



# Washington H. Soul Pattinson and Company Limited

ABN 49 000 002 728

ASX Code: SOL



Annual Report

2017



## Profile

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

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

### Over 100 years as a listed public company

When Caleb Soul and his son Washington opened their first store at 177 Pitt Street, Sydney, in 1872 neither of them could have envisaged that 145 years later their single pharmacy would have evolved into a company as prominent and diversified as WHSP.

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

## Calendar

### Final Dividend

Record date	20 November 2017
Payment date	11 December 2017

### Annual General Meeting

AGM date	8 December 2017
AGM venue	The Wesley Theatre Wesley Conference Centre 220 Pitt Street, Sydney
Group Company displays open	10.45am
AGM commences	12.00 noon



For more information visit our website  
[www.whsp.com.au](http://www.whsp.com.au)

DIVERSIFIED  
PORTFOLIO

LONG TERM  
INVESTOR

CONSERVATIVE  
AND VALUE  
FOCUSED

OVER THE LAST 15 YEARS WHSP HAS

CONTINUALLY  
INCREASED  
DIVIDENDS

GROWING AT A  
COMPOUND ANNUAL  
GROWTH RATE OF  
**9.4% PA**

DELIVERED A  
TSR OF 12.8%  
PER ANNUM

OUTPERFORMING  
THE ALL ORDS  
ACCUMULATION INDEX  
BY **3.9% PA**



# Corporate Directory

## Directors

Robert D Millner	Chairman – Non-Executive Director
Todd J Barlow	Managing Director and Chief Executive Officer
Michael J Hawker	Non-Executive Director
Thomas C D Millner	Non-Executive Director
Warwick M Negus	Non-Executive Director
Melinda R Roderick	Finance Director and Chief Financial Officer
Robert G Westphal	Non-Executive Director
David E Wills	Non-Executive Director to retire 31 October 2017
Tiffany L Fuller	Appointed as a Non-executive Director effective 1 December 2017

## Company Secretary

Ian D Bloodworth

## Auditors

Pitcher Partners Sydney

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Boul Pattinson 160

CHEMIST

FATHERS DAY GIFTS

FATHERS DAY GIFTS





## Key Highlights

### MORE THAN DOUBLED

NET PROFIT AFTER TAX

**\$333.6m**

**123.3% ▲**

### HIGHEST EVER

REGULAR PROFIT AFTER TAX

**\$282m**

**59.1% ▲**

### 17th YEAR OF INCREASE

FULLY FRANKED DIVIDENDS

**54 cps**

**3.8% ▲**

### REGULAR CASH

**60 cps**

**4.5% ▲**

### TOTAL SHAREHOLDERS

**17,853**

**20.3% ▲**

### ENTERED

**ASX 300**

March 2017

### ENTERED

**ASX 200**

September 2017

*Regular profit after tax is a non-statutory profit measure and represents profit from continuing operations before non-regular items.*

*A reconciliation to statutory profit is included in the Consolidated Financial Statements – Note 3, Segment information.*





# Chairman's Review

## Dear Shareholders,

I am pleased to present the 2017 Annual Report for Washington H. Soul Pattinson and Company Limited (WHSP, Parent Company) on behalf of the Board of Directors of the Company.

**PROFIT  
AFTER  
TAX  
INCREASED  
BY  
123%**

## Consolidated Financial Performance

The profit after tax attributable to shareholders for the year ended 31 July 2017 was \$333.6 million, an increase of 123.3% compared to the \$149.4 million for last year.

The regular profit after tax\* of \$282.0 million was the Group's highest ever and increased by 59.1% over the \$177.2 million for 2016. This increase was attributable to improved regular contributions across the portfolio, notably:

- New Hope Corporation Limited (up 2,412%) which capitalised on a recovery in coal prices and its new Bengalla joint venture;
- TPG Telecom Limited (up 14.3%) with growth in both consumer and corporate segments;
- Brickworks (up 6.1%) on the back of continued east coast building activity and demand for Brickworks' land portfolio; and
- Australian Pharmaceutical Industries Limited (up 16.8%) through continued organic growth of the Priceline pharmacies.

The net profit on non-regular items was \$51.6 million (2016: \$27.8 million loss) including: a gain on the recognition of Pengana Capital Group as an associate; gains on the disposal and part disposal of associates; and gains on the sale of long-term equity investments.

Comparisons with the prior year are as follows:

	<b>2017</b> \$'000	<b>2016</b> \$'000	<b>%</b> Change
Profit after tax attributable to shareholders	<b>333,611</b>	149,421	+ 123.3%
Regular profit after tax* attributable to shareholders	<b>282,019</b>	177,222	+ 59.1%
Interim Dividend (paid in May each year)	<b>22 cents</b>	21 cents	+ 4.8%
Final Dividend (payable 11 December 2017)	<b>32 cents</b>	31 cents	+ 3.2%
<b>Total Dividends</b>	<b>54 cents</b>	52 cents	+ 3.8%

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

## Assets of the Parent Company Washington H. Soul Pattinson and Company Limited

The assets of WHSP are summarised below. The net asset value at 31 July 2017 was \$4.5 billion a decrease of \$1.6 billion or 25.9% compared to \$6.0 billion as at 31 July 2016. This decrease is mainly attributable to the decrease in TPG Telecom's share price.

As at 31 July 2017	WHSP's Holding	Value of WHSP's Holding	12 month Movement	
	%	\$m	\$m	%
TPG Telecom <sup>1</sup>	25.2%	1,305	(1,433)	(52.3%)
Brickworks <sup>1</sup>	44.0%	867	(120)	(12.2%)
New Hope Corporation <sup>1</sup>	59.6%	793	0	0%
Financial Services Portfolio <sup>1 &amp; 2</sup>	—	409	149	57.2%
Australian Pharmaceutical Industries <sup>1</sup>	19.4%	167	(64)	(27.7%)
CopperChem and Exco Resources <sup>2</sup>	100%	84	24	39.1%
Apex Healthcare Berhad <sup>1</sup>	30.3%	49	4	8.5%
TPI Enterprises <sup>1</sup>	18.9%	40	11	39.6%
Other Listed Investment Portfolio <sup>1</sup>		447	(98)	(18.0%)
Other Unlisted Investment Portfolio <sup>2</sup>		72	(17)	(18.7%)
Property Portfolio <sup>2</sup> (net of borrowings)		208	31	17.9%
Cash and other net assets		25	(49)	(65.6%)
<b>Net asset value (pre-tax)<sup>3</sup></b>		<b>4,466</b>	<b>(1,562)</b>	<b>(25.9%)</b>

<sup>1</sup> At market value.

<sup>2</sup> At Directors' valuations.

<sup>3</sup> The tax payable if all of these assets had been disposed of on 31 July 2017 would have been approximately \$787 million.



During the year, WHSP invested a further \$100.7 million in TPG Telecom, via a capital raising, to finance its purchase of mobile network spectrum.

WHSP has aggregated its financial services investments into a financial services portfolio. BKI Investment Company (BKI), Milton Corporation (Milton) and Pitt Capital Partners were held at the beginning of the year. Proceeds from the sale of part of the BKI and Milton holdings were \$25.1 million with a gain of \$9.9 million. Holdings in Pengana Capital Group, Hunter Hall Global Value, URB Investments and Contact Asset Management were acquired during the year for \$96.2 million and at 31 July 2017 had a value of \$161.9 million, an increase of \$65.7 million.

The holding in Australian Pharmaceutical Industries was reduced from 24.6% to 19.4% for proceeds of \$53.6 million and a profit of \$19.1 million. A further \$11.8 million was invested in TPI Enterprises and WHSP participated in Ruralco Holdings' capital raising before selling its entire holding for \$56.1 million.

While most of WHSP's investments delivered improved regular contributions this year, the share prices of the listed investments did not consistently reflect their performances. TPG Telecom's regular profit increased by 15.6% yet its share price decreased by 56.3%. Brickworks' underlying profit increased by 33.6% to a record \$196.4 million while its share price decreased by 12.2%.

Proceeds from the sale of other listed investments was \$90.4 million for the year while new investments totalled \$39.4 million. The gain on disposals was \$30.1 million and included Perpetual, Australia and New Zealand Banking Group (ANZ Bank) and Telstra.

Unlisted investments decreased in value by \$16.7 million, mainly as a result of sales.

During the year, two property investments were disposed of for \$20.1 million. Investments were made in three new properties totalling \$32.9 million and a property was revalued by \$8.9 million.

### Washington H. Soul Pattinson and Company Limited

WHSP is a long-term investor with its focus on providing its shareholders with capital growth and increasing fully franked dividends. WHSP has consistently outperformed the ASX All Ordinaries Accumulation Index over the long term.

Total shareholder return (TSR) measures share price movement over time and assumes dividends received are reinvested by purchasing additional shares.

The table below shows the TSRs for WHSP shares for various periods and compares them to the ASX All Ordinaries Accumulation Index which also includes the reinvestment of dividends.

#### Total Shareholder Returns to 31 July 2017

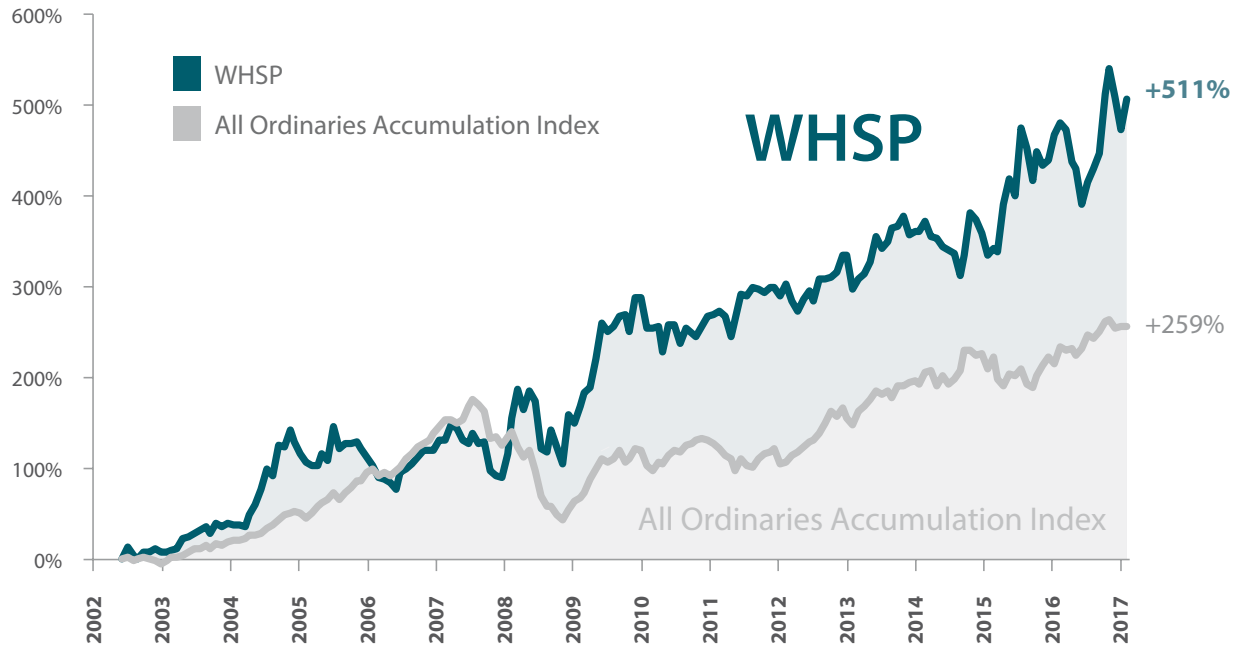
Annual Return	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years
WHSP	4.5%	17.2%	8.8%	9.6%	9.6%	12.8%
All Ordinaries Accumulation Index	6.6%	5.3%	5.3%	10.8%	3.7%	8.9%

**15 YEAR TOTAL  
SHAREHOLDER  
RETURN OVER  
12%  
PER ANNUM**



The following chart shows the total return over time of an initial investment made in WHSP shares in July 2002 compared to the ASX All Ordinaries Accumulation Index. An investment in WHSP over the last 15 years has almost doubled an investment in the index.

