive market *Continued*

In accordance with Australian Accounting Standards, derivative financial instruments are categorised as “financial assets/liabilities held for trading” and are accounted for at fair value with changes to such values recognised through the consolidated Statement of Comprehensive Income in the period in which they arise. Short futures are valued based on quoted last prices. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the consolidated Statement of Comprehensive Income in the period they arise. An assessment is made at the end of each reporting period as to whether there is objective evidence that an investment is impaired.

(d) Income Tax

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

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

Tax Consolidation Legislation

In accordance with the (Australian) *Income Tax Assessment Act 1997*, Platinum Asset Management Limited is the head entity of the tax consolidated group that includes all of its 100 per cent wholly-owned subsidiaries.

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

1. Summary of Significant Accounting Policies *Continued*

(e) Transaction Costs

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

(f) Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

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

Other offshore companies within the consolidated group

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

- assets and liabilities for the consolidated Balance Sheet presented are translated at the closing rate at the date of the consolidated Balance Sheet;
- income and expenses for the consolidated Statement of Comprehensive Income are translated at the date of transaction, or in certain instances, for practical purposes, a rate that approximates the rate at transaction date is used (for example, an average rate); and
- any exchange rate differences are recognised in other comprehensive income and accumulated as a separate reserve in equity.

1. Summary of Significant Accounting Policies *Continued*

(g) Revenue Recognition

Management, Administration and Performance Fees

Management, administration and performance fees are included as part of operating income and are recognised as they are earned. The majority of management fees are derived from the Platinum Trust Funds. This fee is calculated at 1.44% per annum (GST inclusive) of each Fund's daily Net Asset Value and is payable monthly. A performance fee is recognised as income at the end of the fee period to which it relates, when the Group's entitlement to the fee becomes certain. Refer to Note 20(a) for further information.

Interest Income

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

Trust Distributions

Trust distributions are recognised when the consolidated entity becomes entitled to the income.

Dividend Income

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

(h) Directors' Entitlements

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

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

(i) Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

1. Summary of Significant Accounting Policies *Continued*

(i) Cash and Cash Equivalents *Continued*

At 30 June 2014, nearly all of the Group's term deposits have maturities of more than three months from the date of acquisition, with the majority of term deposits having a maturity of six months from the date of acquisition. Under AASB 107, deposits that have maturities of more than three months from the date of acquisition are not included as part of "cash and cash equivalents" and have been disclosed separately in the consolidated Balance Sheet. All term deposits are held with licensed Australian banks.

Margin accounts comprise cash held as collateral for derivative transactions.

Payments and receipts relating to the purchase and sale of assets are classified as "cash flow from operating activities".

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

During the year, the consolidated entity received proceeds from the issue of new shares in the Company. The issue of shares was a result of employees exercising options pursuant to the Options and Performance Rights Plan (OPRP). This is classified as "cash flow from financing activities".

(j) Receivables

All receivables are recognised when a right to receive payment is established. Trade receivables are predominantly comprised of management and performance fees earned, but not received, at balance date. Any debts that are known to be uncollectible are written off.

(k) Payables

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

(l) Provision for Employee Entitlements

The consolidated entity has applied Revised AASB 119: *Employee Benefits*, AASB 2011-10: *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11: *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* from 1 July 2013.

1. Summary of Significant Accounting Policies *Continued*

(l) Provision for Employee Entitlements *Continued*

The revised AASB 119 changes the definition of short-term employee benefits. Short-term employee benefits are defined under the new standard as those benefits that are expected to be wholly settled before 12 months after the end of the annual reporting period in which the employees render the relevant service.

Management makes an assessment at each reporting date of the portion of the annual leave provision (if any) that needs to be classified as long-term, if it is not required or expected that the annual leave will be wholly settled before 12 months after the end of the annual reporting period in which the employees render the relevant service.

Any annual leave classified as long-term needs to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

Provision for employee entitlements to salaries, salary-related costs, annual leave and sick leave are accrued at nominal amounts calculated on the basis of current salary rates. Provision for long service leave that are not to be paid or settled within 12 months of balance date, are accrued at the present values of future payments. Contributions to employee superannuation plans are charged as an expense as the contributions are paid or become payable.

(m) Share-Based Payments

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

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

Details relating to share-based payments are set out in Note 8.

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

1. Summary of Significant Accounting Policies *Continued*

(m) Share-Based Payments *Continued*

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

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

For any shares to be purchased under the FARP on behalf of employees, the fair value is measured based on the notional investment in the Platinum Trust Funds. The fair value is subsequently amortised on a straight-line basis over the applicable vesting period with a corresponding entry to reserves. The amount to be expensed is adjusted at each balance date to reflect the estimated number of shares that are expected to vest based on the accumulated investment performance of the underlying Platinum Trust Funds. Once shares are purchased on behalf of employees, the reserves entry is no longer required.

At each balance date, the Group revises its estimates of the number of options (and performance rights) exercisable and Fund Appreciation Rights. The share-based payments expense recognised each period takes into account the most recent estimate. The impact of any revision to the original estimate (e.g. forfeitures) will be recognised in the consolidated Statement of Comprehensive Income with the corresponding entry to the reserves account. At 30 June 2014, there were no further increases to the reserves account. As there were no further increases in share-based payments reserves, all amounts that have been posted to share-based payments reserves have been reallocated to retained profits.

(n) Contributed Equity

Ordinary shares are classified as equity.

(o) Earnings per Share

(i) Basic earnings per share

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

1. Summary of Significant Accounting Policies *Continued*

(o) Earnings per Share *Continued*

(ii) Diluted earnings per share

Diluted earnings per share adjusts the weighted average number of shares used to determine basic earnings per share to take into account options that are "in the money", but not exercised (see Note 10).

(p) Depreciation

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

The expected useful lives are as follows:

Computer Equipment	4 years
Software	2.5 years
In-house Software and Applications	4 years
Communications Equipment	4 – 20 years
Office Fitout	5 – 13½ years
Office Furniture and Equipment	5 – 13½ years

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

(q) Operating Leases

Platinum Investment Management Limited has entered into a lease agreement for the premises it occupies and pays rent on a monthly basis. Payments made under the operating lease are charged to the consolidated Statement of Comprehensive Income. Details of the financial commitments relating to the lease are included in Note 18.

(r) Rounding of Amounts

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

(s) Goods and Services Tax (GST)

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

Cash flows are presented on a gross basis.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

1. Summary of Significant Accounting Policies *Continued*

(t) Offsetting a Financial Asset and a Financial Liability

Financial assets and liabilities are offset and the net amount reported in the consolidated Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Increased disclosures apply to offset financial assets and liabilities for financial years ending 30 June 2014 or after. Please refer to Note 20(e) for further information.

(u) Segment Reporting

Operating segments have been reported in a manner consistent with internal management reporting provided to the Chief Operating Decision-Maker ("CODM").

(v) Disclosure of Interest in Other Entities

The consolidated entity has applied AASB 12: *Disclosure of Interests in Other Entities*.

AASB 12 requires disclosure about the nature of, and risks associated with, the consolidated entity's interest in other entities. An interest in another entity refers to involvement that exposes the entity to variability of returns from the performance of another entity and includes the means by which an entity has control, and can include the purchase of units or shares in another entity. The consolidated entity will apply the new standard to its immaterial interest in the Platinum Trust Funds and any of its operational offshore subsidiaries. There is transitional relief available, such that comparative information in the year of adoption is not required. Refer to Note 24 for further information.

(w) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period. The Company's and consolidated entity's assessment of the impact of the one new standard of relevance is summarised below and on the following page:

- (i) Revised AASB 9: *Financial Instruments (addressing accounting for financial liabilities and the derecognition of financial assets and financial liabilities)*, AASB 2010-7: *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6: *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective for annual reporting periods beginning on or after 1 January 2017).

1. Summary of Significant Accounting Policies Continued

(w) New Accounting Standards and Interpretations Continued

The revised standard defers the operative date of AASB 9: *Financial Instruments* from 1 January 2013 to 1 January 2017. AASB 9 provides guidance on the classification and measurement of financial assets and this standard was assessed as not having a significant impact on the Company, or consolidated entity.

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

	2014 \$'000	2013 \$'000
2. Financial Assets at Fair Value through Profit or Loss		
Financial assets		
Equity securities	69,386	–
Derivatives	262	763
Unlisted unit trust investments	98	1,381
	69,746	2,144
Financial liabilities		
Derivatives	813	–
Forward currency contracts	98	–
	911	–
Total of financial assets less liabilities	68,835	2,144

At 30 June 2014, direct investments made by the offshore related party investment fund were \$69,648,000 of the financial assets and \$163,000 of the financial liabilities (2013: nil).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

	2014 \$'000	2013 \$'000
3. Income Tax		
(a) Income Tax Expense		
The income tax expense attributable to profit comprises:		
Current income tax provision	73,067	53,236
Deferred tax assets	(1,341)	287
Deferred tax liabilities	(49)	530
(Over)/under provision of prior period tax	(499)	4
Income tax expense	71,178	54,057
The aggregate amount of income tax attributable to the financial year differs from the prima facie amount payable on the profit.		
The difference is reconciled as follows:		
Profit before income tax expense	261,045	183,169
Prima facie income tax on profit at 30%	78,314	54,951
Tax effect on amounts that reduce tax payable:		
– Tax rate differential on offshore business income	(6,353)	(1,965)
– Non-assessable income	–	(9)
– Purchase of shares under the Fund Appreciation Rights Plan	(447)	–
Tax effect of amounts that are non-deductible		
Increase tax payable:		
– Share-based payments	138	1,051
– Other non-deductible expenses	25	25
(Over)/under provision of prior period tax	(499)	4
Income tax expense	71,178	54,057

	2014 \$'000	2013 \$'000
3. Income Tax <i>Continued</i>		
(b) Net Deferred Tax Assets		
The net deferred tax assets figure in the Balance Sheet is comprised of:		
(i) Deferred Tax Assets		
The balance comprises temporary differences attributable to:		
Capital expenditure not immediately deductible	46	124
Employee entitlements		
– Long service leave	483	429
– Annual leave	303	281
Staff costs	984	19
Unrealised foreign exchange losses on cash	53	–
Tax fees	84	82
Periodic reporting	41	35
Audit and accounting	121	87
Printing and mail house	53	25
Legal, compliance and regulatory	38	–
Unrealised losses on equities and derivatives	217	–
Deferred tax assets	2,423	1,082
(ii) Deferred Tax Liabilities		
The balance comprises temporary differences attributable to:		
Unrealised gains on equities and derivatives	903	290
Dividends receivable	36	–
Interest not assessable	–	229
Unrealised foreign exchange gains on cash	–	469
Deferred tax liabilities	939	988
Net Deferred Tax Assets	1,484	94

Given the nature of the items disclosed as deferred tax balances, it is estimated that most of the non-investment related deferred tax balances will be recovered or settled within 12 months and are estimated to be \$2,159,000 (2013: \$958,000).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

	2014 \$'000	2013 \$'000
4. Fixed Assets		
Computer equipment (at cost)	1,046	1,229
Less: Accumulated depreciation	(811)	(826)
	235	403
Purchased and capitalised software and applications (at cost)	3,711	3,115
Less: Accumulated depreciation	(2,665)	(2,345)
	1,046	770
Communications equipment (at cost)	140	117
Less: Accumulated depreciation	(64)	(91)
	76	26
Office premises fit out (at cost)	1,722	1,721
Less: Accumulated depreciation	(484)	(434)
	1,238	1,287
Office furniture and equipment (at cost)	565	564
Less: Accumulated depreciation	(376)	(323)
	189	241
	2,784	2,727

	COMPUTER EQUIPMENT 2014 \$'000	COMPUTER EQUIPMENT 2013 \$'000	PURCHASED AND CAPITALISED SOFTWARE AND APPLICATIONS 2014 \$'000	PURCHASED AND CAPITALISED SOFTWARE AND APPLICATIONS 2013 \$'000
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4. Fixed Assets *Continued*

Asset Movements during the year

Opening balance	403	299	770	459
Additions	41	374	619	584
Disposals	–	(15)	(1)	(4)
Depreciation expense	(209)	(255)	(342)	(269)
Closing balance	235	403	1,046	770

	COMMUNI- CATIONS EQUIPMENT 2014 \$'000	COMMUNI- CATIONS EQUIPMENT 2013 \$'000	OFFICE PREMISES FIT OUT 2014 \$'000	OFFICE PREMISES FIT OUT 2013 \$'000
Opening balance	26	32	1,287	1,343
Additions	77	11	–	3
Disposals	(8)	(1)	–	(2)
Depreciation expense	(19)	(16)	(49)	(57)
Closing balance	76	26	1,238	1,287

	OFFICE FURNITURE AND EQUIPMENT 2014 \$'000	OFFICE FURNITURE AND EQUIPMENT 2013 \$'000
Opening balance	241	185
Additions	5	98
Disposals	–	(4)
Depreciation expense	(57)	(38)
Closing balance	189	241

The closing balance of purchased and capitalised software and applications disclosed above includes amounts recognised in relation to software and applications in the course of construction and development of \$161,643 at 30 June 2014 (2013: \$66,692).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

	2014 \$'000	2013 \$'000
5. Receivables		
Trade debtors	30,445	24,815
Interest receivable	1,627	2,499
Prepayments	1,228	1,275
Dividends receivable	121	—
Proceeds on sale of financial assets	20	—
Sundry debtors	4	104
	33,445	28,693

Trade debtors include performance fees receivable of \$3,393,340 (2013: \$3,286,535). The balance of trade debtors is comprised of management fees and administration fees. Trade debtors are received between seven to 30 days after becoming receivable.