#### 15 Year Total Shareholder Return



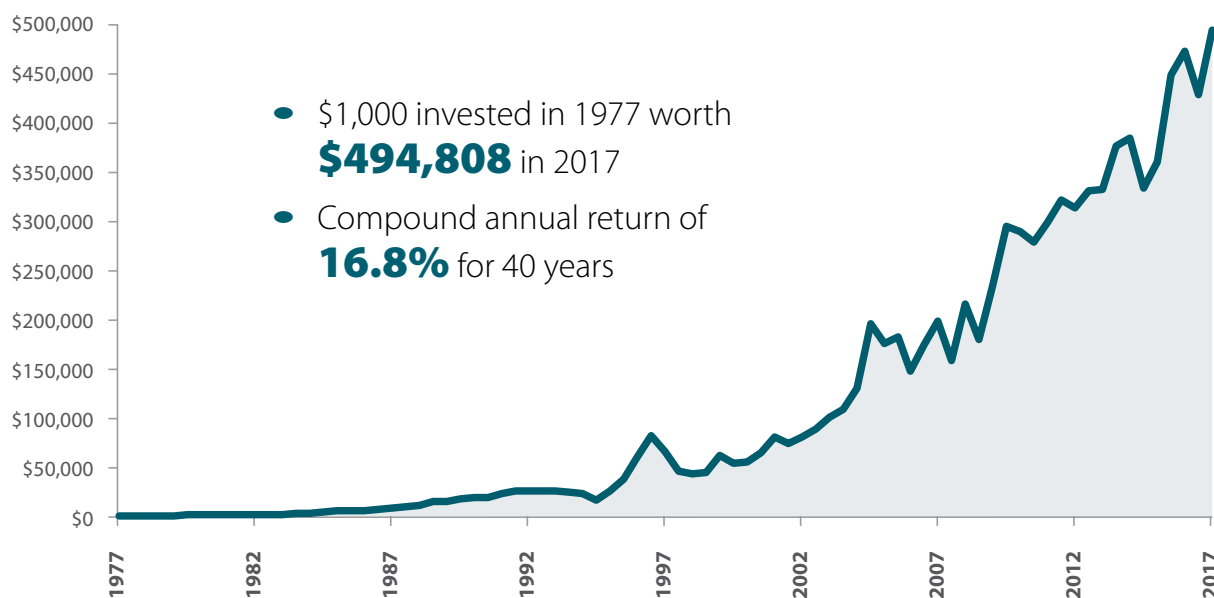
*Includes the re-investment of dividends.*





The following chart shows that the wealth creation is even more pronounced over a longer period. If a shareholder had invested \$1,000 in 1977 and reinvested all dividends, the shareholding would have appreciated to nearly \$495,000 as at 31 July 2017. This equates to a compound annual growth rate of 16.8% year on year for 40 years.

#### Wealth Creation over 40 years



*Includes the re-investment of dividends.*

#### Dividends

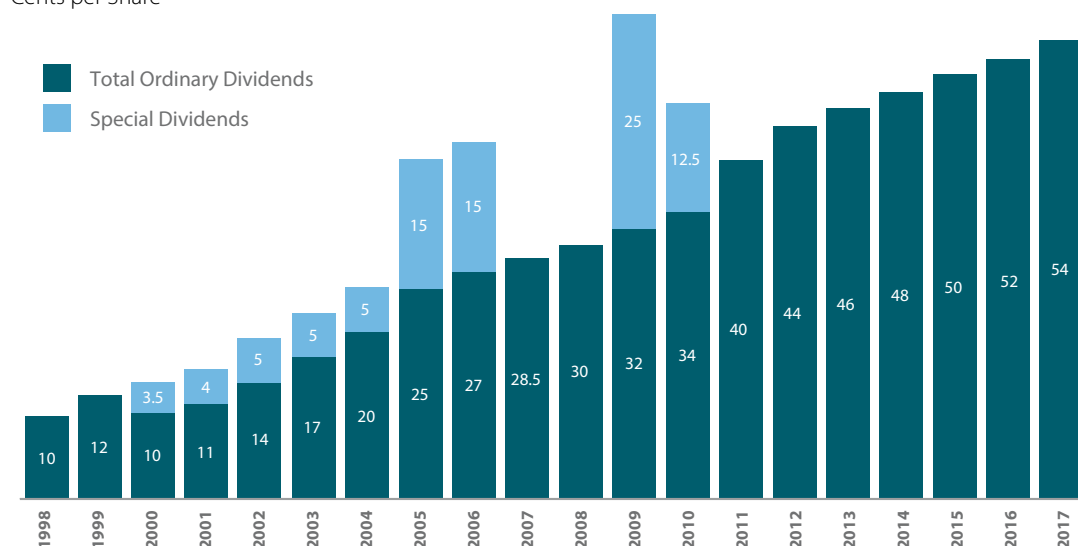
The chart below demonstrates WHSP's exceptional history of paying dividends to shareholders. The compound annual growth rate of the Company's ordinary dividends is 9.4% PA over the last 15 years and WHSP has not missed paying a dividend since listing in 1903 (including during the Great Depression of the 1930s and the Global Financial Crisis of 2007-08).

#### 20 Year Dividend History

Cents per Share

**TOTAL  
DIVIDEND  
FOR THE YEAR**

**54¢**



### Final Dividend

The Directors have declared a fully franked final dividend of 32 cents per share in respect of the year ended 31 July 2017 (2016: 31 cents fully franked). This brings total dividends for the year to 54 cents fully franked (2016: 52 cents fully franked).

The record date for the final dividend will be 20 November 2017 with payment due on 11 December 2017.

WHSP is one of only two companies in the ASX All Ordinaries Index to have increased its dividend every year for the last 17 years.

The Company receives dividends and distributions from its investments, interest from funds on deposit and gains on property assets. The Directors declare interim and final dividends based on the Company's regular cash inflows less regular operating costs.

This year it will pay out, as dividends, 90.0% of its net regular cash inflows from operations (2016: 90.6%).

WHSP's diversified portfolio continues to deliver reliable cash returns enabling it to provide increasing fully franked dividends to its shareholders.

### Perpetual litigation

During the year, the Company successfully defended litigation brought by funds managed by Perpetual Investment Management Limited (Perpetual). The Federal Court dismissed all allegations made by Perpetual and ordered Perpetual to pay WHSP's costs.

Justice Jagot found that "reasonable directors would not consider maintenance of the cross-shareholding to date to be unfair or oppressive. Accordingly, Perpetual's claim must be rejected... On any reasonable view of the evidence, the directors of each company have diligently considered the structure of the companies with their obligations to act in the best interests of the company firmly in mind."

The Court's decision brought to an end Perpetual's long period of agitation where your Company was subjected to criticism and attacks, some of which were very personal. On behalf of WHSP, I thank shareholders for their patience and support.

WHSP is now in a stronger position with an increased number of shareholders, a diverse range of institutional shareholders and increased liquidity, which has led to inclusion in the ASX200 and ASX 300 indices.


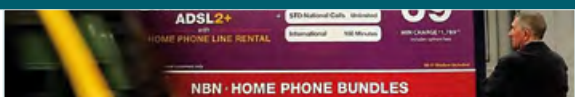





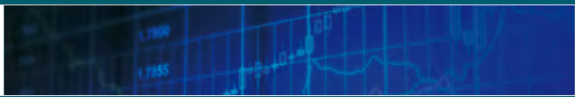








The Board and management continue to focus all of their efforts on increasing value and growing dividends for shareholders.



R D Millner  
Chairman

# Review of Group Entities

as at 31 July 2017

		TPG Telecom Limited	ASX:TPM	10
		Brickworks Limited	ASX:BKW	12
		New Hope Corporation Limited	ASX:NHC	14
		Financial Services Portfolio		17
		Australian Pharmaceutical Industries Limited	ASX:API	18
		CopperChem Limited and Exco Resources Limited		19
		Apex Healthcare Berhad	Bursa Malaysia: APEX MK	20
		TPI Enterprises Limited	ASX:TPE	21
		Other Investments and Property		22

# TPG Telecom Limited

Associated entity: **25.2% held**  
Dividends paid to WHSP: **\$33.1 million**  
Total Market Capitalisation: **\$5.19 billion**  
Value of WHSP's Holding: **\$1.30 billion**  
ASX code: **TPM**



TPG reported the following results for the year ended 31 July 2017:

- Earnings before interest, tax, depreciation and amortisation (EBITDA) of \$890.8 million, an increase of 5%.
- Net profit after tax (NPAT) of \$413.8 million, an increase of 9%.
- Earnings per share (EPS) 47.9 cents, an increase of 6%.

## Underlying Results

The above results include the following irregular items:

- \$48.8 million profit realised on the sale of equity investments (\$35.3 million post tax); and
- \$7.0 million non-recurring revenue earned by TPG's consumer segment (\$4.9 million post tax).

Excluding these irregular items and the \$74.1 million (\$70.7 million post tax) irregular items that benefitted the reported EBITDA last year, TPG's underlying EBITDA has increased by \$59.7 million or 8% to \$835.0 million. This is \$5 million above the top end of the \$820–830 million guidance range provided in September 2016.

TPG's underlying NPAT grew by \$56.3 million or 16% to \$417.3 million due primarily to the EBITDA growth and a \$32.4 million pre-tax decrease in net financing costs. Net financing costs fell due to a reduction in the quantum and cost of TPG's bank debt.

Underlying EPS increased by 12% to 48.3 cents per share.

## Segment Results

The consumer segment's EBITDA for the year was \$530.4 million compared to \$467.4 million for 2016. Irregular items affecting this movement were \$7.0 million of one-off revenue earned through a key supplier arrangement this year and \$6.3 million of iiNet integration costs incurred last year and not repeated this year. Excluding these irregular items, the consumer segment achieved underlying EBITDA growth of \$49.7 million. This growth was driven by: an extra 3 weeks contribution from iiNet relative to 2016 of approximately \$13.8 million; and organic growth of \$35.9 million driven by NBN and fibre to the building subscriber growth and the continued realisation of financial benefits from iiNet integration activities.

The corporate segment achieved EBITDA of \$312.8 million compared to \$300.2 million last year. This growth of \$12.6 million was driven by continued strong data and internet sales and margin expansion.



**NET PROFIT  
CONTRIBUTED  
TO THE GROUP**  
**\$104  
MILLION**

### Cash Flow, Capital Expenditure and Gearing

TPG delivered another strong cash flow result with \$869.7 million of cash generated from operations (pre-tax).

TPG's capital expenditure of \$576.3 million included \$207.5 million for mobile spectrum purchases, comprising of \$124.4 million for Singapore new entrant and general auctions, \$73.1 million for Australian 1800MHz spectrum and a \$10.0 million prepayment in relation to Australian 700MHz spectrum. Aside from spectrum purchases, there was no significant mobile network expenditure. This expenditure will commence in 2018 financial year.

Other capital expenditure for the year of \$368.8m was approximately \$100 million higher than last year. This was driven by: an acceleration in the fibre expansion for the Vodafone fibre contract which is on schedule to be completed on time and within budget during the 2018 financial year; and the acquisition of additional international capacity.

Cash flows for the year were boosted by proceeds from the sale of equity investments of \$124.5 million. These, together with the free cash flow generated in the year and the \$400 million equity raise undertaken in April 2017 enabled TPG to reduce its bank debt as at the year end to \$900 million. This resulted in a debt to EBITDA leverage ratio of less than 1.1 times.

### Debt facilities

As at the year end TPG had \$735 million of undrawn debt facilities. In September 2017, TPG increased its total committed debt facilities by a further \$750 million to \$2,385 million in order to finance its spectrum commitments and planned mobile network builds.

Under the revised September 2017 debt facility agreement the improved pricing that TPG secured when it refinanced in December 2016 was maintained and the maturities of the facilities were extended. The maturity profile of the facilities is now between 3 and 7 years from September 2017 with a weighted average period of 4.5 years.

### Mobile Strategy Update

In addition to achieving the important milestone of securing debt financing to support the mobile strategy, TPG has also made strong progress in the implementation of its mobile network rollouts in both Singapore and Australia.

In Singapore, TPG is on track to achieve the first milestone of nationwide outdoor service coverage before the end of 2018. Capital expenditure projections are currently looking to be within initial assumptions.

In Australia, where the initial network implementation is concentrated on the most densely populated areas, TPG has already entered into agreements with multiple utility partners to gain access to a large number of sites to provide coverage of major metropolitan areas. Implementation of some initial site clusters in Sydney, Melbourne and Canberra are expected to be completed by mid 2018.

### Dividend

TPG has declared a reduced final dividend of 2 cents per share fully franked and have re-implemented the Dividend Reinvestment Plan for this dividend with a discount of 1.5%.

This final dividend brings the total dividends for the year to 10 cents per share fully franked compared to 14.5 cents for last year.

### Contribution

TPG contributed a net profit of \$104.1 million to the Group (2016: \$97.5 million).



# Brickworks Limited

Associated entity: **44.0% held**  
Dividends paid to WHSP: **\$32.2 million**  
Total Market Capitalisation: **\$1.97 billion**  
Value of WHSP's Holding: **\$867 million**  
ASX code: **BKW**

**BRICKWORKS**  
**LIMITED**

**RECORD  
UNDERLYING  
NET PROFIT  
AFTER TAX UP  
33.6%**

Brickworks posted a statutory net profit after tax (NPAT) for the year ended 31 July 2017 of \$186.2 million, up 138.2% on the prior year. Record underlying NPAT of \$196.4 million was up 33.6% from \$147.1 million for the year ended 31 July 2016.

Statutory earnings per share (EPS) was 124.9 cents, up 137.6% on the prior year, and underlying EPS was 131.8 cents, up 33.2%.

Brickworks has declared a fully franked final dividend of 34 cents per share for the year ended 31 July 2017, up 6.3% from 32 cents last year. Together with the interim dividend of 17 cents per share, this brings the total dividends paid for the year to 51 cents per share, up 3 cents or 6.3% on the prior year.

## Building Products

Building Products' earnings before interest and tax (EBIT) was \$65.0 million, down 13.7% on the prior year. Earnings on the east coast were higher, despite the impact of Cyclone Debbie and the associated period of heavy rain that had a significant impact on sales volume and manufacturing operations. This was offset by a decrease in earnings in Western Australia, as a result of the difficult market conditions and subsequent re-structuring activities in that state.





Total dwelling commencements for Australia were down 7.9% to 215,144 for the twelve months ended 30 June 2017. Despite the decline, this level of building activity remains elevated compared to historical averages.

Detached housing commencements remained at near peak levels, buoyed by growth in New South Wales which partially offset the significant fall in Western Australia.

After years of unprecedented growth, non-detached housing commencements decreased by 12.6% in the year to 30 June 2017, with all states except New South Wales experiencing falls.

Austral Bricks delivered a 7.3% increase in earnings for the year, with sales revenue up 2.0% to \$413.9 million. A focus on innovation and development of premium products continued to drive up sales margins during the year. Unit manufacturing costs improved, primarily as a result of prior period plant upgrades.

### Property

The Property Group produced an EBIT of \$90.6 million for the year, up 23.3% from \$73.5 million in 2016.

The improved result was due primarily to the sale of Oakdale West into the Joint Venture Industrial Property Trust during the first half, which contributed an EBIT of \$50.1 million. This 90 hectare site at Eastern Creek in New South Wales will be developed by the Property Trust as an industrial estate over the coming years.

The Joint Venture Industrial Property Trust (Property Trust) is a 50/50 partnership between Brickworks and the Goodman Industrial Trust. The net income distributed from the Property Trust was \$18.0 million, up 17.6% from \$15.3 million last year. In addition to annual rent increases on established properties, new developments at Rochedale and Oakdale Central contributed to this uplift.

The total value of assets held within the Property Trust at 31 July 2017 was \$1.401 billion with borrowings of \$441 million, giving a total net value of \$960 million. Brickworks' share of the Property Trust's net asset value was \$480 million, up \$148 million from \$332 million at 31 July 2016.

### Outlook

The Building Products Group continues to face mixed market conditions across the country, with the elevated east coast demand being offset by the significant weakness in Western Australia. Brickworks' pipeline of work is extremely strong in the major east coast states.

Brickworks is confident that the significant restructuring activities undertaken in Western Australia during 2017 have positioned its businesses to deliver improved results.

The most significant threat to Building Products' earnings is rising energy prices. Within Austral Bricks, energy prices represent around 26% of non-labour input costs and therefore any increase has a significant impact on margins.

Overall, Brickworks remains positive about the short-term outlook for Building Products.

Development activity within the Property Trust is currently at record levels, and the completion of further developments at Rochedale and Oakdale Central during the year will continue to increase rental income and asset value. Despite the strong prospects for the Property Trust, 2018 EBIT from Property will be lower than 2017, as no significant land sales are expected to occur within the period.

### Contribution

Brickworks contributed a net profit of \$36.3 million (2016: \$9.6 million 44.1% held) to the Group. These contributions exclude the WHSP profit taken up by Brickworks under the equity accounting method.





# New Hope Corporation Limited

Controlled entity: **59.6% held**  
Dividends paid to WHSP: **\$29.7 million**  
Total Market Capitalisation: **\$1.33 billion**  
Value of WHSP's Holding: **\$793 million**  
ASX code: **NHC**



**REGULAR  
PROFIT  
AFTER TAX  
INCREASED**

**2,459%**

New Hope reported a net profit after tax and before non-regular items of \$128.7 million for the year ended 31 July 2017. The result comprised: a profit of \$133.1 million from coal mining, marketing and logistics operations; and a loss of \$4.4 million from oil operations. This result is an increase of 2,459% on the 2016 profit of \$5.0 million.

The net profit after non-regular items was \$140.6 million, comprising of: a profit of \$145.0 million from coal mining, marketing and logistics operations and a loss of \$4.4 million from oil operations. This is an increase of 362% on the 2016 loss of \$53.7 million.

Compared to last year, the 2017 full year result benefitted from:

- Increased production and sales due to the inclusion of the Bengalla Joint Venture for the full year;
- Increased coal prices in both US Dollar and Australian Dollar terms; and
- A non-regular recovery of prior period below rail access charges.

During the year, New Hope generated a strong operating cash surplus of \$313.0 million (before tax payments and interest).

Before non-regular items, basic earnings for 2017 were 15.4 cents per share, compared to 0.6 cents per share in 2016. After non-regular items basic earnings per share were 16.9 cents per share for 2017 against 6.5 cents loss in 2016.

New Hope has declared a fully franked final dividend of 6 cents per share (2016: 2 cents). Together with the interim dividend of 4 cents per share, this brings the total dividends for the year to 10 cents per share (2016: 4 cents).





### Mining Operations

Coal production for the year was 8.6 million tonnes compared to 6.6 million tonnes produced in 2016. Bengalla contributed 3.4 million tonnes during the year and the Queensland mining operations produced 5.2 million tonnes which was comparable to 2016 production.

The New Acland Mine produced 4.6 million tonnes of coal in 2017 which was consistent with 2016 production.

The West Moreton operations, comprising the Jeebropilly Mine and rehabilitation sites at New Oakleigh and Chuwar, produced 0.6 million tonnes of coal in 2017 which was in line with 2016.

Coal sales for 2017 were 8.5 million tonnes (including 3.4 million tonnes from Bengalla) which was well above the 6.9 million tonnes sold in 2016.

### New Acland Stage 3 Development (NAC03)

On the 31 May 2017 the Queensland Land Court handed down its findings in respect of New Hope's Mining Lease Application for the Stage 3 continuation project, recommending that the Environmental Authority and Mining Leases for NAC03 not be granted. After careful consideration of the recommendation, New Hope has initiated a Judicial Review of the findings. It is anticipated the Judicial Review will be heard in the Supreme Court during the first quarter of 2018.

### Queensland Bulk Handling (QBH)

QBH, New Hope's 100% owned coal terminal at the Port of Brisbane. A severe storm event in November 2016 damaged the ship loader resulting in high coal stock levels being built up throughout the logistics chain. Despite this, QBH exported 6.9 million tonnes of coal on 88 vessels, a similar result to last year. QBH remains essentially a demurrage free port.

### Bengalla Joint Venture

The Bengalla joint venture mine (100% basis) produced 8.5 million tonnes of coal in 2017. This was the first full year of production since New Hope acquired its 40% interest in March 2016. The Bengalla Mine is operated by the Bengalla Mining Company Pty Limited of which New Hope has a 40% interest.

### Rehabilitated Land – Pastoral Operations

An additional 100 hectares of rehabilitated land was fenced off from the mining lease during the year and handed to Acland Pastoral for production and grazing activities.

Acland Pastoral continued to grow a breeding herd throughout the year with sales of 1,088 head and purchases of 666 head resulting in total herd size of 2,932 at year end. The cropping operation continued with silage production to support the breeding operation.

The cattle grazing trial continued with a review of the overall strategy to be completed at the end of the 2018 financial year.

### Bridgeport

Annual oil production totalled 308,959 barrels, a 61% increase on the previous full year of 191,993 barrels, principally due to the October 2016 acquisition of Kenmore-Bodalla and associated fields but also due to improved production performance at other principal assets. In five years Bridgeport has become the fourth largest producer in the Cooper Basin.

Sales revenue was \$18.7 million compared to \$10.5 million for the prior year, an increase of 78%. Bridgeport achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of \$1.1 million for the year. Realised oil sales prices averaged \$65 per barrel against the previous year's \$57 per barrel.