Interest receivable comprises accrued interest on term deposits and cash accounts. Interest on cash accounts is received within three days of becoming receivable and interest on term deposits is received on maturity. Dividends are usually received within approximately 30 days of the ex-dividend date.

6. Payables

Trade creditors	7,044	3,151
Goods and Services Tax (GST)	1,963	1,647
Unclaimed dividends payable to shareholders	356	301
	9,363	5,099

Trade creditors are unsecured and payable between seven and 30 days after the consolidated entity becomes liable. Information relating to the consolidated entity's exposure of payables to liquidity risk is shown in Note 20.

7. Provisions

Long service leave	1,609	1,428
Annual leave	1,010	937
Payroll tax provision on fund appreciation rights	—	56
	2,619	2,421

8. Share-Based Payments

(a) Options and Performance Rights Plan (OPRP)

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

Options, granted, vested and exercised

On 22 May 2007, certain highly-qualified employees were initially granted 27,010,467 options under the OPRP, to take up shares in Platinum Asset Management Limited at a strike price of \$5.00. 16,547,817 options (net of forfeitures) vested in May 2011 and had a further two-year exercise period. In May 2013, all vested options were exercised and 16,547,817 new shares were issued.

On 17 June 2009, certain highly-qualified employees were granted 8,783,205 options under the OPRP to take up shares in Platinum Asset Management Limited at a strike price of \$4.50. The options (net of forfeitures) vested on 17 June 2013 and had a further two-year exercise period. At 30 June 2014, 2,440,447 (2013: 250,000) options were exercised and 2,440,447 (2013: 250,000) new shares were issued.

Total proceeds received from the issue of new shares during the year were \$9,857,012 and this amount appears in the Consolidated Statement of Cash Flows as "Receipts from the issue of shares".

Options on issue are as follows:

	2014 QUANTITY	2013 QUANTITY
<i>Options Granted on 17 June 2009</i>		
Opening balance	8,533,205	8,783,205
Exercise of options for the year ended 30 June 2013	–	(250,000)
Exercise of options for the year ended 30 June 2014 (see Note 9(a))	(2,190,447)	–
Closing balance	6,342,758	8,533,205

At 30 June 2014, 6,342,758 options granted on 17 June 2009 have vested, but remain unexercised.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

8. Share-Based Payments *Continued*

(b) Fund Appreciation Rights Plan (FARP)

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

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

The total number of shares ultimately purchased by the Group is equivalent to the notional investment in the Platinum Trust Funds, notionally allocated to employees, adjusted for the accumulated performance of the Funds over the vesting period. This interest is "notional" only, meaning employees have no entitlement to units in the Platinum Trust Funds. Notional investment in the Platinum Trust Funds occurred on 1 April 2009, 1 April 2010 and 1 April 2011. No notional investments occurred in 2013 or 2014.

Fair Value of the Fund Appreciation Rights (FARs) Granted

The fair value of FARs granted on 1 April 2011 was \$1,050,000, amortised over a three-year vesting period. The notional value of these FARs on 31 March 2014 was \$1,490,300. On 7 April 2014, shares to the value of \$1,490,300 were purchased by the Group on behalf of the employees and allocated to these employees and deducted from reserves (see Note 9(b) for the impact on reserves).

	2014 \$'000	2013 \$'000
Expenses Arising from Share-Based Payment Transactions		
Total expenses arising from share-based payment transactions were as follows:		
Options granted on 17 June 2009 and vested on 17 June 2013	–	2,399
Fund appreciation rights granted on 1 April 2010 and vested on 31 March 2013	–	401
Fund appreciation rights granted on 1 April 2011 and vested on 31 March 2014	455	703
Total share-based payments expense	455	3,503
Associated payroll tax expense on fund appreciation rights*	25	5
Total	480	3,508

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

8. Share-Based Payments *Continued*

(b) Fund Appreciation Rights Plan (FARP) *Continued*

At 30 June 2014, all of the consolidated entity's share-based payments have vested. Hence, there are no amounts remaining to be expensed associated with any of the consolidated entity's share-based payments.

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

	2014 QUANTITY 000	2014 \$'000	2013 QUANTITY 000	2013 \$'000
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9. Contributed Equity and Reserves

(a) Share Capital

Ordinary shares – opening balance	578,146	712,955	561,348	629,091
Exercise of options – issue of shares on 14 May 2013	–	–	4,000	20,000
Exercise of options – issue of shares on 16 May 2013	–	–	4,000	20,000
Exercise of options – issue of shares on 21 May 2013	–	–	281	1,402
Exercise of options – issue of shares on 22 May 2013	–	–	8,267	41,337
Exercise of options – issue of shares on 24 June 2013	–	–	250	1,125
Exercise of options – issue of shares on 19 August 2013	70	315	–	–
Exercise of options – issue of shares on 16 September 2013	70	315	–	–
Exercise of options – issue of shares on 22 October 2013	170	765	–	–
Exercise of options – issue of shares on 28 October 2013	30	135	–	–
Exercise of options – issue of shares on 11 November 2013	170	765	–	–

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

	2014 QUANTITY 000	2014 \$'000	2013 QUANTITY 000	2013 \$'000
9. Contributed Equity and Reserves <i>Continued</i>				
(a) Share Capital <i>Continued</i>				
Exercise of options – issue of shares on 20 December 2013	30	135	–	–
Exercise of options – issue of shares on 24 February 2014	521	2,345	–	–
Exercise of options – issue of shares on 25 February 2014	59	266	–	–
Exercise of options – issue of shares on 26 February 2014	240	1,080	–	–
Exercise of options – issue of shares on 27 February 2014	453	2,039	–	–
Exercise of options – issue of shares on 28 March 2014	50	225	–	–
Exercise of options – issue of shares on 31 March 2014	80	360	–	–
Exercise of options – issue of shares on 8 April 2014	114	513	–	–
Exercise of options – issue of shares on 10 April 2014	80	360	–	–
Exercise of options – issue of shares on 12 May 2014	53	239	–	–
	2,190	9,857	16,798	83,864
Total contributed equity	580,336	722,812	578,146	712,955

At 30 June 2014, the total number of shares on issue is 580,336,142. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. All ordinary shares are issued and authorised.

	2014 \$'000	2013 \$'000
9. Contributed Equity and Reserves <i>Continued</i>		
(b) Reserves		
Capital Reserve (i)		
Balance at the beginning of financial year	(588,144)	(588,144)
Balance at the end of the financial year	(588,144)	(588,144)
Share-based payments reserve (ii)		
Balance at the beginning of financial year	25,998	23,516
Options granted on 17 June 2009 and vested on 17 June 2013	–	2,399
Fund appreciation rights granted on 1 April 2010 and vested on 31 March 2013	–	401
Elimination of reserves – shares allocated to employees based on fund appreciation rights that vested on 31 March 2013	–	(1,021)
Fund appreciation rights granted on 1 April 2011 and vested on 31 March 2014	455	703
Elimination of reserves – shares allocated to employees based on fund appreciation rights that vested on 31 March 2014	(1,490)	–
Transfer to retained profits – share-based payments	(24,963)	–
Movement during the year	(25,998)	2,482
Balance at the end of the financial year (ii)	–	25,998
Foreign currency translation reserve (iii)		
	(5,405)	–
Total reserves at the end of the financial year	(593,549)	(562,146)

(i) Capital reserve

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

9. Contributed Equity and Reserves Continued

(b) Reserves Continued

(i) Capital reserve Continued

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

The amount of \$588,144,000 was established on listing as a result of the difference between the consideration paid for the purchase of non-controlling interests and the share of net assets acquired in the minority interests.

(ii) Share-based payments reserve

All options vested in 2013 and all fund appreciation rights vested in 2014. At 30 June 2014, no additional entries were made to the share-based payments reserve account and as a result the balance of the share-based payments reserves account has been allocated to retained profits.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income and accumulated as a separate reserve within equity. The total amount of the foreign currency translation reserve was \$5,405,000 at 30 June 2014.

	2014	2013
10. Earnings per Share		
Basic earnings per share – cents per share	32.79	22.92
Diluted earnings per share – cents per share	32.44	22.58
	2014 \$'000	2013 \$'000
Earnings used in the calculation of basic and diluted earnings per share	189,867	129,112
	2014	2013
Weighted average number of shares used as a denominator		
Weighted average number of ordinary shares on issue used as a denominator in the calculation of basic earnings per share*	579,022,549	563,319,640
Adjustment for potential ordinary shares – options that are "in the money" at balance date	6,342,758	8,533,205
Weighted average number of ordinary shares and potential ordinary shares used as a denominator in calculating diluted earnings per share	585,365,307	571,852,845

All 6,342,758 unexercised options granted to employees in June 2009 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share as they are deeply "in the money" and dilutive at 30 June 2014.

The strike price is \$4.50 and the average share price of the Company for the period 1 July 2013 and 30 June 2014 was \$6.37.

These options have not been included in the calculation of basic earnings per share.

- * The weighted number of ordinary shares on issue used in the calculation of basic earnings per share increased because new shares were issued as a result of employees exercising options during the year (see Note 9(a) for further details).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

	2014 \$'000	2013 \$'000
11. Retained Profits		
Retained earnings at the beginning of the financial year	193,265	182,036
Profit after income tax expense	189,867	129,112
Transfer from share-based payments reserve	24,963	–
Dividends paid	(162,102)	(117,883)
Retained earnings at the end of the financial year	245,993	193,265

All options vested in 2013 and there were no further option-related entries to the reserve account. During the 2014 year, the Board decided to re-allocate the total share-based payments reserve amount of \$24,963,000 to retained profits.

	2014 CENTS PER SHARE	2014 \$'000	2013 CENTS PER SHARE	2013 \$'000
12. Dividends (Fully-Franked)				
Paid – 21 September 2012	–	–	13.00	72,975
Paid – 18 March 2013	–	–	8.00	44,908
Paid – 23 September 2013	14.00	80,950	–	–
Paid – 17 March 2014	14.00	81,152	–	–
		162,102		117,883

Dividends not recognised at year-end

Since 30 June 2014, the Directors declared to pay a fully-franked dividend of 20 cents per share, payable out of profits for the 12 months to 30 June 2014. The dividend has not been provided for at 30 June 2014, because the dividend was declared after year-end.

	2014 \$'000	2013 \$'000
13. Franking Account		
Opening balance based on tax paid and franking credits attached to dividends paid	117,124	114,406
Franking (debits) arising from dividends paid during the year	(69,472)	(50,521)
Franking credits/(debits) arising from tax paid, payable or (refunded) during the year	72,567	53,239
	120,219	117,124

	2014 \$'000	2013 \$'000
14. Notes to the Statement of Cash Flows		
(a) Reconciliation of Cash and Cash Equivalents		
Cash at bank	146	152
Cash on deposit (at call) and margin accounts*	24,708	23,900
	24,854	24,052

* Includes \$5,635,247 held in margin accounts to "cash cover" derivative contracts.

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

Profit after income tax	189,867	129,112
Depreciation	618	635
Interest income	(9,480)	(9,594)
Fixed assets scrapped	9	26
(Gain)/loss on investments	907	573
Decrease/(Increase) in cash due to non-reserve exchange rate movements	(345)	(2,123)
Decrease/(Increase) in trade receivables	(5,630)	(6,308)
Decrease/(Increase) in prepayments	47	(410)
Decrease/(Increase) in dividend receivables	(121)	–
Decrease/(Increase) in settlement receivables	(20)	–
Decrease/(Increase) in sundry debtors	100	–
Decrease/(Increase) in deferred tax assets	(1,341)	287
(Decrease)/Increase in trade creditors and GST	4,209	369
(Decrease)/Increase in annual leave, long service leave and payroll tax provisions	198	224
(Decrease)/Increase in income tax payable	3,548	2,998
(Decrease)/Increase in share-based payments	1,035	2,482
(Decrease)/Increase in deferred tax liabilities	(49)	530
Net Cash from Operating Activities	183,552	118,801

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

15. Contingent Assets, Liabilities and Commitments to Capital Expenditure

No contingent assets or liabilities exist at 30 June 2014 and 30 June 2013. The consolidated entity has no commitments for significant capital expenditure.

16. Subsequent Events

Since the end of the year, the Directors have declared a fully-franked dividend of 20 cents per share payable on 23 September 2014.

No significant events have occurred since the balance date that would impact on the financial position of the consolidated entity as at 30 June 2014 and on the results for the year ended on that date.

17. Segment Information

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

	2014 \$'000	2013 \$'000
Australia	277,008	218,381
United States	42,788	13,771
	319,796	232,152

The revenue derived from the United States dollar-related party investment funds was \$6,514,290 for 2014 (2013: nil).

18. Lease Commitments

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

	2014 \$'000	2013 \$'000
Operating leases		
Payable not later than one year	967	1,589
Payable later than one, not later than five years	–	967
	967	2,556

The operating lease relates to the business premises that the consolidated entity occupies.

A new lease was signed after balance date for a further three years, for the period February 2015 to January 2018.

	2014 \$'000	2013 \$'000
19. Auditor's Remuneration		
Audit services – statutory		
<i>PricewaterhouseCoopers Australian firm:</i>		
Audit and review of the consolidated entity's financial statements	91	83
<i>Overseas PricewaterhouseCoopers firms</i>		
Audit of financial statements	21	–
Total audit services attributable to the consolidated entity	112	83
Audit and review of managed funds for which the consolidated entity acts as responsible entity	218	200
	330	283
Taxation services – compliance		
<i>PricewaterhouseCoopers Australian firm:</i>		
Taxation services – compliance services for the consolidated entity	84	296
Taxation services – compliance services for the managed funds that the consolidated entity acts as responsible entity	326	374
<i>Overseas PricewaterhouseCoopers firms</i>		
Taxation services – foreign tax agent	22	16
	432	686
Other services		
<i>PricewaterhouseCoopers Australian firm:</i>		
Remuneration services (see page 31 for further information)	15	–
Other audit and assurance services	203	222
	218	222
Total	980	1,191

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management

The Company's and consolidated entity's activities expose it to both direct and indirect financial risk, including: market risk, credit risk and liquidity risk. Direct exposure to financial risk occurs through the impact on profit of movements in funds under management ("FUM") and through direct investments in equities and derivatives undertaken by the offshore related party investment fund in which Platinum Investment Management Limited is the sole investor and 100% beneficial owner.

Indirect exposure occurs because the subsidiary is the Investment Manager for various investment vehicles (which include investment mandates, various unit trusts and its ASX-listed investment vehicle, Platinum Capital Limited). The consolidated entity has either no investment or an immaterial investment in these mandates, unit trusts and its ASX-listed vehicle.

This note discusses the direct exposure to risk of the consolidated entity. The consolidated entity's risk management procedures focus on managing the potential adverse effects on financial performance caused by volatility of financial markets.

(a) Market Risk

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

- (i) Poor investment performance: absolute negative investment performance will reduce FUM and relative underperformance to appropriate market benchmarks could reduce the attractiveness of Platinum's investment products to investors, which would impact on the growth of the business. Poor investment performance could also trigger the termination of Investment Mandate arrangements;
- (ii) Market volatility: Platinum invests in global markets. It follows that a decline in overseas markets, adverse exchange rate or interest rate movements will all impact on FUM;
- (iii) A reduction in the ability to retain and attract investors: that could be caused by a decline in investment performance, but also a range of other factors, such as the high level of competition in the funds management industry;
- (iv) A loss of key personnel; and

20. Financial Risk Management *Continued*

(a) Market Risk *Continued*

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

A decline in investment performance will also directly impact on performance share fees and performance fees earned by the consolidated entity. Historically, the amount of performance share fees earned by the consolidated entity has fluctuated significantly from year to year and can be a material source of fee revenue. For those Investment Mandates that pay a performance share fee, the fee is based on a proportion of each Mandate's investment performance, and is calculated at the end of each calendar year and is based on absolute (and not relative) return.

Performance fees may be earned by the consolidated entity, if the investment return of a Platinum Trust Fund, Platinum Capital Limited or applicable Mandate exceeds a specified benchmark. Should the actual performance of a Platinum Trust Fund, Platinum Capital Limited or applicable Mandate be higher than the applicable benchmark, a performance fee may be receivable for the financial year. As at 30 June 2014, performance fees of \$3,393,340 (2013: \$3,286,535) were receivable.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management *Continued*

(a) Market Risk *Continued*

The consolidated entity is also exposed to market risk as a result of investing in its related-party offshore investment fund. The market risk is the risk that all or a majority of the securities in a certain market, or stock market, will decline in value because of economic factors, future expectations, investor confidence or the impact of price volatility (see Note 20(a)(iii) for the impact of Price Risk).

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

The section below discusses the direct impact of foreign exchange risk, interest rate risk and price risk on the consolidated entity's financial instruments held at 30 June 2014.

(i) Foreign Exchange Risk

The consolidated entity is materially exposed to foreign exchange risk because:

- (i) it has Bermudan and US-based investment Mandates and derives management and performance fees in US Dollars; and
- (ii) its investment in its related party offshore vehicle, Platinum World Funds, is denominated in US Dollars.

At 30 June 2014, the consolidated entity held US\$14,000,005 (equivalent to A\$14,841,519) in cash.

If the Australian Dollar had been 10% higher/lower against the US Dollar than the prevailing exchange rate used to convert the Mandate fees with all other variables held constant, then net profit after income tax expense would have been A\$2,946,593 lower/A\$3,601,306 higher (2013: A\$929,512 lower/A\$1,135,861 higher).

The consolidated entity's investment in its related-party offshore investment vehicle is denominated in US Dollars. If the Australian Dollar had been 10% higher/lower against the US Dollar relative to the prevailing exchange rate at reporting date, then the consolidated entity's net assets would have been A\$5.1m lower/A6.2m higher.

The consolidated entity's investment in its offshore fund caused the consolidated entity to be directly exposed to foreign exchange risk from buying, selling and holding investments denominated in foreign currency. Forward foreign exchange contracts and futures and options on foreign exchange rate contracts may be used to manage the funds' foreign exchange exposure. The foreign currency with the largest impact on profit after tax, if there was a 10% currency movement at 30 June 2014, was the Hong Kong Dollar. A 10% increase/decrease in the Australian Dollar would have caused net profit after tax to be A\$551,142 lower/A\$673,618 higher.

20. Financial Risk Management *Continued*

(a) Market Risk *Continued*

(i) Foreign Exchange Risk *Continued*

There was also an immaterial impact on profit caused by the exchange rate translation associated with (i) holding the Japanese Government Bond futures contract and (ii) the consolidation into the group of PIMA Corp (US) (net assets at 30 June 2014 were A\$14,841).

(ii) Interest Rate Risk

At 30 June 2014, term deposits and the short position over Japanese Government Bond futures were the only significant assets with potential exposure to interest rate risk held by the consolidated entity. A movement of $\pm 1\%$ in Australian interest rates occurring on 30 June 2014 will have no impact on profit as the interest rate on term deposits are determined on execution.

A reasonably possible 15 basis point increase/decrease in the Japanese Government 10 year bond yield occurring on 30 June 2014 would have caused a A\$3.4 million gain/ A\$3.7 million loss in pre-tax profit.

The quantity of foreign cash held by the consolidated entity at 30 June 2014 was A\$20,601,886 or 5.49% and given the low level of worldwide interest rates (between 0.00% and 2.50% for the consolidated entity's current accounts), the consolidated entity's exposure to a movement of $\pm 1\%$ in interest rates is low. Total foreign cash includes collateralised margin account and current account balances held in the various currencies that Platinum World Funds and Platinum Investment Management Limited invest.

(iii) Price Risk

The consolidated entity is subject to a degree of direct price volatility, as a result of investments made by its offshore investment fund. Specifically, there are three sub-funds that directly invest in securities that are exposed to price risk. The effect on net profit after tax to a reasonably possible change in market factors, as represented by a $\pm 10\%$ movement in the key regional equity indices affecting the stock exchange that each sub-fund's investments are listed, with all other variables held constant, is indicated as follows:

	2014 +10% A\$	2014 -10% A\$	2013 +10% A\$	2013 -10% A\$
Exchange				
Japan, Tokyo Stock Exchange	996,685	(996,685)	—	—
United States – NASDAQ	526,302	(526,302)	—	—

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management *Continued*

(b) Credit Risk

Credit risk relates to the risk of a counterparty defaulting on a financial obligation resulting in a loss to the consolidated entity (typically "non-equity" financial instruments). Credit risk arises from the financial assets of the consolidated entity that include: cash, receivables, derivatives and term deposits. All term deposits are held with licensed Australian banks that all have a AA credit rating. The Japanese Government Bond futures contract is held with a counterparty with an A– credit rating at 30 June 2014 (source: Standard & Poor's).

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

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

The credit quality of cash and term deposits held by each entity in the Group, and investments held within its offshore related party funds can be assessed by reference to external credit ratings. At 30 June 2014, the relevant credit ratings were as follows:

RATING	TOTAL (A\$'000)
AA	285,100
A+	14,419
A	2,270
A–	5,916
	307,705

(Source: Standard & Poor's)

20. Financial Risk Management *Continued*

(b) Credit Risk *Continued*

The consolidated entity seeks to manage the risk by spreading exposure over a number of counterparties by signing standard ISDA (International Swaps and Derivatives Association) master agreements and net settlement contracts, employing two-way symmetrical margining of unrealised profits and losses and by controlling the duration of contracts to be short-term.

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

(c) Liquidity Risk

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management *Continued*

(c) Liquidity Risk *Continued*

Non-financial liabilities

The amounts below represent the contractual maturity of non-financial liabilities.

	AT CALL \$'000	WITHIN 30 DAYS \$'000	BETWEEN 1 AND 12 MONTHS \$'000	MORE THAN 12 MONTHS \$'000	TOTAL \$'000
Trade creditors					
30 June 2014	–	7,044	–	–	7,044
30 June 2013	–	3,151	–	–	3,151
Goods and Services Tax (GST)					
30 June 2014	–	1,963	–	–	1,963
30 June 2013	–	1,647	–	–	1,647
Current tax payable					
30 June 2014	–	–	17,977	–	17,977
30 June 2013	–	–	14,429	–	14,429
Unclaimed dividends payable to shareholders					
30 June 2014	356	–	–	–	356
30 June 2013	301	–	–	–	301
Long service leave					
30 June 2014	1,609	–	–	–	1,609
30 June 2013	1,428	–	–	–	1,428
Annual leave					
30 June 2014	1,010	–	–	–	1,010
30 June 2013	937	–	–	–	937
Payroll tax provision on fund appreciation rights					
30 June 2014	–	–	–	–	–
30 June 2013	–	–	56	–	56
Total					
30 June 2014	2,975	9,007	17,977	–	29,959
30 June 2013	2,666	4,798	14,485	–	21,949

20. Financial Risk Management *Continued*

(c) Liquidity Risk *Continued*

Financial liabilities

At 30 June 2014, the contractual maturity of financial liabilities (disclosed in Note 2) is as follows:

	AT CALL \$'000	BETWEEN 1 AND 3 MONTHS \$'000	TOTAL \$'000
Derivative contractual outflows	–	813	813
Foreign currency contracts	–	98	98
Total	–	911	911

There were no financial liabilities at 30 June 2013.

At 30 June 2014, the consolidated entity has sufficient cash reserves of \$297,061,737 (2013: \$329,967,999) and a further \$31,954,429 (2013: \$27,313,801) of receivables to cover these liabilities. The current year cash reserves figure includes \$273,000,000 of term deposits. All of these term deposits have maturities of six months or less from the date of acquisition.

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management *Continued*

(d) Fair Value Hierarchy

AASB 7: *Financial Instruments: Disclosures* requires the consolidated entity to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) (level 2);
and
- (iii) inputs for the assets or liability that are not based on observable market data (unobservable inputs) (level 3).

The consolidated entity recognises the following financial assets and liabilities at fair value, pursuant to AASB 13, on a recurring basis:

- (i) Equity securities, long equity swaps and long futures;
- (ii) Short equity swaps and short futures;
- (iii) Forward currency contracts; and
- (iv) Unlisted unit trust investments.

20. Financial Risk Management *Continued*

(d) Fair Value Hierarchy *Continued*

The following table analyses within the fair value hierarchy model, the consolidated entity's assets and liabilities measured at fair value at 30 June 2014 and 30 June 2013. The consolidated entity has no assets or liabilities that are classified as level 3.

30 June 2014

	LEVEL 1 \$'000	LEVEL 2 \$'000	TOTAL \$'000
Financial Assets			
Equity securities	61,473	7,913	69,386
Derivatives	–	262	262
Unlisted unit trust investments	98	–	98
	61,571	8,175	69,746
Financial Liabilities			
Derivatives	748	65	813
Foreign currency contracts	–	98	98
	748	163	911
Total financial assets less liabilities measured at fair value	60,823	8,012	68,835

30 June 2013

Financial Assets			
Derivatives	763	–	763
Unlisted unit trust investments	1,381	–	1,381
	2,144	–	2,144
Financial Liabilities	–	–	–
Total financial assets less liabilities measured at fair value	2,144	–	2,144

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management *Continued*

(d) Fair Value Hierarchy *Continued*

All figures presented on page 87 can be reconciled to Note 2 and the Balance Sheet.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for any assets or liabilities measured at fair value during the year.

Rationale for classification of assets and liabilities as level 1

At 30 June 2014, 88% of the equity securities and derivatives held by the consolidated entity are valued using unadjusted quoted prices in active markets and are classified as level 1 in the fair value hierarchy model. The amounts disclosed for financial liabilities include an amount of \$748,000 for a Japanese Government Bond future. The Japanese Government Bond future is a direct investment made by Platinum Investment Management Limited, and is a globally-cleared derivative and trades in a highly-liquid market.

Rationale for classification of assets and liabilities as level 2

There are certain financial instruments that have been classified as level 2, because a degree of adjustment has been made to the quoted price i.e, whilst all significant inputs required for fair value measurement are observable and quoted in an active market, there is a degree of estimation involved in deriving the fair value. Examples include:

- (i) foreign exchange contracts are classified as level 2 even though forward points are quoted in an active and liquid market. The forward points themselves are based on interest rate differentials;
- (ii) certain P-Notes/warrants are classified as level 2 because they are generally traded over-the-counter and are often priced in a different currency to the underlying security;
- (iii) certain Over-The-Counter (OTC) derivatives/options are classified as level 2 because the price is sourced from the relevant counterparty, even though the price (and in the case of options, the relevant delta) can be verified directly from Bloomberg or verified using option pricing models; and
- (iv) certain index derivatives are classified as level 2, because the consolidated entity may agree with the counterparty to include or to exclude one or more securities that make up the "basket" of securities that comprise the index derivative. Hence, the quoted price of the index derivative would be very similar, but not identical to the index derivative that the consolidated entity held.