Bridgeport now manages over 140 wells across its ten operated production assets and is one of the most active operators in the Cooper Basin producing approximately 1,000 barrel of oil per day.



New Hope

continued >>>

## New Hope Corporation Limited (continued)

### Outlook

During the past year the decision to acquire a 40% interest in the Bengalla coal mine in the Hunter Valley of New South Wales was confirmed by the combination of the mine producing close to expectations and the coal price improving significantly. New Hope's 40% share of Bengalla resulted in an additional 3.4 million tonnes of sales for the past year, during a period of strong thermal coal prices. It is anticipated that both mine safety and production performance will continue to improve over the course of the 2018 financial year, as the results of current productivity and safety improvement initiatives are realised.

Queensland operations at New Acland and Jeebropilly produced 5.2 million tonnes for the year and this level of production is expected to continue during the 2018 financial year. Sales performance for the year of 5.1 million tonnes was impacted by logistical delays caused by damage to the QBH ship loader in November 2016. Sales during the 2018 financial year are expected to match production.

The New Acland operation employs several hundred people and many more people are employed by south east Queensland businesses which rely on New Acland to supply their energy needs. New Hope remains committed to delivering the New Acland Stage 3 project and will actively progress this project through the final stages of approval. We look forward to the Queensland Government's timely and favourable decision regarding the future of this operation.

New Hope has a suite of undeveloped open cut coal projects including Lenton, Colton and North Surat. Colton received its Mining Lease during the past financial year. It is expected that significant progress will occur during the next financial year in progressing these projects closer to production. New Hope continues to evaluate open cut thermal and metallurgical coal acquisition opportunities as it has the people, technical and balance sheet capability to expand production.

Demand for high quality Australian thermal coal into Asian markets continues to grow. Major thermal coal markets of Japan, Taiwan, Korea and China continue to build new High Efficiency Low Emission (HELE) coal fired power plants as part of their electricity supply. A new wave of HELE coal fired power plants are planned or under construction in southern Asia.

Bridgeport increased its production significantly during the past year and achieved a positive EBITDA during a period of challenging oil prices. Bridgeport has many growth options including the potential for an enhanced oil recovery project at the Moonie oil field and the potential to explore for gas within existing tenements.

### Contribution

New Hope contributed a net profit of \$83.8 million to the Group (2016: \$29.2 million loss).



Acland Pastural (operating on rehabilitated land)

## Financial Services Portfolio

Dividends paid to WHSP: **\$13.8 million**  
Value of WHSP's Holding: **\$409 million**



**DIVIDENDS  
PAID TO THE  
GROUP  
\$14m**

WHSP has aggregated its financial services investments into a financial services portfolio. The market valuation of the assets in this portfolio at 31 July 2017 was over \$400 million. The cost base on these assets is less than \$250 million. The assets in the portfolio include investments in funds management, corporate advisory and Listed Investment Companies (LICs).

During the year ended 31 July 2017, WHSP actively increased its exposure to the financial services sector through the acquisition of shareholdings in Hunter Hall International and Pengana Capital. These two companies merged their operations and WHSP became the largest shareholder in the merged entity, with 39.2% of Pengana Capital Group (ASX: PCG).

The portfolio includes shareholdings in a number of LICs which provide WHSP with exposure to a range of equity strategies which are well managed and cost effective. During the year, WHSP acquired:

- 12.4% of URB Investments (ASX: URB), a LIC which targets long-term value creation through exposure to urban renewal and regeneration; and
- 10.0% of Hunter Hall Global Value (ASX: HHV), which gives WHSP exposure to a managed portfolio of global equities.

These new investments in LICs supplement WHSP's existing exposure to Australian equities through its 4.5% holding in Milton Corporation (ASX: MLT) and 9.5% holding in BKI Investment Company (ASX: BKI).

WHSP will continue to look for investments in the financial services sector where it sees long-term growth and attractive industry dynamics.

As at 31 July 2017	WHSP's Holding %
BKI Investment Company Limited (ASX: BKI)	9.5%
Contact Asset Management Pty Limited	20.0%
Hunter Hall Global Value Limited (ASX: HHV)	10.0%
Milton Corporation Limited (ASX: MLT)	4.5%
Pengana Capital Group Limited (ASX: PCG)	39.2%
Pitt Capital Partners Limited	100%
URB Investments Limited (ASX: URB)	12.4%

The financial services portfolio contributed a net profit of \$13.1 million to the Group (2016: \$13.5 million). Its contribution to regular profit was \$15.4 million (2016: \$13.5 million).



# Australian Pharmaceutical Industries Limited

Associated entity: **19.4% held**  
Dividends paid to WHSP: **\$8.4 million**  
Total Market Capitalisation: **\$860 million**  
Value of WHSP's Holding: **\$167 million**  
ASX code: **API**



**NET PROFIT  
CONTRIBUTED  
TO THE GROUP  
\$14m**

API's financial year ended on 31 August 2017. The results for the full year are not expected to be released to the market until late October 2017.

For the six months ended 28 February 2017, API reported the following results which are compared to those of the first half last year:

- Revenue of \$2.02 billion, up 12.7%;
- Earnings before interest and tax of \$48.6 million, up 9.0%;
- Underlying net profit after tax of \$29.1 million, up 15.0%; and
- Net profit after tax of \$29.1 million, up 27.2%.

In June API paid a fully franked interim dividend of 3.5 cents per share, an increase of 40% over last year.

API commented that it had increased net profit after tax and returns to its shareholders through organic growth in its Priceline Pharmacy network, despite the slower retail conditions in 2017, while generating cash and sustainable returns through its pharmacy distribution business.

API released an updated full year profit guidance on 2 August advising that its net profit after tax for the year ended 31 August 2017 was expected to be approximately 5% higher than that of the 2016 financial year.

WHSP has equity accounted API's result for the 12 months to 28 February 2017. API contributed a net profit of \$14.2 million (2016: \$11.0 million 24.6% held) to the Group.





## CopperChem Limited and Exco Resources Limited

Controlled entities: **100% held**

Unlisted entities



CopperChem and Exco Resources are copper and gold exploration companies which have processing facilities capable of producing copper sulphate, copper concentrate and gold bullion.

Production activities continued at the White Dam mine in South Australia during the year with gold production expected to continue until the middle of the 2018 calendar year. Approval was received for the development of the Wallace Gold Project in north-west Queensland. Further gold deposits are being identified within the broader CopperChem/Exco portfolio for continued gold production.

Revenue from gold sales for the year was \$18.4 million having increased significantly as gold production ramped up in the 2017 financial year.

Exploration activities are continuing on a number of prospective targets for the purpose of identifying additional copper resources for future mining activities within the operating radius of the Cloncurry processing facilities. Exploration activity also focussed on a number of gold prospects in support of the feasibility study for the Wallace Gold Project south-east of Cloncurry.

The copper concentrator and operations at Cloncurry remained on care and maintenance throughout the year. The existing crushing and grinding circuits of the plant will be integrated with a gold processing facility under construction. This facility will be utilised to process gold ores in the region along with the gold resources contained in the CopperChem/Exco portfolio.

CopperChem has agreed terms to acquire the Stockman copper-zinc project from Independence Group Limited with the transaction expected to be completed early in the 2018 financial year.

CopperChem and Exco contributed a net loss of \$2.9 million to the Group (2016: \$42.2 million loss). The 2016 contribution included non-regular expenses of \$33.3 million.



# Apex Healthcare Berhad

Associated entity: **30.3% held**  
Dividends paid to WHSP: **\$1.3 million**  
Total Market Capitalisation: **\$162 million**  
Value of WHSP's Holding: **\$49 million**  
Listed on Bursa Malaysia, code: **APEX MK**



**NET PROFIT  
CONTRIBUTED  
TO THE GROUP  
\$3.3m**

Apex develops, manufactures, markets and distributes: pharmaceuticals; diagnostic products and equipment; consumer healthcare products; and orthopaedic devices. It has operations in Malaysia, Singapore, Vietnam and Myanmar (Burma) and is publicly listed on the Main Board of Bursa Malaysia.

Apex's results are converted from Malaysian Ringgit (MYR) to Australian dollars (AUD). The devaluation of the MYR has negatively affected Apex's results when they are stated in AUD. For this reason the percentage movements shown below are based on MYR movements.

For the six months ended 30 June 2017 Apex generated revenue of \$92.7 million, an increase of 5.4% in MYR over the previous corresponding six month period. The net profit after tax attributable to shareholders was \$6.1 million, an increase of 23.7% in MYR compared to first half of 2016.

An interim dividend of 1.7 cents per share has been declared for the six months ended 30 June 2017, equal to the interim dividend last year in MYR.

WHSP has equity accounted Apex's result for the 12 months to 30 June 2017. Apex contributed a net profit of \$3.3 million to the Group (2016: \$3.4 million).



Apex Healthcare Berhad

## TPI Enterprises Limited

Associated entity: **18.9% held**  
 Total Market Capitalisation: **\$213 million**  
 Value of WHSP's Holding: **\$40 million**  
 ASX code: **TPE**



TPI is one of only eight companies licensed globally to manufacture narcotic raw material for pain relief medication. TPI has developed an innovative, efficient and environmentally sustainable method for extracting narcotic raw material from opium poppies. This manufacturing cost advantage is central to its strategy to achieve significant market share growth. This advantage combined with TPI's recent ability to import poppy straw (TPI's main raw material) and grow on the mainland see TPI well placed to deliver on its potential.

TPI continues to achieve a number of milestones on its pathway to significantly increasing production and sales. In the last 12 months, TPI has achieved the following:

- TPI secured increased volumes and more diverse sources of poppy straw. In addition to successfully sourcing crops in Tasmania and Victoria, TPI has contracted to growing in New South Wales. South Australia has approved growing for future years. TPI also secured licenses to import straw grown in Hungary and has recently announced its intention to import from the United Kingdom.
- A toll processing agreement was announced with a major global producer of narcotic raw material, thereby indicating the significant price advantage of TPI's processing technology.
- TPI's manufacturing advantage was improved with a number of operating efficiencies identified. In addition, TPI's investment in an innovative harvesting technology translated into higher alkaloid content in processed straw resulting in higher factory capacity and efficiency.
- TPI successfully completed negotiations to enter the UK Codeine Phosphate market through the supply of narcotic raw material and toll production with a UK manufacturer. TPI aims to become a significant supplier of Codeine Phosphate as well as a suite of derivative products in the UK.
- The acquisition of an opiate and tableting business in Norway was announced in July 2017. This transaction will enable TPI to be fully integrated from the processing of narcotic raw material through to the production of pain relief tablets. The acquisition opens up significant sales opportunities to TPI and accelerates its growth and business strategy.

WHSP has equity accounted TPI's result for the 12 months to 30 June 2017. TPI contributed a net loss of \$2.9 million to the Group (2016: \$4.8 million loss).





# Other Investments

As at 31 July 2017		WHSP's Holding %
<b>Listed</b>		
Bailador Technology Investments Limited		19.1%
Clover Corporation Limited		22.6%
Heritage Brands Limited		25.1%
Lindsay Australia Limited		19.0%
Quickstep Holdings Limited		15.9%
Verdant Minerals Limited (formerly Rum Jungle Resources)		38.3%
<b>Unlisted</b>		
Ampcontrol Pty Limited		43.3%
Seven Miles Coffee Roasters Pty Limited (formerly Belaroma Coffee)		40.0%
Specialist Oncology Property Pty Limited		23.3%

# Investment Properties

WHSP has added to its property exposure during the year with the addition of three properties. These properties have been purchased in partnership with URB Investments Limited (URB) which was listed on the ASX in April 2017. The properties are held in special purpose trusts each of which is owned 50.1% by WHSP and 49.9% by URB.

These properties are:

- Kingsgrove NSW: a warehouse on 1.8 hectares of land. The building is currently being demolished. The land is in the process of being subdivided and sold in smaller lots.
- Penrith NSW: a significant retail asset on 0.65 hectares of land located on the main street. This facility houses a hotel, retail shops and a carpark.
- Prestons NSW: a seven hectare industrial development site. During the year Pitt Street Real Estate Partners (PSRE, 75% owned by WHSP) contracted to construct a 35,000 square metre warehouse facility for a major logistics company.

WHSP has maintained its investment in the two office buildings in Pennant Hills NSW and the four hectare site with office and warehouse in Castle Hill, NSW.

As previously reported, PSRE was awarded a contract to develop and deliver two bus depots for Transdev Australasia, on behalf of Public Transport Victoria. The Sunshine West depot was completed in July 2016 with settlement in late September 2016 while the Thomastown depot was completed in February 2017 and settled in March 2017. The combined sale proceeds for the two depots was \$20.1 million.

PSRE continues to investigate opportunities to add to WHSP's property portfolio, whilst also considering the sale of mature assets.





# Directors' Report

The Directors of Washington H. Soul Pattinson and Company Limited (WHSP, Parent Company) present their report and the financial statements of the Consolidated Entity, being the Parent Company and its subsidiaries (the Group), for the financial year ended 31 July 2017.

## Directors

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

- **Mr R D Millner**
- **Mr T J Barlow**
- **Mr M J Hawker**
- **Mr T C D Millner**
- **Mr W M Negus**
- **Ms M R Roderick**
- **Mr R G Westphal**

The following person was a Director of WHSP for the whole of the financial year and up to the date of this report. He will retire from the Board on 31 October 2017:

- **Mr D E Wills**

The following person has been appointed as a Director of WHSP with effect from 1 December 2017:

- **Mrs T L Fuller**

## Principal Activities

The principal activities of the entities in the Consolidated Entity during the course of the financial year were: ownership of shares; coal mining; gold and copper mining and refining; property investment; and consulting. There were no significant changes in the nature of the Consolidated Entity's principal activities during the year.

## Dividends

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

	<b>Cents Per Share</b> cents	<b>Total Amount</b> \$'000	<b>Franking</b> %	<b>Date of Payment</b>
<b>Declared and paid during the year</b>				
Final ordinary dividend 2016	31	74,213	100%	12 December 2016
Interim ordinary dividend 2017	22	52,667	100%	11 May 2017
Dealt with in the financial report as dividends	53	126,880		
<b>Declared after the end of the year</b>				
Final ordinary dividend 2017	32	76,607	100%	11 December 2017

## Review of Operations

The profit after tax attributable to shareholders for the year ended 31 July 2017 was \$333.6 million, 123.3% higher than the \$149.4 million for the prior year.

New Hope Corporation Limited contributed \$83.8 million to Group profit, capitalising on a recovery in coal prices and its new Bengalla joint venture. Brickworks Limited contributed \$36.3 million, an increase of 278.1% on last year. TPG Telecom Limited and Australian Pharmaceutical Industries Limited also increased their contributions and gains from the sale of equities by WHSP were higher.

Comparison with the prior year is as follows:

	<b>2017</b>	<b>2016</b>	<b>Change</b>
	\$000	\$000	%
Revenue from continuing operations	967,570	620,661	+ 55.9%
Profit after tax attributable to shareholders	333,611	149,421	+ 123.3%
Interim Dividend (paid in May each year)	22 cents	21 cents	+ 4.8%
Final Dividend (payable 11 December 2017)	32 cents	31 cents	+ 3.2%
<b>Total Dividends</b>	<b>54 cents</b>	<b>52 cents</b>	<b>+ 3.8%</b>

For further information regarding the operations of the Group refer to the Chairman's Review and the Review of Group Entities on pages 3 to 22 of this annual report.

## State of affairs

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

## Financial Position, Financial Instruments and Going Concern

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

Details of financial risk management objectives and policies are set out in note 20 of the consolidated financial statements.

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

## Litigation

In 2013, an entity acting on the directions of Perpetual Investment Management Limited (Perpetual) lodged a claim against WHSP and Brickworks Limited (Brickworks) in the Federal Court of Australia. The claim sought to have the cross shareholding between WHSP and Brickworks unwound.

On 10 July 2017, the Federal Court dismissed the claim and ordered Perpetual to pay the costs of WHSP and Brickworks. Justice Jagot found that "reasonable directors would not consider maintenance of the cross-shareholding to date to be unfair or oppressive. Accordingly, Perpetual's claim must be rejected." and "On any reasonable view of the evidence, the directors of each company have diligently considered the structure of the companies with their obligations to act in the best interests of the company firmly in mind."

## Events Subsequent to the Reporting Date

The Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report or the consolidated financial statements that has or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent years. Refer to note 7 of the consolidated financial statements.

## Likely Developments, Business Strategy and Prospects

Other than as discussed in the Review of Group Entities, information about likely developments, business strategy and prospects and the expected results in subsequent financial years have not been disclosed because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Consolidated Entity.

## Corporate Governance Statement

The Parent Company's Corporate Governance Statement may be viewed in the Corporate Governance section of the Company's web site at [www.whsp.com.au/whsp/wp-content/uploads/2017/10/WHSP-Corporate-Governance-Statement.pdf](http://www.whsp.com.au/whsp/wp-content/uploads/2017/10/WHSP-Corporate-Governance-Statement.pdf)

## Workplace Gender Equality

In accordance with the requirements of the *Workplace Gender Equality Act 2012*, WHSP lodged its annual public report for the year ended 31 March 2017 with the Workplace Gender Equality Agency on 31 May 2017.

The report may be viewed in the Employment section of the Company's web site at [www.whsp.com.au](http://www.whsp.com.au).

## Environmental Compliance

The Group was subject to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007* during the year. This Act requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2015/16 report to the Greenhouse and Energy Data Officer on 25 October 2016.

## New Hope Group (NHG)

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

### Environmental performance

The majority of the NHG's operations, which include coal mining operations and exploration tenements, the Jondaryan rail loading facility, the Queensland Bulk Handling coal export port facility and oil and gas operations are in Queensland. The key pieces of environmental legislation are: the *Environmental Protection Act 1994*; the *Water Act 2000*; and the *Nature Conservation Act 1992*, in Queensland and the *Commonwealth Environmental Protection and Biodiversity Conservation Act 1999*.

The NHG's operations have proactively undertaken initiatives to improve their environmental performance.

### Environmental systems

During the 2017 financial year the NHG adhered to its environmental policy aligned with the requirements of the ISO 14001 standard and the NHG's operations have continued improvement of the Environmental Management System (EMS). The EMS enables the NHG to effectively manage its environmental performance by increasing environmental awareness, optimising operational control, monitoring compliance and facilitating continuous improvement.

### Environmental reporting

The NHG's operational sites have submitted reports under the National Pollutant Inventory program.

## CopperChem Limited (CopperChem) and Exco Resources Limited (Exco)

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

The Queensland Operations have a total of 51 licences with the majority being EPM (exploration tenements) and 6 Mining Leases (MLs) which are Site Specific licences. Activities for code compliant licences have reported no non-compliances in the past year.

CopperChem continues to consult with DEHP over their legacy concerns with groundwater quality at the Great Australia Operation (GAO) and was provided an enforcement notice in an Environmental Protection Order (EPO) during 2017. An EPO action plan is currently being completed with improvements in groundwater quality related to dewatering of the impacted system expected to provide improved results to groundwater quality in time.

Exco's White Dam Gold Mine, in South Australia, is regulated by the Department of Premier and Cabinet Protection Authority S.A. (the Department) who regularly undertake site inspections. During the year, mining, processing and rehabilitation activities were undertaken at the site. Exco conducts environmental monitoring and annual compliance reporting in accordance with its Mining Licences and Program of Environmental Protection and Rehabilitation. One reportable incident occurred at the adsorption plant during the year but no impacts to the environment resulted. Corrective and preventative actions were undertaken by Exco and communicated to Department. The mine has complied with all conditions of approval, applicable compliance standards and required outcomes.

### Directors

Information regarding the Directors of the Parent Company:

#### **Robert Dobson Millner** FAICD

##### **Chairman**

**Non-executive Director since 1984, appointed Chairman 1998. Chairman of the Investment Committee and member of the Nomination, Remuneration and Risk Committees**

Mr Millner has extensive experience in the investment industry.

Other current listed company directorships:

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

Former listed company directorships in the past three years:

- Hunter Hall Global Value Limited – Appointed as an interim Director April 2017. Resigned June 2017

#### **Todd James Barlow** B.Bus, LLB(Hons)(UTS)

##### **Managing Director since 2015**

##### **Member of the Investment and Risk Committees**

Mr Barlow was appointed Chief Executive Officer of the Company in April 2014 having previously been the Managing Director of Pitt Capital Partners Limited for five years.

Mr Barlow has extensive experience in mergers and acquisitions, equity capital markets and investing and has been responsible for a number of WHSP's investments since joining the WHSP Group in 2004. His career has spanned positions in law and investment banking in Sydney and Hong Kong.

Mr Barlow has a Bachelor of Business and Bachelor of Laws (Honours) from the University of Technology, Sydney.

Other current listed company directorships:

- TPI Enterprises Limited – Appointed 2015
- New Hope Corporation Limited – Appointed 2015

Former listed company directorships in the past three years:

- PM Capital Asian Opportunities Fund Limited – Appointed 2015. Resigned March 2017



## **Michael John Hawker** AM B.Sc(Sydney), FAICD, SF Fin

### **Non-executive Director since 2012**

#### **Chairman of the Nomination and Risk Committees, member of the Audit and Remuneration Committees**

Mr Hawker is a professional company director with over 30 years experience in financial markets and investment. He was Chief Executive Officer and Managing Director of Insurance Australia Group from 2001 to 2008. From 1995 to 2001, Mr Hawker held a range of positions at Westpac, including Group Executive of Business and Consumer Banking and General Manager of Financial Markets. Prior to this, he held a number of positions at Citibank, including Deputy Managing Director for Australia and subsequently Executive Director, Head of Derivatives, Europe.

Mr Hawker has been: Chairman of the Insurance Council of Australia; Chairman of the Australian Financial Markets Association; a member of the Australian Governments Financial Sector Advisory Committee; and a member of the Business Council of Australia.

Other current listed company directorships:

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

## **Thomas Charles Dobson Millner** B.Des(Industrial), GDipAppFin(Finsia), FFin, GAICD

### **Non-executive Director since 2011**

#### **Member of the Investment, Nomination, Remuneration and Risk Committees**

Mr Millner has more than 15 years experience in investment markets. He is currently a Director and Portfolio Manager of Contact Asset Management (Investment Manager of BKI Investment Company Limited (BKI) and URB Investments Limited). Prior to this, he was the Chief Executive Officer of BKI from 2008 to 2016.