20. Financial Risk Management *Continued*

(e) Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the Balance Sheet are disclosed in the first three columns of the following table:

	AMOUNTS OFFSET IN THE BALANCE SHEET		RELATED AMOUNTS NOT OFFSET IN THE BALANCE SHEET			AMOUNT \$'000
	GROSS AMOUNTS \$'000	GROSS AMOUNTS SET-OFF IN THE BALANCE SHEET \$'000	NET AMOUNTS PRESENTED IN THE BALANCE SHEET \$'000	FINANCIAL INSTRUMENTS ⁽¹⁾ \$'000	CASH COLLATERAL \$'000	
Financial assets						
30 June 2014						
Derivatives	262	—	262	(262)	—	—
Total	262	—	262	(262)	—	—
30 June 2013						
Derivatives	763	—	763	—	—	763
Total	763	—	763	—	—	763
Financial liabilities						
30 June 2014						
Derivatives	813	—	813	(262)	(551)	—
Forward currency contracts	98	—	98	—	(98)	—
Total	911	—	911	(262)	(649)	—
30 June 2013						
Total	—	—	—	—	—	—

(1) Agreements with counterparties are based on the International Swaps and Derivatives Association (ISDA) Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the consolidated entity does not intend to settle on a net basis, these amounts have not been offset in the Balance Sheet and have been presented separately in the table above.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

20. Financial Risk Management *Continued*

(f) Capital Risk Management

(i) Capital requirements

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

(ii) External requirements

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

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

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

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

21. The Company

Platinum Asset Management Limited ("the Company") is a company limited by shares, incorporated and domiciled in New South Wales. Its registered office and principal place of business is Level 8, 7 Macquarie Place, Sydney NSW 2000. The Company is the ultimate holding company for the entities listed in Note 22.

22. The Subsidiaries

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

- (a) McRae Pty Limited (incorporated in Australia) – (100% owned by the Company).
- (b) Platinum Asset Pty Limited (incorporated in Australia) – (100% owned by the Company).
- (c) Platinum Investment Management Limited (incorporated in Australia) – (indirectly 100% owned by the Company).
- (d) Platinum Asset Management Pte Ltd (incorporated in Singapore) – (indirectly 100% owned by the Company).
- (e) Platinum Investment Management Australia Corporation (incorporated in the United States and indirectly 100% owned by the Company).
- (f) Platinum World Funds Plc. (incorporated in Ireland and indirectly 100% owned by the Company). This entity is the only entity in the Group that directly purchases securities and derivatives as a significant part of its operations.

23. Related Party Dealings

(a) Directors' Remuneration

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

(b) Subsidiaries

Interests in subsidiaries are set out in Note 22.

(c) Transactions with Related Parties

Platinum Investment Management Limited provides investment management services to related party unit trusts – the Platinum Trust Funds and to the ASX-listed investment company, Platinum Capital Limited. Platinum Investment Management Limited is entitled to receive a monthly management fee from Platinum Capital Limited and the Platinum Trust Funds, a monthly administration fee from the Platinum Trust Funds and in some instances a performance fee (that is calculated annually) based upon the relevant Fund's and Platinum Capital Limited's investment return over and above a specified benchmark. The total related party fees recognised in the Statement of Comprehensive Income for the year ended 30 June 2014 was \$229,623,373 (2013: \$173,732,046). Of this, an amount of \$21,691,456 was receivable at 30 June 2014 (2013: \$15,505,674).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

23. Related Party Dealings *Continued*

(c) Transactions with Related Parties *Continued*

Platinum Investment Management Limited holds small investments in the Platinum Trust Funds. At 30 June 2014, the amount of this investment disclosed in the Balance Sheet was \$98,009 (2013: \$1,381,337). The income distribution relating to this, as disclosed in the consolidated Statement of Comprehensive Income, was \$3,793 (2013: \$32,772).

On 20 January 2014, Platinum Investment Management Limited provided A\$79.4 million as initial seed capital for Platinum World Funds Plc. At 30 June 2014, the Company is the sole investor in the Platinum World Funds Plc. At 30 June 2014, the net assets of the Platinum World Funds were A\$79.2 million.

The consolidated entity also received \$71,771 in management fees from the Platinum World Funds. This fee is not recognised in the consolidated Statement of Comprehensive Income, because the fee is an inter-group transaction.

On 17 September 2013, Platinum Investment Management Limited provided US\$300,000 (equivalent to A\$320,651) to Platinum Investment Management Corporation Australia ("PIMA Corp"). PIMA Corp is a US incorporated entity and was set-up to allow an employee to relocate to the US, and continue with his investment research activities. Platinum Investment Management Limited is liable to pay an inter-company service fee to PIMA Corp, and at 30 June 2014, this fee is US\$223,237, which is the equivalent of A\$245,345. This fee is not recognised in the consolidated Statement of Comprehensive Income, as the fee is an inter-group transaction. At 30 June 2014, the net assets of PIMA Corp were A\$14,841.

(d) Tax Consolidation and Dividend Transactions

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

24. Disclosure of Interests in Other Entities

As discussed in Note 23, Platinum Investment Management Limited (PIML) holds small investments in the Platinum Trust Funds, and receives management, administration and performance fees for its role as investment manager.

PIML is also the sole investor in Platinum World Funds Plc, and owns 100% of its shares. We have also shown the net assets and interest in relation to PIML's investment in PIMA Corp.

The extent of PIML's interest in the Platinum Trust Funds, Platinum World Funds Plc and PIMA Corp is summarised below:

	PLATINUM TRUST FUNDS (\$'000)	PLATINUM WORLD FUNDS PLC (A\$'000)	PIMA CORP (US) (A\$'000)
30 June 2014			
Net Asset Value attributable to all investors	16,346,241	79,215	15
Extent of PIML's interest (% interest)	0.05%	100%	100%
Maximum exposure (includes PIML's interest and fees receivable)	21,322	79,215	15

There is no additional off-balance sheet arrangements which would expose the consolidated entity to potential loss.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2014

25. Key Management Personnel Disclosures

(a) Aggregate Remuneration

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

	2014 \$	2013 \$
Cash salary and short- and long-term incentive bonuses	4,779,650	2,585,000
Superannuation	121,251	100,125
Share-based payments expense allocated for options granted*	–	1,576,561
Increase/(decrease) in the consolidated entity's annual and long service leave provision	16,309	125,226
	4,917,210	4,386,912

* There is no accounting expense in 2014 attributable to options, as all options vested in 2013. The only amount received as a result of exercising options and selling shares on-market was \$3,477,571. Two Directors exercised options during the year.

26. Parent Entity Disclosures

Parent entity financial information is as follows:

	2014 \$'000	2013 \$'000
Current assets	113,294	98,596
Total assets	744,717	754,046
Current liabilities	18,335	14,732
Total liabilities	18,335	14,732
Issued share capital	722,812	712,955
Reserves	(19)	24,943
Shareholders equity	726,382	739,314
Operating profit before tax	164,279	117,882
Operating profit after tax	164,276	117,882
Total comprehensive income	164,276	117,882

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

DIRECTORS' DECLARATION

In the Directors' opinion,

- (a) the financial statements and notes set out on pages 46 to 94 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that Platinum Asset Management Limited will be able to pay its debts as and when they become due and payable.

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

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

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



Michael Cole
Director



Kerr Neilson
Director

Sydney, 21 August 2014

INDEPENDENT AUDITOR'S REPORT

to the members of Platinum Asset Management Limited



Report on the Financial Report

We have audited the accompanying financial report of Platinum Asset Management Limited (the Company), which comprises the Consolidated Balance Sheet as at 30 June 2014, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for Platinum Asset Management Limited (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

PricewaterhouseCoopers, ABN 52 780 433 757

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DX 77 Sydney, Australia

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Liability limited by a scheme approved under Professional Standards Legislation.

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

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Platinum Asset Management Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

INDEPENDENT AUDITOR'S REPORT

to the members of Platinum Asset Management Limited

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 31 of the Directors' Report for the year ended 30 June 2014. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Platinum Asset Management Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, handwritten-style font.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'SJ Smith'.

SJ Smith

Partner

Sydney, 21 August 2014

A detailed photograph of a complex electronic circuit board, possibly a prototype or a specialized module. The board is populated with numerous components, including resistors of various colors (brown, orange, yellow, green, blue), capacitors (some in cylindrical cans, others in small surface-mount packages), and integrated circuits. The components are interconnected by a dense network of fine, hand-soldered wires. The layout is symmetrical, with a central vertical axis. In the center of the board, there is a large, circular component that looks like a small light bulb or a high-voltage indicator, surrounded by a circular track of components. Below this, there are two more similar circular components, each with a series of concentric red lines drawn around them. The overall appearance is that of a highly intricate and custom-built electronic assembly.

A CAMBRIAN MOMENT



Design and production by:
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Management Limited

A CAMBRIAN MOMENT

Cheap and ubiquitous building blocks
for digital products and services
have caused an explosion in startups.
Ludwig Siegele weighs its significance

PREFACE

It seems the world is awash with digital entrepreneurs. An extraordinary boom in digital startups is about to reshape today's business landscape increasingly dominated by the technology giants like Google, Facebook, Twitter and Instagram.

We have written before about the creative disruption that occurs in a digital economy as well as the flurry of entrepreneurial activity that typically follows as apps are superseded within moments of being launched.

Today's digital startups are following in the tech giant's footsteps by disrupting an even greater number of industries from travel and banking to logistics and entertainment. Growing wildly, they are infiltrating every part of a hyper-connected economy. Rising investor confidence in digital businesses have caused vibrant startup hubs to flourish in the world's major cities.

These digital startups – that produce popular messaging and other iPhone apps – are able to compete for an important reason. They're built to do one very simple thing better than anyone else. Born out of complex software, they create new products that meet specific consumer needs by improving existing ones.

And this is where they get interesting. Startups can quickly and easily stitch together a brand new app from freely-available digital code and software at practically no cost. This has kick started a global entrepreneurial boom.

So when *The Economist* published an article comparing the explosion in digital startups to the Cambrian Explosion – a period in evolutionary history that began about 540 million years ago – we were intrigued.

The following article, 'A Cambrian Moment' says that's when the basic building blocks of life had just been perfected, allowing more complex organisms to be assembled more rapidly.

"Similarly, the basic building blocks for digital services and products have become so evolved, cheap and ubiquitous that they can be easily rearranged and replicated."



Every point in the article strikes a chord since we closely follow how each stride in new technology disrupts the status quo.

What's particularly fascinating is that with these new 'life' forms or 'building blocks', new digital products can be launched quickly and easily with almost no capital. Anyone with a new idea can do it.

At the heart of the article is a prediction that proliferating digital platforms will be the cornerstone of tomorrow's economy. The author refers to 'the platformisation of everything'. In the startup world that means new firms will combine and recombine open-source software, cloud computing and social networks to produce a new digital experience. Permutations are endless.

The author argues that if these 'building blocks' are available to everybody then once platform thinking takes hold – both in terms of providing platform services and consuming them – we'll see even more rapid changes across the whole economy. He concludes that companies must either turn themselves into open platforms or become agile 'ecosystems' to support startups.

Smart companies know that iGoogle is already creating platforms that allow startups to offer banking services. Some smaller banks, including Bancorp, hold funds for online banking apps like Simple. Big payment processors, such as First Data and TSYS, are opening up their networks.

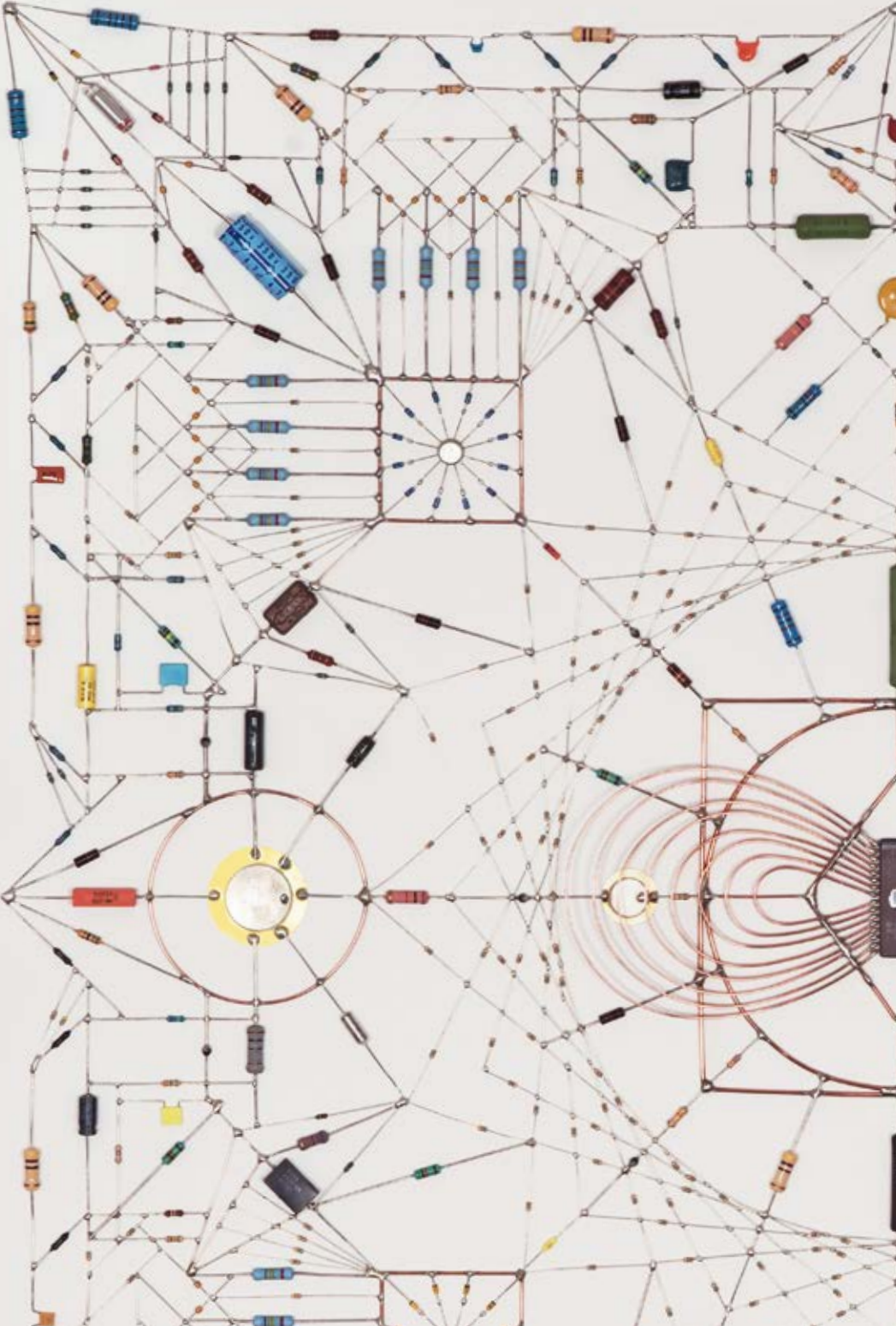
The impact of platformisation is monumental which makes this article both timely and compelling. We are rapidly approaching a time when customers will reach across platforms that are both digital and physical. This is referred to as 'the internet of things', which is when everything in everyday life, from household appliances to cars, is internet-controlled.