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

Other current listed company directorships:

- New Hope Corporation Limited – Appointed 2015

Former listed company directorships in the past three years:

- PM Capital Global Opportunities Fund Limited – Appointed 2013. Resigned March 2017

## **Mr Warwick Martin Negus** B.Bus(UTS), M.Com(UNSW), SFFin

### **Non-executive Director since 2014**

#### **Chairman of the Remuneration Committee, member of the Audit, Investment, Nomination and Risk Committees**

Mr Negus has over 30 years experience in the banking and finance sectors including both senior management and director roles. He has extensive experience in managing equity and property portfolios.

He has a Bachelor of Business Degree from the University of Technology Sydney and a Master of Commerce from the University of New South Wales. He is a Senior Fellow of the Financial Services Institute of Australasia (FINSIA).

Mr Negus is a Director of Terrace Tower Group Pty Limited and a Member of the Council of UNSW.

Other current listed company directorships:

- Bank of Queensland Limited – Appointed September 2016
- Pengana Capital Group Limited – Chairman Appointed June 2017
- URB Investments Limited – Chairman Appointed October 2016
- Virgin Australia Holdings Limited – Appointed January 2017

### Melinda Rose Roderick B.Econ(Macq), CA, GAICD

**Finance Director since 2014**

**Member of the Risk Committee**

Ms Roderick has over 25 years accounting and operational experience having previously held senior financial roles within the financial services and insurance sectors including eight years as an external auditor within a chartered accounting practice.

She joined WHSP in 2006 as the Chief Financial Officer and has a comprehensive understanding of the Company's complex accounting matters.

Ms Roderick is a member of the Institute of Chartered Accountants and a Graduate of the Australian Institute of Company Directors. She holds a Bachelor of Economics Degree from Macquarie University.

### Robert Gordon Westphal B.Com(UNSW), FCA, FFin, MAICD

**Non-executive Director since 2006**

**Chairman of the Audit Committee and member of the Nomination, Remuneration and Risk Committees**

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

### David Edward Wills B.Com(UNSW), FCA, MAICD

**Non-executive Director since 2006**

**Member of the Audit, Nomination, Risk and Remuneration Committees**

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

### Company Secretary

#### Ian David Bloodworth

Mr Bloodworth is a Chartered Accountant with more than 30 years accounting and company secretarial experience and was appointed Company Secretary of WHSP in 2007. He was also the Company Secretary of Clover Corporation Limited from 2007 to 2012. Prior to joining the Company, Mr Bloodworth was Company Secretary of the Garratts Limited Group of Companies for 2 years and Chief Financial Officer of the Group for 6 years.

## Directors' Meetings

The number of Board meetings and meetings of committees of Directors and the number of meetings attended by each of the Directors of the Company during the financial year were:

Committee Member		Board		Audit Committee		Investment Committee		Nomination Committee		Remuneration Committee		Risk Committee	
		Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended	Eligible to attend	Number attended
<b>Mr R D Millner</b>	I, N, Re, Ri	15	14	–	–	9	9	1	1	1	1	6	6
<b>Mr T J Barlow</b>	I, Ri	15	15	–	–	9	9	–	–	–	–	6	6
<b>Mr M J Hawker</b>	A, N, Re, Ri	15	15	6	6	–	–	1	1	1	1	6	6
<b>Mr T C D Millner</b>	I, N, Re, Ri	15	15	–	–	9	9	1	1	1	1	6	6
<b>Mr W M Negus</b>	A, I, N, Re, Ri	15	13	6	5	9	9	1	1	1	1	6	6
<b>Ms M R Roderick</b>	Ri	15	15	–	–	–	–	–	–	–	–	6	6
<b>Mr R G Westphal</b>	A, N, Re, Ri	15	15	6	6	–	–	1	1	1	1	6	6
<b>Mr D E Wills</b>	A, N, Re, Ri	15	15	6	6	–	–	1	1	1	1	6	6

A Member of the Audit Committee of Directors during the year.

I Member of the Investment Committee of Directors during the year.

N Member of the Nomination Committee of Directors during the year.

Re Member of the Remuneration Committee of Directors during the year.

Ri Member of the Risk Committee of Directors during the year.

## Directors' Interests

### Ordinary Shares

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

	Ordinary Shares
<b>Mr R D Millner</b>	19,860,441
<b>Mr T J Barlow</b>	5,000
<b>Mr M J Hawker</b>	35,300
<b>Mr T C D Millner</b>	18,737,977
<b>Mr W M Negus</b>	47,000
<b>Ms M R Roderick</b>	5,000
<b>Mr R G Westphal</b>	28,739
<b>Mr D E Wills</b>	905,015

### Rights to Deferred Shares

Mr T J Barlow and Ms M R Roderick have relevant interests in rights to deferred shares in the Company. The holdings at the date of this report are unchanged from the holdings at the end of the year. Refer to page 44 of the following Remuneration Report.

### Interests in Contracts

The Company has entered into a co-investment agreement with URB Investments Limited (URB) (ASX: URB), Contact Asset Management Pty Limited (Contact) (in its capacity as investment manager of URB) and Pitt Street Real Estate Partners Pty Limited.

Mr W M Negus is a director of both WHSP and URB.

Mr R D Millner is a director of both WHSP and Contact. Mr T C D Millner is a director of both WHSP and Contact and is a 40% shareholder of Contact. No fees are paid to Contact by WHSP.

For further information regarding the above contract refer to note 33 of the consolidated financial statements.



# Remuneration Report

## Letter from the Chair of the Remuneration Committee

Dear Shareholders,

On behalf of the Remuneration Committee I am pleased to present to you WHSP's Remuneration Report for the financial year ending 31 July 2017. Our remuneration policy is designed to attract and retain senior management charged with delivering value for our shareholders. In this regard, we believe that it has served WHSP well.

For the year ending 31 July 2018, we have made some minor changes to the Long-term Incentive (LTI) plan aimed at improving alignment between shareholders and management over the longer term.

Our LTI plans for 2016 and 2017 used a combination of Total Shareholder Return (TSR) and Earnings Per Share (EPS) growth to measure the value of rewards for senior management. TSR continues to be a good measure and we do not seek to change this aspect. The TSR component of the LTI rewards outperformance against the All Ordinaries Accumulation Index. We have selected this Index because it is a proxy for the whole of the market, and given WHSP's diverse investments across a range of industries, we aim to beat the performance of the whole market. Additionally, we have not identified a narrower set of companies that would provide an adequate comparison for assessing WHSP's TSR performance.

We are recommending a change from EPS to Net Assets Per Share Growth (NAPSG). NAPSG is a direct and accurate reflection of the underlying value of the investments WHSP has made and we believe that, along with TSR, it will prove to be a more accurate measure against which we can judge executive performance.

Other key changes proposed to the LTI in future years include:

- Locking up shares issued under the LTI for the entire period of employment or 15 years (whichever comes first). This will ensure greater alignment between Executives and Shareholders as Executive share ownership increases;
- Half of the shares issued under the LTI will be locked up for a further period of two years after employment (with half being eligible for sale to meet tax obligations);
- Further tightening the retesting of the LTI such that retesting can only occur where the LTI award over the initial 3 years was zero. In this event, retesting can occur the following year by rolling forward the test over a 4 year period; and
- Unvested rights are subject to forfeiture at the Board's discretion for any action that harms the company (including post-employment).

Over time, we will continue to develop our remuneration policies to ensure that WHSP's practices remain an effective tool for achieving our stated objectives. At its very heart is ensuring that management are delivering outcomes that are valued by you, our shareholders.

Yours sincerely,



W M Negus

Non-Executive Director

Chair of the Remuneration Committee

## Scope of Report

This Remuneration Report considers the key management personnel of the Parent Company and the Consolidated Entity. New Hope Corporation Limited (New Hope) forms part of the Consolidated Entity and the remuneration of certain key management personnel of New Hope is included in this Report.

New Hope is publicly listed and, accordingly, has its own Remuneration Committee and produces its own Remuneration Report in accordance with the *Corporations Act 2001* to be voted on by its shareholders.

## Abbreviations used in this report

<b>ASX</b>	Australian Securities Exchange
<b>CAGR</b>	Compound annual growth rate
<b>EPS</b>	Earnings per share
<b>KMP</b>	Key management personnel
<b>KPI</b>	Key performance indicator
<b>LTI</b>	Long-term incentive
<b>New Hope</b>	New Hope Corporation Limited
<b>NHRC</b>	New Hope Remuneration Committee
<b>STI</b>	Short-term incentive
<b>TSR</b>	Total shareholder return
<b>VWAP</b>	Volume weighted average price

## Structure of Report

This report is structured as follows:

1. KMP included in this report
2. Remuneration policy and framework
3. Elements of remuneration
4. Performance indicators
5. Remuneration expenses for KMP
6. Contractual arrangements for executive KMP
7. Share-based compensation
8. Other statutory information

## 1. KMP included in this report

### Non-executive Directors

Mr Robert D Millner	Chairman
Mr Michael J Hawker	
Mr Warwick M Negus	
Mr Thomas C D Millner	
Mr Robert G Westphal	
Mr David E Wills	

### Executive Directors

Mr Todd J Barlow	Managing Director and Chief Executive Officer
Ms Melinda R Roderick	Finance Director and Chief Financial Officer

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

Mr Ian D Bloodworth	Company Secretary
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### Key management personnel of the Consolidated Entity

Mr Shane O Stephan	Managing Director, New Hope
Mr Andrew L Boyd	Chief Operating Officer, New Hope
Mr Matthew J Busch	Chief Financial Officer, New Hope

## 2. Remuneration policy and framework

### Remuneration Governance

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

The Remuneration Committee ensures that remuneration levels for Directors and senior executives are competitively set to attract and retain qualified and experienced personnel.

The Remuneration Committee is authorised by the Board to obtain independent professional advice on the appropriateness of remuneration packages if deemed necessary. No such advice was received during the year.

New Hope has its own Remuneration Committee which reports to the Board of New Hope.

### Non-executive Directors

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

### Executive Directors and Senior Executives

#### Parent Company

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

The Executive Directors and Company Secretary of the Parent Company are remunerated by way of fixed remuneration, STIs and LTIs. Annual STIs are set in order to drive performance without encouraging undue risk taking. LTIs are assessed over a three and/or four year period and are designed to promote long-term stability in shareholder returns.

The total value of each remuneration package is approved by the Remuneration Committee based on data obtained from external sources.