Whenever this kind of fundamental change occurs, the global business scene splinters into two: those companies that have a hard time adapting and those that power ahead. This will doubtless present many interesting investment opportunities.

KERR NEILSON

Managing Director
August 2014







A CAMBRIAN MOMENT

About 540 million years ago something amazing happened on planet Earth: life forms began to multiply, leading to what is known as the “Cambrian explosion”.

Until then sponges and other simple creatures had the planet largely to themselves, but within a few million years the animal kingdom became much more varied.

Something similar is now happening in the virtual realm: **an entrepreneurial explosion.**

Digital startups are bubbling up in an astonishing variety of services and products, penetrating every nook and cranny of the economy.

They are reshaping entire industries and even changing the very notion of the firm.

“Software is eating the world,” says Marc Andreessen, a Silicon Valley venture capitalist.

This digital feeding frenzy has given rise to a global movement.

Most big cities, from Berlin and London to Singapore and Amman, now have a sizeable startup colony (“ecosystem”). Between them they are home to hundreds of startup schools (“accelerators”) and thousands of co-working spaces where caffeinated folk in their 20s and 30s toil hunched over their laptops.

All these ecosystems are highly interconnected, which explains why internet entrepreneurs are a global crowd. Like medieval journeymen, they travel from city to city, laptop not hammer in hand. A few of them spend a semester with “Unreasonable at Sea”, an accelerator on a boat which cruises the world while its passengers code.

**“ANYONE WHO WRITES CODE CAN
BECOME AN ENTREPRENEUR
– ANYWHERE IN THE WORLD,”
SAYS SIMON LEVENE,
A VENTURE CAPITALIST
IN LONDON.**

Here we go again, you may think: yet another dotcom bubble that is bound to pop. Indeed, the number of pure software startups may have peaked already. And many new offerings are simply iterations on existing ones.

Nobody really needs yet another photo-sharing app, just as nobody needed another site for pet paraphernalia in the first internet boom in the late 1990s.

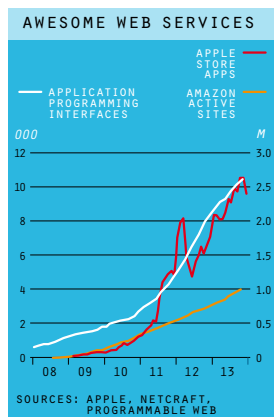
The danger is that once again too much money is being pumped into startups, warns Mr Andreessen, who as co-founder of Netscape saw the bubble from close by: “When things popped last time it took ten years to reset the psychology.” And even without another internet bust, more than 90% of startups will crash and burn.

But this time is also different, in an important way. Today’s entrepreneurial boom is based on more solid foundations than the 1990s internet bubble, which makes it more likely to continue for the foreseeable future.

One explanation for the Cambrian explosion of 540 million years ago is that at that time the basic building blocks of life had just been perfected, allowing more complex organisms to be assembled more rapidly.

Similarly, the basic building blocks for digital services and products – the “technologies of startup production”, in the words of Josh Lerner of Harvard Business School – have become so evolved, cheap and ubiquitous that they can be easily combined and recombined.

Some of these building blocks are snippets of code that can be copied free from the internet, along with easy-to-learn programming frameworks. Others are services for finding developers, sharing code and testing usability. Yet others are “application programming interfaces” (APIS), digital plugs that are multiplying rapidly.



They allow one service to use another, for instance voice calls (Twilio), maps (Google) and payments (PayPal). The most important are “platforms” – services that can host startups’ offerings (Amazon’s cloud computing), distribute them (Apple’s App Store) and market them (Facebook, Twitter). And then there is the internet, the mother of all platforms, which is now fast, universal and wireless.

STARTUPS ARE BEST THOUGHT OF AS EXPERIMENTS ON TOP OF SUCH PLATFORMS, TESTING WHAT CAN BE AUTOMATED IN BUSINESS AND OTHER WALKS OF LIFE. SOME WILL WORK OUT, MANY WILL NOT.

Hal Varian, Google’s chief economist, calls this “combinatorial innovation”. In a way, these startups are doing what humans have always done: apply known techniques to new problems. The late Claude Lévi-Strauss, a French anthropologist, described the process as *bricolage* (tinkering).

Technology has fuelled the entrepreneurial explosion in other ways, too. Many consumers have got used to trying innovative services from firms with strange names.

And thanks to the web, information about how to do a startup has become more accessible and more uniform. Global standards are emerging for all things startup, from programming tools to term sheets for investments, dress code and vocabulary, making it easy for entrepreneurs and developers to move around the world.

INVENT YOURSELF A JOB

Economic and social shifts have provided added momentum for startups. The prolonged economic crisis that began in 2008 has caused many millennials – people born since the early 1980s – to abandon hope of finding a conventional job, so it makes sense for them to strike out on their own or join a startup.

A lot of millennials are not particularly keen on getting a “real” job anyway. According to a recent survey of 12,000 people aged between 18 and 30 in 27 countries, more than two-thirds see opportunities in becoming an entrepreneur. That signals a cultural shift.

“Young people see how entrepreneurship is doing great things in other places and want to give it a try,” notes Jonathan Ortman of the Ewing Marion Kauffman Foundation, which organises an annual Global Entrepreneurship Week.

Lastly, startups are a big part of a new movement back to the city. Young people increasingly turn away from suburbia and move to hip urban districts, which become breeding grounds for new firms. Even Silicon Valley’s centre of gravity is no longer along Highway 101 but in San Francisco south of Market Street.

Describing what sorts of businesses these startups engage in would at best provide a snapshot of a fast-moving target. In essence, software (which is at the heart of these startups) is eating away at the structures established in the analogue age.

LinkedIn, a social network, for instance, has fundamentally changed the recruitment business. Airbnb, a website on which private owners offer rooms and flats for short-term rent, is disrupting the hotel industry. And Uber, a service that connects would-be passengers with drivers, is doing the same for the taxi business.

12,000
PEOPLE
AGED 18 TO 30
IN 27 COUNTRIES



TWO-THIRDS SEE
OPPORTUNITIES
IN BECOMING AN
ENTREPRENEUR.

Technological change has created a set of new institutions which governments around the world are increasingly supporting.

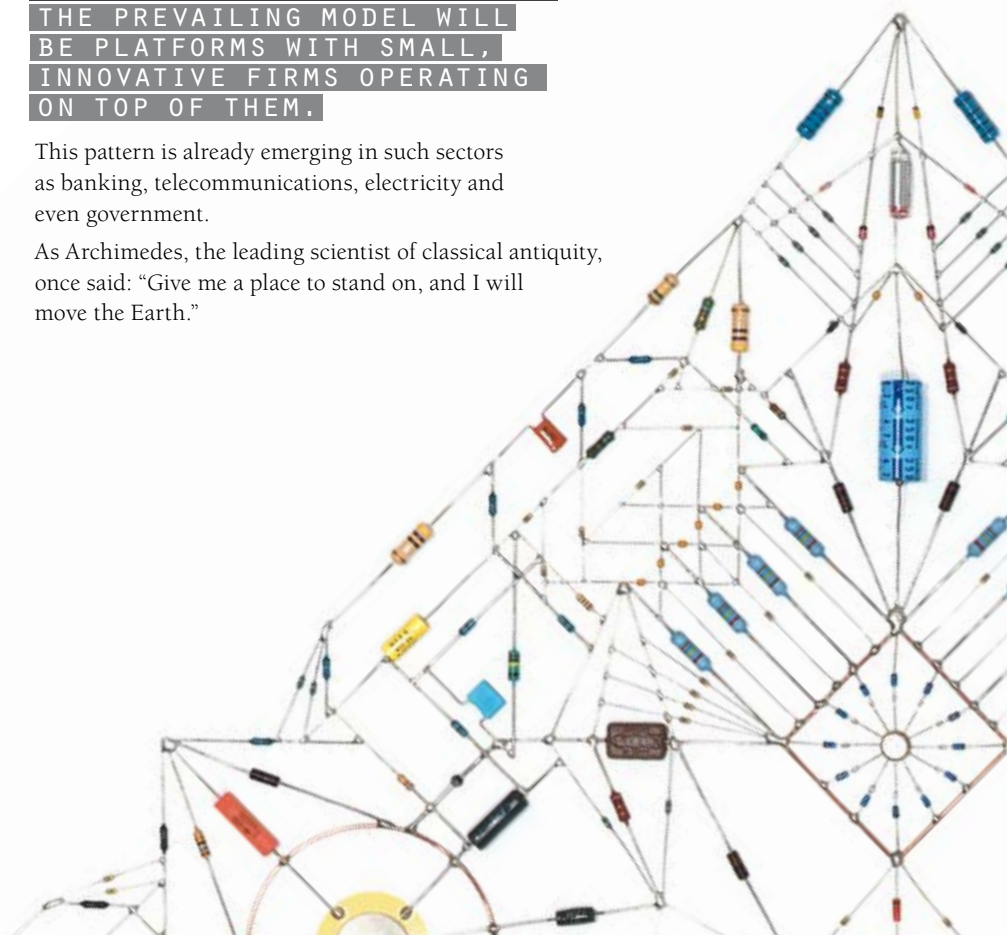
Startups run on hype; things are always “awesome” and people “super-excited”. But this world has its dark side as well. Failure can be devastating.

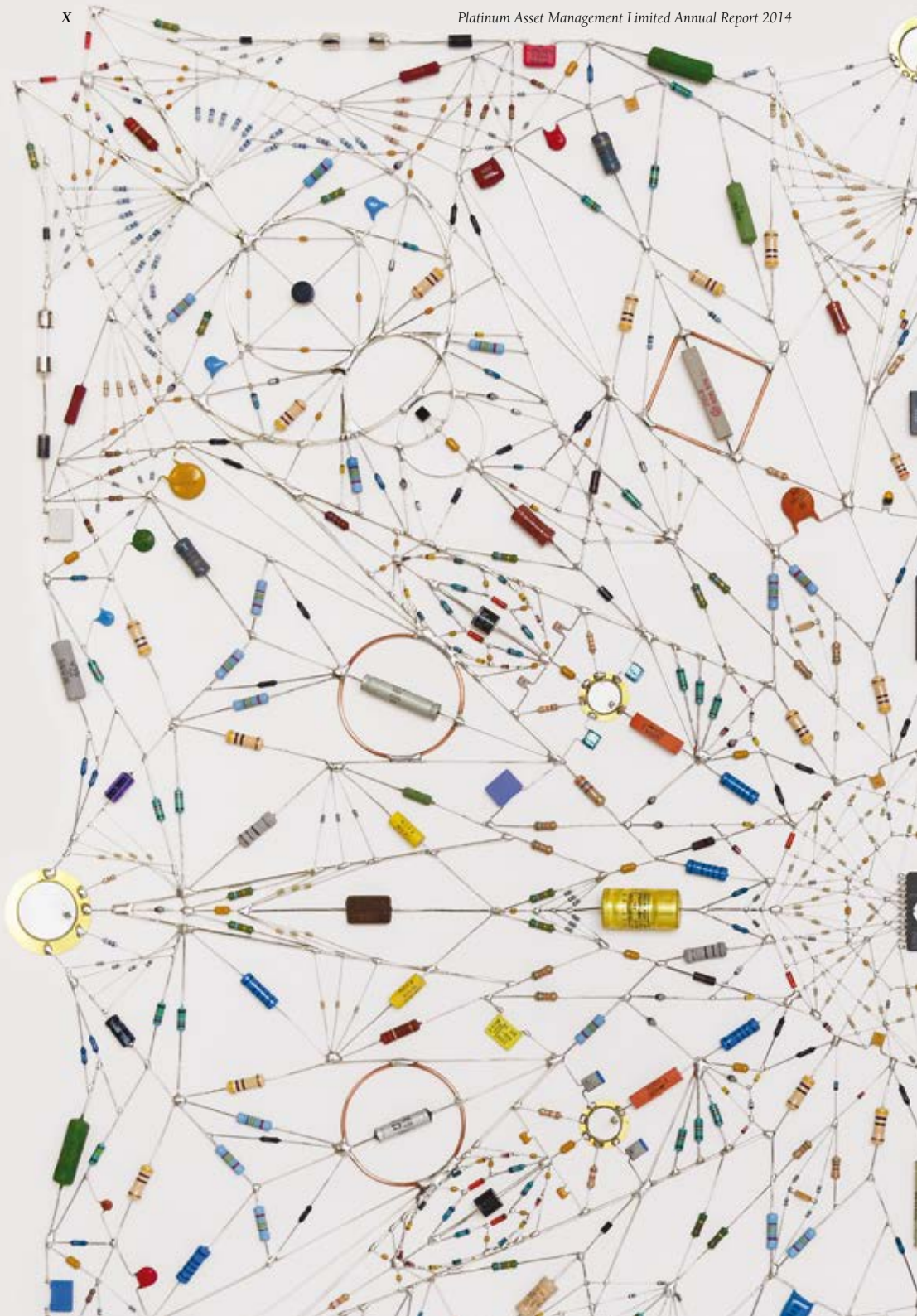
Being an entrepreneur often means having no private life, getting little sleep and living on noodles, which may be one reason why few women are interested. More ominously, startups may destroy more jobs than they create, at least in the shorter term.

THE WORLD OF STARTUPS TODAY OFFERS A PREVIEW OF HOW LARGE SWATHES OF THE ECONOMY WILL BE ORGANISED TOMORROW. THE PREVAILING MODEL WILL BE PLATFORMS WITH SMALL, INNOVATIVE FIRMS OPERATING ON TOP OF THEM.

This pattern is already emerging in such sectors as banking, telecommunications, electricity and even government.

As Archimedes, the leading scientist of classical antiquity, once said: “Give me a place to stand on, and I will move the Earth.”





CREATING
A BUSINESS

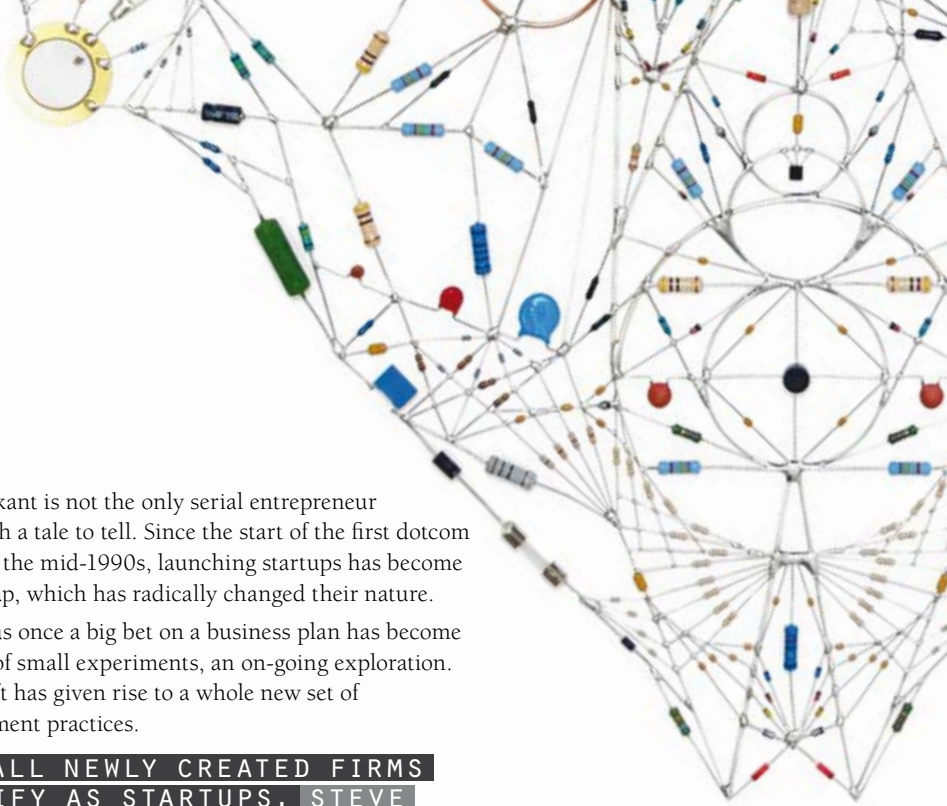
TESTING, TESTING

Launching a startup has become fairly easy, but what follows is back-breaking work

"We even had to host the servers in our own office." Naval Ravikant laughs as he describes how in 1999 he and some friends founded his first startup, Epinions, a website for consumer reviews.

They had to raise \$8 million in venture capital, buy computers from Sun Microsystems, license database software from Oracle and hire eight programmers. It took nearly six months to get a first version of the site up and running.

By comparison, setting up Mr Ravikant's latest venture, AngelList, a social network for startups and investors was a doddle. The cost was in the tens of thousands of dollars, which he put up himself. Hosting and computing power was available, for a small fee, via the internet. Most of the software needed was free. The biggest expense was the salary of the two developers, but thanks to nifty programming tools they were able to do the job in a few weeks.



Mr Ravikant is not the only serial entrepreneur with such a tale to tell. Since the start of the first dotcom boom in the mid-1990s, launching startups has become dirt cheap, which has radically changed their nature.

What was once a big bet on a business plan has become a series of small experiments, an on-going exploration. This shift has given rise to a whole new set of management practices.

NOT ALL NEWLY CREATED FIRMS QUALIFY AS STARTUPS. STEVE BLANK, A NOTED EXPERT IN THE FIELD, DEFINES THEM AS COMPANIES LOOKING FOR A BUSINESS MODEL THAT ALLOWS FOR FAST, PROFITABLE GROWTH. THE AIM IS TO BECOME A “MICRO-MULTINATIONAL”, A FIRM THAT IS GLOBAL WITHOUT BEING LARGE.

Many of them are simply small businesses that use digital technology. A growing number are “social enterprises” – firms with a social mission.

In the past, startups almost universally began with an idea for a new product. Now the business usually begins with a “team” – often two people with complementary skills who probably know each other well.

These “founders” (a term now used in preference to “entrepreneurs”) often work through several ideas before hitting on the right one.

Such flexibility would have been unthinkable during the first internet boom. Startups had to build from scratch most of the things they needed, particularly the computing infrastructure.



TODAY NEARLY ALL OF THE INGREDIENTS NEEDED TO PRODUCE A NEW WEBSITE OR SMARTPHONE APP ARE AVAILABLE AS OPEN-SOURCE SOFTWARE OR CHEAP PAY-AS-YOU-GO SERVICES.

A quick prototype can be put together in a matter of days, which explains the astonishing success of organisations such as Startup Weekend.

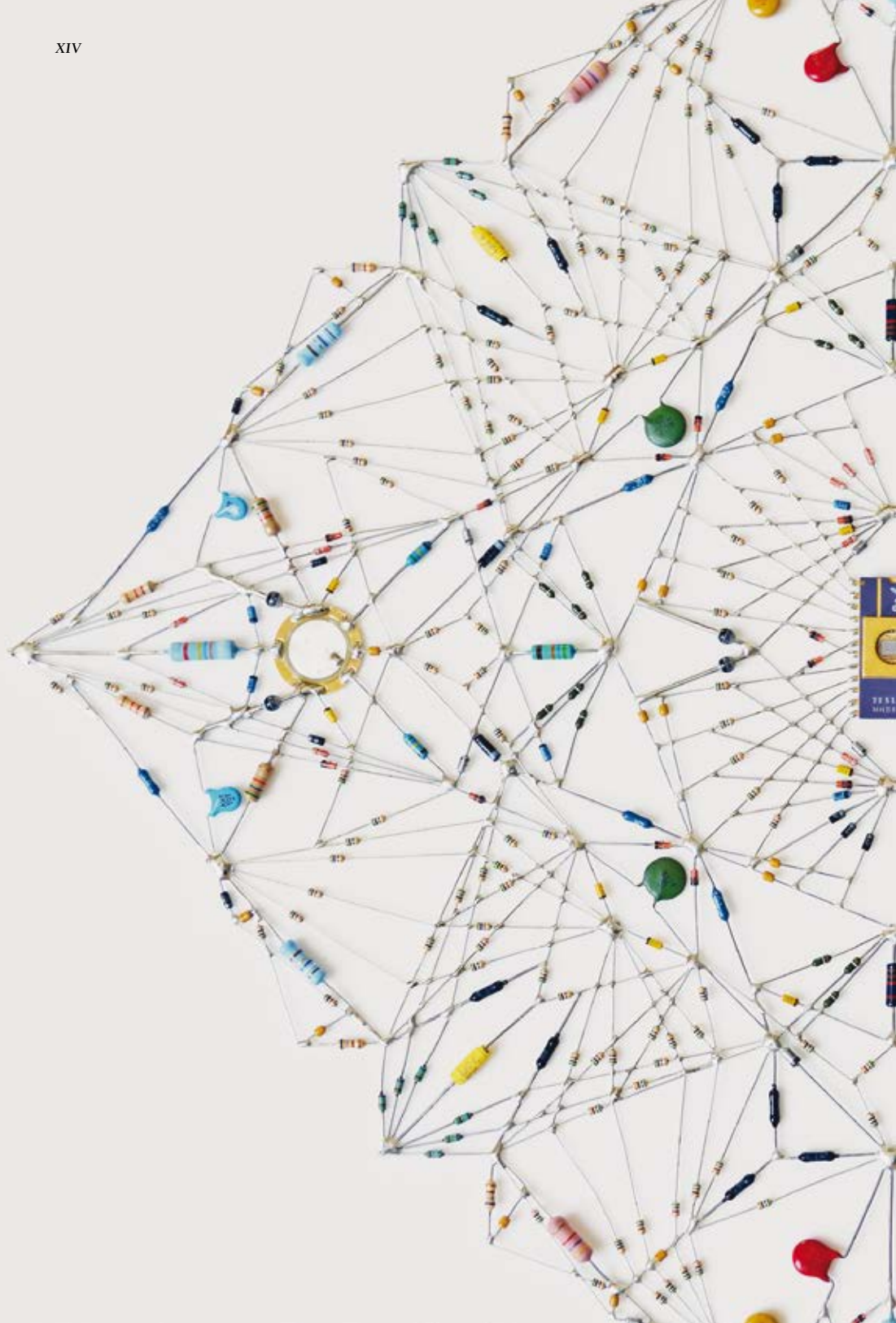
Since it was created in 2007, its volunteers have organised more than 1,000 weekend hackathons with over 100,000 participants in nearly 500 cities, including such far-flung places as Ulaanbaatar in Mongolia and Perm in Russia.

Perhaps the biggest change is that computing power and digital storage are now delivered online. At Amazon Web Services, the biggest “cloud” provider, the basic package is free and includes 750 hours of server time. And if a new website or smart-phone app proves hugely successful, new virtual servers can be added almost instantly for a small fee.

A whole industry of services to help startups tweak their offerings has sprung up, too. Optimizely, itself a startup, automates something that has become a big part of what developers do today: A/B testing.

In its simplest form, this means that some visitors to a webpage will see a basic “A” version, others a slightly tweaked “B” version. If a new red “Buy now” button produces more clicks than the old blue one, the site’s code can be changed there and then. Google is said to run so many such tests at the same time that few of its users see an “A” version.

To see how people actually use their products, startups can sign up with services such as usertesting.com. This pays people to try out new websites or smartphone apps and takes videos while they do so. Firms can tell the service exactly which user profile they want (specifying gender, age, income and so on), and get results within the hour.





ACCELERATORS GETTING UP TO SPEED

The biggest professional-training system you have never heard of

It feels like some prayer meeting. Two middle-aged men start by telling the audience how important it is to pitch in.

A booming voice announces the acts, greeted by loud cheers; then some enthusiastic young people jump onto the stage and start talking about their missions.

One wants to help women sell their unused clothes and shoes; another to teach children to manage money more responsibly; a third to bring the reinsurance market online at last.

TechStars, a chain of accelerators (in essence, schools for startups), is known for putting on a good show. But such graduation ceremonies can now be watched almost anywhere: everyday is “demo day” somewhere around the world.

Accelerators’ champions already see them as the new business schools. “I’d rather get \$100,000 and be a case study than pay \$100,000 to read case studies,” says Dave McClure, the founder of 500 Startups, an accelerator based in Silicon Valley.

The exact number is unknown, but f6s.com, a website that provides services to accelerators and similar startup programmes, lists more than 2,000 worldwide.

Some have already become big brands, such as Y Combinator, the first accelerator, founded in 2005. Others have set up international networks, such as TechStars and Startupbootcamp.

Yet others are sponsored by governments (Startup Chile, Startup Wise Guys in Estonia and Oasis500 in Jordan) or big companies. Telefónica, a telecoms giant, operates a chain of 14 “academies” worldwide. Microsoft, too, is building a chain.

**PREDICTABLY, MANY OBSERVERS
TALK ABOUT AN “ACCELERATOR
BUBBLE”. YET IF IT IS A BUBBLE,
IT IS UNLIKELY EVER TO DEFLATE
COMPLETELY. ACCELERATORS ARE
TOO USEFUL FOR THAT.**

Not only do they bring startups up to speed, provide access to a network of contacts and give them a stamp of approval. They also perform a crucial function in the startup supply chain: picking the teams and ideas that are most likely to succeed and serving them up to investors.