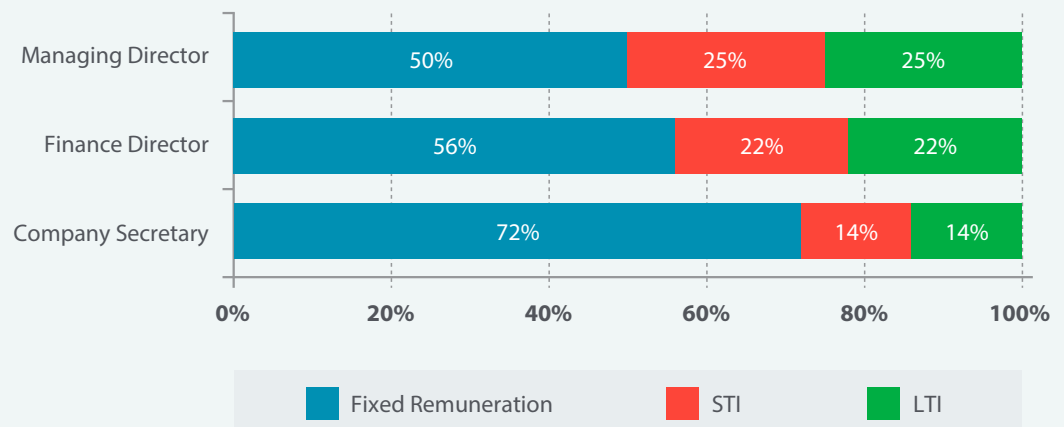


The Remuneration Committee is responsible for assessing performance against KPIs and determining the extent to which the STI and LTI is to be paid. The STI and LTI have been designed to be payable when value has been created for shareholders. To assist in this assessment, the Committee receives detailed reports on performance from management which are based on independently verifiable data.

In the event of serious misconduct or a material misstatement in the Company's financial statements, the Board may cancel LTI based remuneration and recover LTI remuneration paid in previous financial years.

Target remuneration mix (based on entitlement to 100% of the target STIs and LTIs which are at risk and subject to performance hurdles) for the year ended 31 July 2017 was:

#### Target Remuneration Mix

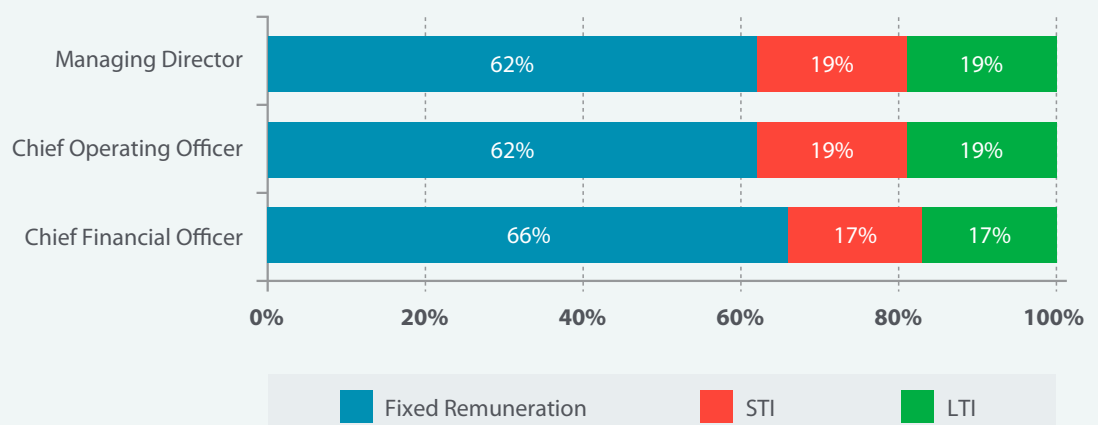


#### New Hope Corporation Limited

New Hope aims to ensure that remuneration packages properly reflect the person's duties, experience and responsibilities and are aligned so that management is rewarded in creating value for shareholders. Remuneration of senior executives is reviewed annually after taking into consideration the executives' performance, the New Hope Group's performance, market rates and level of responsibility.

Executive remuneration comprises a mix of fixed remuneration, STIs and LTIs. Target remuneration mix (based on the entitlement to 100% of the available STIs and LTIs which are at risk and subject to performance hurdles) for the year ended 31 July 2017 was:

#### New Hope Target Remuneration Mix



### 3. Elements of remuneration

#### Non-executive Directors

Non-executive Directors receive fixed remuneration based on their position on the Board and the Committees on which they sit or chair, at comparable market rates. Remuneration levels are reviewed annually by the Remuneration Committee and are not subject to performance based incentives.

The Remuneration Committee reviews market data annually to assist in setting Non-executive Director remuneration. Based on this data for 2016 the remuneration received by Non-executive Directors for the year ended 31 July 2017 was in line with the 50th percentile for ASX listed Companies with a market capitalisation between \$3.5 billion and \$7.5 billion.

The aggregate amount of fees which may be paid to Non-executive Directors by the Parent Company is subject to the approval of Shareholders in general meeting and is currently set at \$2,000,000 per annum. Approval for this aggregate amount was given at the 2016 Annual General Meeting.

During the year ended 31 July 2017 remuneration of the Non-executive Directors by the Parent Company amounted to \$1,290,805.

With effect from 31 July 2004 the retiring allowance for Non-executive Directors was frozen at three times the average annual fees for the three years prior to that date. Non-executive Directors appointed after 31 July 2004 do not qualify for a retiring allowance.

#### Executive Directors and Senior Executives

##### Parent Company

##### *Fixed Remuneration*

Fixed remuneration for senior executives is set annually (or on promotion if applicable) by the Remuneration Committee. It is benchmarked against market data for comparable roles in companies with similar characteristics and market capitalisation. Fixed remuneration comprises a cash salary, superannuation and other non-cash benefits where taken.

## STIs

### Structure of STIs for the KMP of the Parent Company

Feature	Description				
STI pool	Based on target performance	50% of Managing Director's fixed remuneration			
		40% of Finance Director's fixed remuneration			
		20% of Company Secretary's fixed remuneration			
		10% of the fixed remuneration of other participants in the plan			
	The size of the pool is determined by the performance metrics below, in the event that the targets are exceeded (performance metrics exceed 100%) the pool will be increased as set out below.				
Performance metrics	The STI metrics align with WHSP's strategic goals to maximise shareholders' returns.				
	Objective	Weighting	Threshold (80%)	Target (100%)	Outperformance
	Regular cash to the parent company net of regular expenses	50%	> 0% and < 4% higher than last year	4% to < 5% higher than previous year	5% to < 6% = 110%
					6% to < 7% = 120%
					7% to < 8% = 130%
					8% to < 9% = 140%
					9% and higher = 150%
	As dividends are paid out of parent company cash, increasing net cash inflows enable the payment of increasing dividends.				
	Adjusted net asset value (post tax) per share (adjusted by adding back dividends paid by the parent company)	50%	> 0% and < 2% higher than ASX200 Accumulation Index	2% to < 3% higher than ASX200 Accumulation Index	3% to < 4% = 110%
					4% to < 5% = 120%
					5% to < 6% = 130%
					6% to < 7% = 140%
					7% and higher = 150%
	Increases in net asset value per share drive increases in the WHSP share price.				
Entitlement to the STI pool	Each participant's entitlement to the STI pool is determined by the Remuneration Committee based on the performance of their duties and their contribution to meeting the objectives of the parent company including performance, efficiency, risk and marketing. The total of all STIs determined by the Remuneration Committee cannot exceed the STI pool.				
Delivery of STI	100% of the STI awarded is paid in cash following release of the year end results.				

The STI plan is designed to motivate and reward senior executives to generate increasing net cash flow (to facilitate increasing dividends) and to grow the value of the investment portfolio (measured by net asset value) for the benefit of shareholders.

## LTI's

Executive KMP participate, at the Board's discretion, in the LTI plan comprising annual grants of performance rights as follows.

Structure of LTIs for the KMP of the Parent Company

Feature	Description	
<b>Opportunity/ Allocation</b>	50% of Managing Director's fixed remuneration 40% of Finance Director's fixed remuneration 20% of Company Secretary's fixed remuneration The above amounts are divided by the VWAP of WHSP shares for the 30 trading days prior to 1 August each year to determine to number of rights issued.	
<b>TSR rights</b>	50% of rights issued are subject a TSR performance condition	
<b>EPS rights</b>	50% of rights issued are subject an EPS performance condition	
<b>TSR performance hurdle</b>	TSR is initially assessed over a 3 year period and compared to the ASX All Ordinaries Accumulation Index (Index). Vesting will occur based on the company's positioning relative to the Index. If less than 100% of the rights vest, performance is reassessed over a 4 year period. This incentive is designed to focus executives on delivering sustainable long-term shareholder returns.	
	TSR performance per annum	Rights to vest
	TSR% < Index	Nil
	TSR% = Index	50%
	Index < TSR% < (Index + 3% per annum)	Progressive pro-rata from 50% to 100%
	TSR% = (Index + 3% per annum) or higher	100%
<b>EPS performance hurdle</b>	EPS movement is initially assessed over a 3 year period and compared to the target set out below. Vesting will occur based on the company's achievement of that target. If less than 100% of the rights vest, performance is reassessed over a 4 year period. This incentive is designed to align the interests of executives with shareholders.	
	Regular EPS	Regular EPS is the regular profit after tax of the consolidated WHSP Group, divided by the weighted average number of WHSP shares on issue across the measurement period. Regular profit after tax is a non-statutory profit measure and represents profit from continuing operations before non-regular items. A reconciliation to statutory profit is included in the Consolidated Financial Statements – Note 3, Segment information.
	Regular EPS CAGR over measurement period	Rights to vest
	Regular EPS CAGR < 5%	Nil
	Regular EPS CAGR = 5%	50%
	5% < Regular EPS CAGR < 10%	Progressive pro-rata from 50% to 100%
	Regular EPS CAGR = 10% or higher	100%
<b>Payable by participants</b>	Nil	No amounts are payable by the participants upon the granting or the exercising of the rights.



<b>Delivery of LTI</b>	Rights vest over the 3 years following the 3 year performance period unless retesting applies. Refer to item 7 'Share-based Compensation' below for further details.
<b>Service Condition</b>	The participant is to have been in the continuous employment of WHSP from the beginning of the financial year in which the rights are granted to the relevant vesting date.
<b>Board Discretion</b>	In the event of serious misconduct or a material misstatement in the financial statements, the Board may cancel LTI based remuneration and recover LTI remuneration paid in previous financial years.  The Board may waive vesting conditions in the event of a participant leaving employment.
<b>Expiry</b>	The performance rights issued during the year expire on 30 November 2021.

The LTI plan was designed to reward senior executives for above market performance as reflected by the hurdles set above. The plan was effective from 1 August 2015 and the first test period will be for the three years ended 31 July 2018.

#### **Total Remuneration Package**

The total value of each remuneration package is approved by the Remuneration Committee based on market data. Based on this data for 2016, the remuneration received by Executive Directors and the Company Secretary for the year ended 31 July 2017 was under the 50th percentile for ASX listed Companies with a market capitalisation between \$3.5 billion and \$7.5 billion.

#### **New Hope Corporation Limited**

##### **Fixed Remuneration**

Fixed remuneration for senior executives is set annually by the NHRC. It comprises a cash salary, superannuation and other non-cash benefits such as a company vehicle. Executives may elect to take a vehicle allowance in lieu of a company vehicle and may salary sacrifice a portion of their cash salary into superannuation or other benefits.

##### **STIs**

Structure of STIs for the KMP of the Consolidated Entity – New Hope executives

Feature	Description	
Maximum Opportunity/ Allocation	31% of New Hope Managing Director’s fixed remuneration	
	31% of New Hope Chief Operating Officer’s fixed remuneration	
	26% of New Hope Chief Financial Officer’s fixed remuneration	
Performance metrics	STIs are designed to motivate and reward senior executives to achieve the short-term goals of New Hope.	
	Objective	Weighting
	New Hope Group Profit, Sales and Investment Performance	30%
	New Hope Group Compliance: Safety, Environment and Risk Management	10%
	New Hope Group Production Cost, Project Development and Merger and Acquisition Activities	10%
	Attributable to individual performance	50%
Delivery of STI	100% of the STI awarded is paid in cash following release of the year end results.	