Business schools emerged in the second half of the 19th century to meet an educational need not provided for by other institutions. Accelerators are trying to fill a similar gap today. But they also call to mind another sort of educational institution that became popular during the dotcom boom: incubators.

The idea was to give startups a home and offer them technical, legal and other services. Yet many of the fledglings did not fly. The incubators often felt too cosy, and their operators had no interest in pushing out their tenants as long as they were paying rent.

The mixed success of incubators was one reason why Paul Graham, a former software entrepreneur and angel investor, chose a different set-up for Y Combinator, which went on to nurture such successes as Dropbox and Airbnb.

Founders who take part in its programme have to move to Silicon Valley for the duration, but Y Combinator itself is not much more than an assembly hall in the heart of the region where participants meet for weekly dinners, listen to guest speakers and talk to Mr Graham and his partners.





It started as a summer programme and the roots still show, with courses running for three months, about the length of an academic summer break. Teams all join at the same time, in batches. Applicants are rigorously screened and the best invited for interview. For the latest batch 74 (including six not-for-profits) were selected from a field of more than 2,600. Those lucky few get paid between \$14,000 and \$20,000 to attend. In return they have to hand over about 7% of their firm's equity.

Y Combinator is still the most successful startup school. Its boss maintains a steely control reminiscent of Apple's late Steve Jobs, but others adopt a more open approach.

TechStars, the model for most accelerators, has even created a Global Accelerator Network for startup schools. This is not an entirely disinterested move: it aims to create a platform for like-minded organisations in which its programmes will have Ivy League status.

Founded in Boulder, Colorado, by David Cohen and Brad Feld, two angel investors, TechStars is also highly selective and takes an equity stake in the companies it accepts, and it, too, admits new startups in batches for three months at a time. But it feels more like a real school than does Y Combinator: founders toil together in classes of a dozen people, and they have teachers-cum-mentors who serve as sounding boards. The company has replicated its model in five American cities and in London.

The chain's classroom in Britain's capital is a floor in Warner Yard, a co-working space in the district of Clerkenwell.

TEAMS SHARE TABLES, BUT BANTER IS KEPT TO A MINIMUM. "GET SHIT DONE," READS ONE SCRIBBLE ON A BLACKBOARD. "WASTING TWO OUT OF SEVEN DAYS IS NOT AN OPTION," PROCLAIMS ANOTHER.

Dominating the room is a big digital clock counting down to demo day when they all have to present their projects.

THREE MONTHS IN PURGATORY

“That clock is basically your life,” says Laurence Aderemi, chief executive of Moni, a mobile service designed to make it easy to send money abroad. He initially sat right in front of the clock, but moved his seat after it appeared in a nightmare.

Twelve-hour working days are at the lower end of the scale. If necessary, founders dispense with sleep altogether and work non-stop. Some sever all contact with friends and family during the programme.

Most accelerators do not have much in the way of a fixed curriculum. Managers of startup schools regularly meet up with the founders and organise a few classes on such matters as taxes and payroll. They also make extensive use of mentors, mostly experienced entrepreneurs, investors or other experts who have seen it all before.

For mentoring to work, founders and mentors have to be well matched, so TechStars programmes start with a mentoring marathon: over ten days founders meet more than 100 people for half an hour each.

SeedCamp, another accelerator based in London, regularly brings together two dozen invited startups with nearly 400 experts over the course of week.

This can be both useful and confusing. At a recent SeedCamp session the four mentors quizzing the founder of Legal-Tender, a marketplace for legal services, soon home in on the central problem of such a business: reaching a point where demand and supply feed on each other. But they offer different kinds of remedies: one suggests starting off with recruiting legal firms, another specialising in certain kinds of legal work, and a third working with a professional organisation.

Mentors usually do not get paid, but they seem to enjoy the experience. “It’s rejuvenating my brain,” says Kevin Dykes, a serial entrepreneur who is a regular at Startupbootcamp in Berlin, “but I also want to give back to the community.”



Some mentors become paid advisers or even investors. At TechStars they are often the first people to put money into a startup after demo day.

Cynics say that mentoring is just a form of due diligence and a way of creating a “proprietary deal flow” – meaning privileged access to good deals. Some accelerators themselves have funds for additional investments in alumni’s businesses, or work with venture-capital funds that put money in all the startups in a batch, sight unseen.

THEY SEE IT AS A BET ON AN INDEX FUND, HOPING THAT AMONG THE STARTUPS WILL BE A FEW BIG WINNERS – AN APPROACH TO VENTURE INVESTING KNOWN AS “SPRAY AND PRAY”.

But demo day remains all-important for attracting investors. Startups are told to think about their pitches from the day they enter the programme. The last few weeks are often dominated by rehearsals. The presentations themselves are usually only a few minutes long, but they have to do far more than provide information about what the firm does, the pedigree of the founders and the size of the market.



To persuade an investor to ask for a follow-on meeting, they must be masterpieces of storytelling about the startup's chances of success.

"You have to pull them into your reality-distortion field," says Paul Murphy, the founder OP3Nvoice, another TechStars London startup that sells technology to search audio and video recordings.

**THE COMPETITION IS NOT SO MUCH
THE OTHER FIRMS PRESENTING
BUT THE INVESTOR'S SMARTPHONE,
WHERE ANOTHER MESSAGE IS ALWAYS
DEMANDING ATTENTION.**

When you add it all up, accelerators are quite different from business schools. "One helps you with that startup, the other provides you with a framework for 20 years," says Jon Eckhardt, who heads the entrepreneurship centre at the University of Wisconsin-Madison and has co-founded an accelerator.

Still, he thinks, for most founders, startup schools are probably worthwhile. Much of the learning takes place among the founders themselves, says Susan Cohen of the University of Richmond, Virginia, who has written a dissertation on the subject. Teams are keen to help each other: the better the batch, the bigger the chances that all its members will attract investors.



But founders may lose a slice of equity and time, which is at a premium in the fast-moving tech world. “You know what I’m tired of? Rich guys launching ‘startup accelerators’ so they can rip off new startup founders,” said Ryan Carson, a British entrepreneur, on his blog.

Others worry that startup schools drain scarce talent from fast-growing companies and accelerate too many ideas that struggle to find funding.

More fundamentally, it remains to be seen whether accelerators are good business. For many, making money is not the goal: big companies often launch them to tap into the startup community or as a marketing exercise; governments subsidise them to foster their entrepreneurial ecosystem; and many angels see their investment in them as a way of giving back. But most accelerators that take equity in their startups hope that at least some will return a respectable multiple of the investment.

It will take time to find out whether those hopes are fulfilled. Most accelerators were established after 2010, and most startups that have gone through them are still works in progress. Research about accelerators is in its infancy and there are no generally agreed ways to evaluate their performance.

Still, a financial picture of the industry is starting to emerge. Jed Christiansen, who works for Google in London, tracks 182 accelerators which have nurtured more than 3,000 startups.

Between them, those have raised \$3.2 billion in follow-on funding and generated “exits” worth \$1.8 billion. This landscape is dominated by American firms, with Y Combinator and TechStars franchises leading the pack.

This suggests that accelerators are a winners-take-most market. Founders are highly mobile, and the best will try to get into the leading startup schools, making it harder for the rest to turn a profit.

“There will be a washing out,” predicts Alex Farcet, the founder of Startupbootcamp.

But accelerators alone will not ensure success. It takes a much broader ecosystem for a startup to thrive.

182
ACCELERATORS
NURTURED
MORE THAN
3,000
START-UPS
RAISED
\$3.2B
IN FUNDING
GENERATED
\$1.8B
IN “EXITS”





BUSINESS
COMMUNITIES

ALL TOGETHER NOW

What entrepreneurial ecosystems need to flourish

The term “ecosystem” for economic clusters was popularised 20 years ago by James Moore, then a business consultant and now a human-rights advocate, who was fond of ecological metaphors.

These days the emphasis is less on “eco” than on “system”.

For some experts, such as Daniel Isenberg of Babson College, entrepreneurial ecosystems are made up of “domains”, including markets, policy and culture.

Others describe them as collections of actors that play certain roles, such as providing talent, finance and infrastructure. Yet others talk about them as a set of “resources” entrepreneurs can draw on.

In some ways, ecosystems can be seen as exploded corporations. Finance departments have been replaced by venture-capital funds, legal ones by law firms, research by universities, communications by PR agencies, and so on.

All are nodes in a loose-knit support network for startups that does what in-house product-development teams used to do.

Silicon Valley is the original entrepreneurial ecosystem, but in recent years such communities have popped up all over the world. They often form in places where young people want to live: Berlin, Boulder, London.

Perhaps the most unexpected one is Amman's; despite the political turmoil in the region and a civil war in Syria next door, Jordan's capital has a few hundred startups. Israel boasts the largest number of startups per person.

DON'T BE SELFISH

"Startup Communities" by Brad Feld, co-founder of the TechStars accelerator network, is a to-do list for "building an entrepreneurial ecosystem in your city", as the subtitle puts it. Mr Feld describes startup communities as self-governing bodies of craftsmen akin to medieval guilds.

The first point of his "Boulder Thesis" (named after the city in Colorado where he lives) is that entrepreneurs must lead. A second is that a startup community must be open to anyone who wants to join. But the main message is that you must "give before you get".

For an individual, giving before getting is good business. In a fast-moving and uncertain industry he may need someone's help some day.

"It's about building social capital," says Hussein Kanji of Hoxton Ventures, a London venture-capital fund. More important, though, business in ecosystems is not a zero-sum game.

TOM EISENMANN OF HARVARD BUSINESS SCHOOL EXPLAINS THAT STARTUP COLONIES ARE PLATFORMS WITH STRONG NETWORK EFFECTS, A BIT LIKE WINDOWS AND FACEBOOK: THE MORE MEMBERS THEY HAVE AND THE MORE ACTIVITY THEY GENERATE, THE MORE ATTRACTIVE THEY BECOME.

This helps explain some of these ecosystems' other characteristics: their tolerance of failure, the endless succession of startup-related talks, meetings, parties and, above all, the constant hype. But what really gets those network effects going is "exits" – a sale to a bigger company or a listing on a stock exchange.





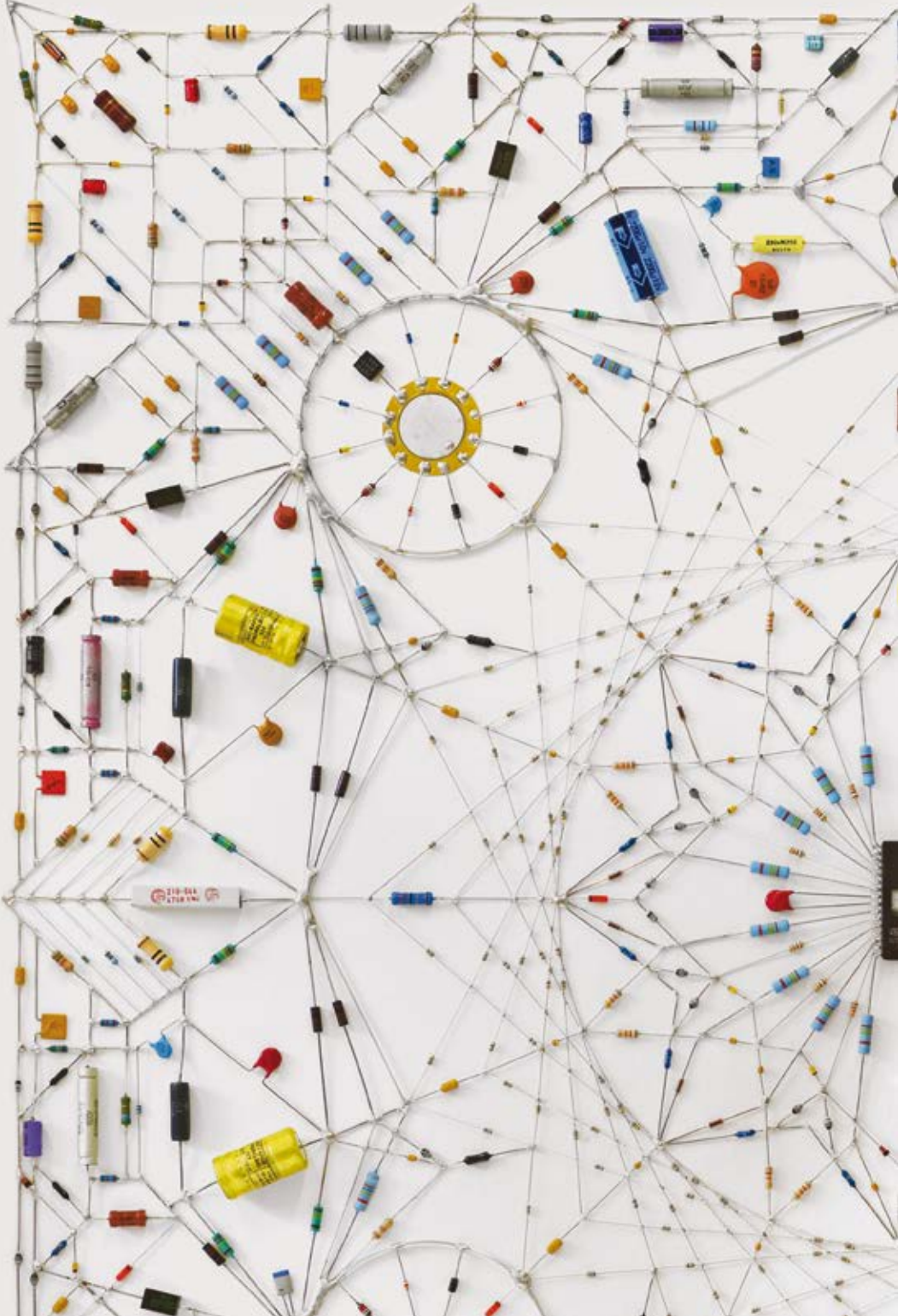
Newly enriched founders often become investors themselves and employees start their own companies. Silicon Valley spawned a succession of “clans” emerging from companies such as Fairchild Semiconductor, Netscape and PayPal.

Government policy can make a big difference. Even in Silicon Valley, defence dollars during the second world war and the cold war primed the pump before venture capital took over.

But ecosystems are more fragile than their leaders’ confident manner suggests. Network effects can easily go the other way. And governments have to tread carefully because national ecosystems increasingly form part of larger global organisms. Founders and investors, already used to entrepreneurial globe-trotting, will readily consider moving to another place if it seems to have more to offer.

Often that place is America. With its huge market and vast pool of venture capital, it is still the destination of choice for founders the world over, even though the country’s restrictive immigration policy since September 11th 2001 has made it more difficult for them to settle there.

If Asia and Europe do not watchout, their best startups could still end up in Silicon Valley or in one of America’s newer ecosystems, such as Austin, Boulder or New York.



PLATFORMS

SOMETHING TO STAND ON

Proliferating digital platforms will be at the heart of tomorrow's economy, and even government.

Providing the right platform is sometimes all it takes.

Instead of planning new pedestrian plazas by the usual bureaucratic means, New York City's department of transportation just marks an area on a street with temporary materials and then lets local organisations, architects and citizens decide what to do with it.

The programme has so far produced 59 plazas, including the Pearl Street Triangle in Brooklyn, a small urban oasis with big potted plants and shaded seating.

In the physical world, platforms can be simply something to stand or build on, like a New York City street.

They can also be basic inputs for many other activities and products.

Railways allowed services such as mail order to develop; the power grid brought forth a plethora of electrical household appliances; and standardised containers boosted global trade.

Even Barbie dolls can be seen as platforms for all kinds of profitable add-ons, such as shoes, wigs and handbags.

But although physical platforms have been around for a long time, the idea did not attract much attention until the rise of the software industry in the 1980s and 1990s, explains Michael Cusumano, also of MIT Sloan School of Management.

The industry quickly split into two parts: operating systems (the platforms) and applications that ran on top of them.

Bill Gates, the founder of Microsoft, realised much earlier than his rivals that power (and thus profit) rests with those who control the operating system, in his case Windows.

He also saw that the key to creating a successful platform is building a thriving ecosystem around it to get the network effects going.

The more programs that run on Windows, the more users will want it, and therefore the more attractive it will be to developers.

BEYOND RAILWAYS

Some platforms are internal to a company. In the car industry a vehicle's main components, including steering, suspension and power train, are often shared by different models.

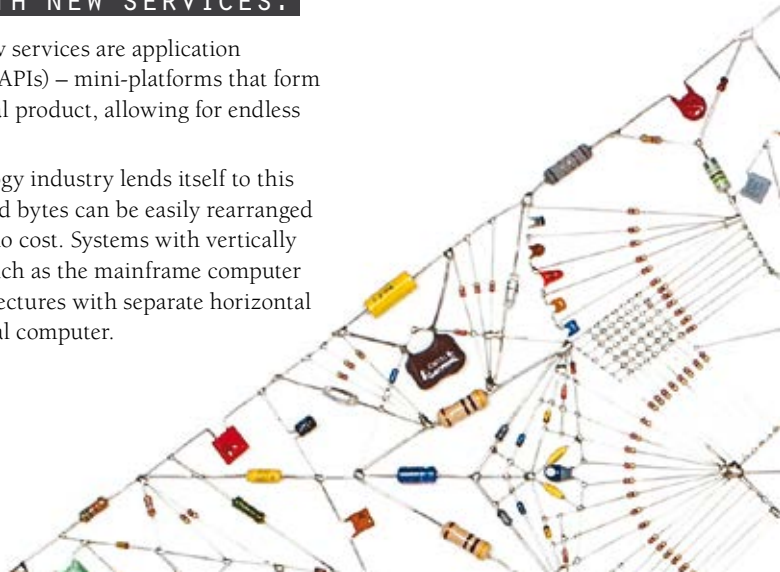
Other platforms, such as Windows, serve an entire industry. Yet others are “closed”, meaning that access is tightly controlled, as for Apple's iPhone. The most widespread are the “open” ones, which everyone can use without asking, such as Linux, the open-source operating system.

Intrigued by Microsoft's success and its subsequent antitrust woes, academics such as Annabelle Gawer of Imperial College Business School dug deeper and found that platforms are a common feature of complex systems, whether economic or biological. The core building blocks are kept stable so that the other parts can evolve more rapidly by combining and recombining them and adding new ones.

**THAT IS WHAT IS HAPPENING
IN THE STARTUP WORLD: NEW
FIRMS COMBINE AND RECOMBINE
OPEN-SOURCE SOFTWARE, CLOUD
COMPUTING AND SOCIAL NETWORKS
TO COME UP WITH NEW SERVICES.**

In fact, many of these new services are application programming interfaces (APIs) – mini-platforms that form the basis of another digital product, allowing for endless permutations.

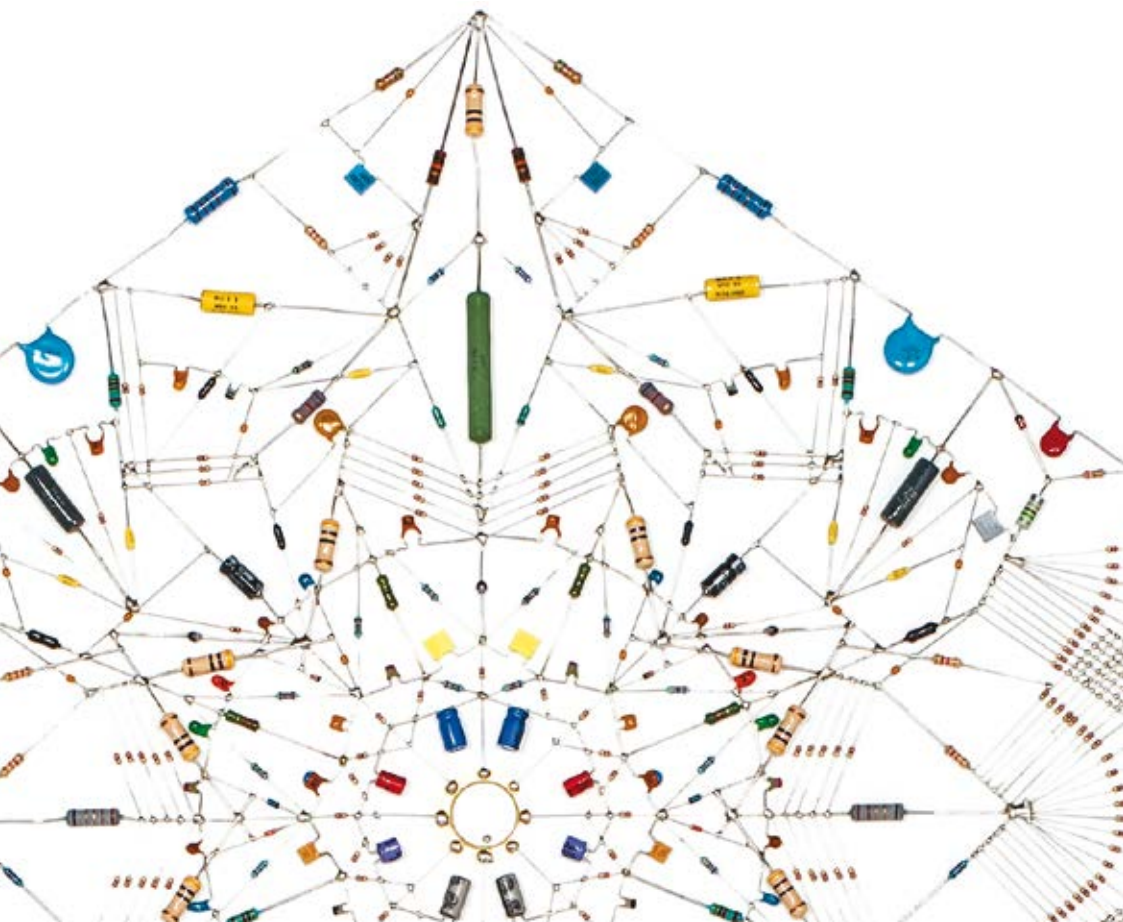
The information-technology industry lends itself to this treatment because bits and bytes can be easily rearranged and replicated at almost no cost. Systems with vertically integrated components such as the mainframe computer tend to give way to architectures with separate horizontal layers such as the personal computer.



Today the IT sector looks like a very flat inverted pyramid: the bottom, where economies of scale rule, is made up of just a few powerful platforms; the top, where creativity and agility are at a premium, is becoming ever more fragmented. There is not much in between.

As software eats more and more industries, they will increasingly take on this shape, predicts Philip Evans of Boston Consulting Group.

By lowering transaction costs, IT allows big chunks of the economy to reshape themselves and turn into what he calls “stacks” – industry-wide ecosystems that will have large platforms at one end of their value chains and a wide variety of modes of production at the other, from startups to social enterprises and communities to user-generated content.



STACKING UP

Outside the IT industry such stacks have only just begun to form. In finance, credit-card networks have long operated as platforms, allowing banks to issue their own plastic money.

Yodlee, which aggregates financial data for more than 55 million bank customers, now allows startups and other firms to plug into its systems. Some smaller banks, including Bancorp, also see themselves as platforms, keeping the books for innovative online banks such as Simple. Big payment processors, such as First Data and TSYS, are also expected to open up their networks.

In telecommunications and electricity, regulators have pushed firms to go horizontal by forcing them to unbundle their services. As power grids become cleverer, smart-meter apps are likely to appear. A new grid in Amsterdam, for instance, is set up in such a way that startups can use it to develop energy-saving applications.

Powerful platforms will also emerge in industries that produce piles of data, such as health care. They can provide startups with opportunities to mine the data to find digital material for new services.

This “platformisation” is spreading even to the very stuff of life. Synthesising DNA is still much more expensive than sequencing it, but the costs are coming down rapidly, and an ecosystem for this ultimate platform is already beginning to form.



Half a dozen cities around the world are now home to bio-hacker spaces (such as New York's Genspace) where genetic hackers learn how to build simple biological machines. Autodesk, a software firm, is developing design tools for DNA, code-named "Project Cyborg".

As with hardware, America's west coast and China's Pearl River Delta may be able to collaborate on this one day – though not everyone would welcome the idea because the implications of such biological machines can be quite scary.

Silicon Valley is already home to a few biosynthesis startups, for example Cambrian Genomics, which is developing a machine to print DNA cheaply. Shenzhen is the base of BGI, formerly known as the Beijing Genomics Institute, which does DNA sequencing on an industrial scale.

IN BUSINESS THE EFFECTS OF PLATFORMS ARE ALREADY MAKING THEMSELVES FELT. COMPANIES MUST EITHER TURN THEMSELVES INTO ONE OR BECOME AGILE ECOSYSTEMS, COMPLETE WITH STARTUPS AND ACCELERATORS, SAYS JOHN HAGEL OF THE DELOITTE CENTRE FOR THE EDGE, A RESEARCH ARM OF DELOITTE, A PROFESSIONAL-SERVICES FIRM.

Coca-Cola, for instance, is planning to launch accelerators in nine cities, including Berlin and Istanbul. Such efforts will change the understanding of what constitutes a firm, says Mr Hagel.

The spread of platforms will bring radical changes for workers, too. Many more will become founders or be employed by startups. "They will be labourers in the technological gardens where a thousand flowers bloom, but only a few will grow to become really big," says Thomas Malone of the MIT Sloan School of Management. And experts note that some people may find it hard to get used to such a fast-moving world of work.

Governments will also have to adapt. Antitrust authorities will need to be alert because platform operators, which are open quasi-monopolists, will have strong incentives to maintain their dominance.

The most powerful of them, such as Amazon, Facebook or Google, will amass huge amounts of information and will form the central data banks for the knowledge economy.

No less than companies, governments will have to consider what role they want to play in this new world. Currently they resemble a “vending machine” offering a limited set of choices, says Tim O’Reilly, an internet expert. But they would work much better as a platform for a “thriving bazaar” of government services, offering basic building blocks that others can use.

This suggests that the state needs to limit what it does but do it well. “It has to be both narrower and stronger,” says Paul Romer of New York University. In a future digital world big business and big government may play similar roles, as platform managers and curators of ecosystems.

Cities or even governments may offer services to other cities and countries in fields such as online identity and regulatory oversight.

**ALL IN ALL, THE IMPACT OF
PLATFORMISATION WILL BE
MONUMENTAL. THOSE WHO SEE
THE CURRENT ENTREPRENEURIAL
EXPLOSION AS MERELY ANOTHER
DOTCOM BUBBLE SHOULD THINK AGAIN.**

Today’s digital primordial soup contains the makings of the economy and perhaps even the government of tomorrow. ■

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