At the end of each period the NHRC awards executives a percentage of their maximum allowable STI having regard to the performance of the executive and New Hope during the period.

### LTI

Executive KMP participate, at the NHRC's discretion, in the LTI plan comprising annual grants of performance rights as follows.

Structure of LTIs for the KMP of the Consolidated Entity – New Hope executives

Feature	Description
<b>Maximum Opportunity/ Allocation</b>	31% of New Hope Managing Director's fixed remuneration
	31% of New Hope Chief Operating Officer's fixed remuneration
	26% of New Hope Chief Financial Officer's fixed remuneration
	Maximum allowable LTIs are provided for in senior executive employment contracts. At the end of each period the NHRC awards executives a percentage of their maximum allowable LTI having regard to the performance of the executive and New Hope during the period. The value of the executive's LTIs is converted into Performance Rights by reference to the five day volume weighted average share price of New Hope over the five days immediately preceding issue.
<b>KPIs</b>	<b>Objective</b>
	Shareholder Value - TSR
	Strategic Plan Delivery
<b>Performance and service conditions</b>	<b>Weighting</b>
	75%
<b>TSR performance hurdle</b>	25%
<b>Performance and service conditions</b>	Performance Rights are issued subject to performance and service conditions. The service condition requires that the executive remain an employee of New Hope for the duration of the three year vesting period. The performance conditions attaching to the rights are measured over three years. The NHRC will determine the percentage of rights that will vest based on the performance of the executive and New Hope during the three year period. LTIs are designed to motivate and reward senior executives to achieve the strategic goals set by New Hope, align shareholder and executive objectives and to retain the services of senior executives.
	TSR of New Hope expressed as a percentage of the ASX 200 accumulation index (Index) over a three year period.
	<b>TSR as a % of the Index</b>
	<b>Rights to vest</b>
	< 100%
	100% to < 105%
	105% to < 110%
	110% to < 115%
	115 to < 120%
	120 to < 125%
	> 125%
<b>Payable by participants</b>	Nil
	No amounts are payable by the participants upon the granting or the exercising of the rights.
<b>Discretion</b>	The NHRC has discretion to select alternative equity instruments for the award of LTIs in the event that Performance Rights do not align to the strategic goals set by the NHRC or New Hope.

Subject to the employee satisfying the above service and performance conditions, a percentage of the Performance Rights will vest three years after their grant date in accordance with the above table.

#### 4. Performance indicators

##### Parent Company

Performance against key measures:

Metric	Target	Performance	Impact on incentive award
<b>STI</b>			
Regular cash to the parent company net of regular expenses	4% higher than previous year	5.6% higher than last year Out performance	110% of target STI pool awarded
Adjusted net asset value (post tax) per share	2% higher than ASX200 Accumulation Index	Lower than ASX200 Accumulation Index Under performance	No amount of target STI pool awarded
<b>LTI</b>	The first test period will be for the three years ended 31 July 2018.		

In its review of remuneration policies of KMP of the Parent Company, the Remuneration Committee has regard to the performance of the Consolidated Entity and Parent Company for the current and previous four financial years, taking into account the following measures:

	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000
<b>Consolidated Entity</b>					
Revenue from continuing activities	791,315	658,116	641,604	620,661	<b>967,570</b>
Profit after tax attributable to shareholders	105,421	131,729	83,330	149,421	<b>333,611</b>
<b>Parent Company</b>					
Net regular cash from operations	140,282	140,494	136,204	137,435	<b>143,596</b>
Share price at year end	\$13.50	\$15.13	\$13.70	\$17.43	<b>\$17.64</b>
Ordinary dividends paid/declared	46 cents	48 cents	50 cents	52 cents	<b>54 cents</b>

## 5. Remuneration expenses for KMP

### (i) Remuneration of the KMP of the Consolidated Entity:

			Short-term Benefits			Post-Employment Benefits	Long-term Benefits	Share-based Payments		
	Parent Entity	Controlled Entities	Salary & Fees	STI	Non-monetary <sup>1</sup>	Super-annuation	Long Service Leave	Termination Benefits	LTI Rights <sup>2</sup>	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors – 2017</b>										
R D Millner	336,057	367,365	630,464	–	28,937	44,021	–	–	–	703,422
M J Hawker	198,583	–	181,354	–	–	17,229	–	–	–	198,583
T C D Millner	169,000	147,825	276,533	–	13,182	27,110	–	–	–	316,825
W M Negus	186,499	–	170,319	–	–	16,180	–	–	–	186,499
R G Westphal	201,084	–	183,638	–	–	17,446	–	–	–	201,084
D E Wills	199,582	27,375	207,267	–	–	19,690	–	–	–	226,957
	1,290,805	542,565								
<b>Executive Directors – 2017</b>										
T J Barlow – Managing Director	1,671,731	202,575	1,282,011	343,570	6,308	37,231	47,656	–	157,530	1,874,306
M R Roderick – Finance Director	936,293	–	654,224	138,195	8,234	29,525	14,442	–	91,673	936,293
<b>Other KMP – 2017</b>										
I D Bloodworth	430,514	–	313,579	40,078	16,265	29,203	7,493	–	23,896	430,514
S O Stephan	–	1,612,833	1,239,240	–	118,811	19,724	31,115	–	203,943	1,612,833
A L Boyd	–	673,468	622,252	–	4,534	19,612	2,035	–	25,035	673,468
M J Busch	–	697,326	545,709	–	43,503	19,612	9,670	–	78,832	697,326
<b>Total</b>	<b>4,329,343</b>	<b>3,728,767</b>	<b>6,306,590</b>	<b>521,843</b>	<b>239,774</b>	<b>296,583</b>	<b>112,411</b>	<b>–</b>	<b>580,909</b>	<b>8,058,110</b>

1. Non-monetary remuneration includes salary sacrificed fringe benefits and movements in annual leave provisions.

2. The LTI rights expense is determined by amortising the fair value of the rights over the vesting period of the rights. Refer to item 7. Share-based Compensation on page 43 of this report.



			Short-term Benefits			Post-Employment Benefits	Long-term Benefits	Share-based Payments		Total
	Parent Entity	Controlled Entities	Salary & Fees	STI	Non-monetary <sup>1</sup>	Super-annuation	Long Service Leave	Termination Benefits	LTI Rights <sup>2</sup>	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors – 2016</b>										
R D Millner	329,109	367,058	624,883	–	27,892	43,392	–	–	–	696,167
M J Hawker	181,708	–	165,943	–	–	15,765	–	–	–	181,708
T C D Millner	158,583	92,659	192,404	–	39,895	18,943	–	–	–	251,242
W M Negus	168,791	–	154,147	–	–	14,644	–	–	–	168,791
R G Westphal	191,499	–	174,885	–	–	16,614	–	–	–	191,499
D E Wills	182,291	27,375	191,476	–	–	18,190	–	–	–	209,666
	1,211,981	487,092								
<b>Executive Directors – 2016</b>										
T J Barlow – Managing Director	1,431,363	202,575	1,103,166	350,150	(1,450)	36,909	34,839	–	110,324	1,633,938
M R Roderick – Finance Director	896,179	–	610,241	170,082	(1,053)	29,940	19,477	–	67,492	896,179
<b>Other KMP – 2016</b>										
I D Bloodworth	416,224	–	301,939	44,799	16,566	28,468	6,801	–	17,651	416,224
S O Stephan	–	1,416,052	1,247,833	–	9,740	19,385	11,520	–	127,574	1,416,052
B D Denney <sup>3</sup>	–	410,715	312,686	–	9,930	7,111	10,682	136,316	(66,010)	410,715
A L Boyd <sup>4</sup>	–	465,134	389,709	–	38,728	14,370	22,327	–	–	465,134
M J Busch	–	635,825	546,028	–	(990)	19,305	9,796	–	61,686	635,825
<b>Total</b>	<b>3,955,747</b>	<b>3,617,393</b>	<b>6,015,340</b>	<b>565,031</b>	<b>139,258</b>	<b>283,036</b>	<b>115,442</b>	<b>136,316</b>	<b>318,717</b>	<b>7,573,140</b>

1. Non-monetary remuneration includes salary sacrificed fringe benefits and movements in annual leave provisions.

2. The LTI rights expense is determined by amortising the fair value of the rights over the vesting period of the rights. Refer to item 7. Share-based Compensation on page 43 of this report.

3. Mr B D Denney resigned as Chief Operating Officer of New Hope on 18 December 2015. The negative share based payment amount reflects rights forfeited.

4. Mr A L Boyd was appointed as the Chief Operating Officer of New Hope on 21 December 2015.

## 5. Remuneration expenses for KMP continued

### (ii) Relative proportions of remuneration that are fixed and that are linked to performance

	Fixed Remuneration		At Risk – STI		At Risk – LTI	
	2017	2016	2017	2016	2017	2016
<b>Parent Company</b>						
T J Barlow	70%	68%	21%	24%	9%	8%
M R Roderick	75%	73%	15%	19%	10%	8%
I D Bloodworth	85%	85%	9%	11%	6%	4%
<b>New Hope Corporation Limited</b>						
S O Stephan	87%	91%	0%	0%	13%	9%
B D Denney	–	116%	–	0%	–	(16%)
A L Boyd	96%	100%	0%	0%	4%	0%
M J Busch	89%	90%	0%	0%	11%	10%

As the LTIs are provided exclusively by way of rights, the percentages disclosed reflect the value of remuneration consisting of rights, based on the value of rights expensed during the year.

### (iii) STIs granted and forfeited for the year

	Target STI	Awarded	Forfeited
2017	\$	%	%
<b>Parent Company</b>			
T J Barlow	600,000	57%	43%
M R Roderick	276,000	50%	50%
I D Bloodworth	72,000	56%	44%
<b>New Hope Corporation Limited</b>			
S O Stephan	400,000	80%	20%
A L Boyd	199,195	70%	30%
M J Busch	150,000	67%	33%

The table above outlines the STIs awarded and forfeited with respect to the year ended 31 July 2017. The 2017 STIs awarded to WHSP's KMP are reflected in the remuneration expenses in the table on page 40. However, it is the practice of New Hope to expense and record the STIs awarded to its KMPs in the year that they are determined and paid. Consequently, the STIs outlined above to New Hope's KMP will be reflected in the remuneration expense for the 2018 financial year.

## 6. Contractual arrangements for executive KMP

	Term of agreement and notice period <sup>1</sup>	Base remuneration including Superannuation <sup>2</sup>	Termination Payments <sup>3</sup>
<b>Parent Company</b>			
T J Barlow	No fixed term 6 months notice period	\$1,200,000	6 months base remuneration
M R Roderick	No fixed term 3 months notice period	\$690,000	3 months base remuneration
I D Bloodworth	No fixed term 3 months notice period	\$360,000	3 months base remuneration
<b>New Hope Corporation Limited</b>			
S O Stephan	No fixed term 6 months notice period	\$1,300,000	6 months base remuneration
A L Boyd	No fixed term 3 months notice period	\$650,000	3 months base remuneration
M J Busch	No fixed term 3 months notice period	\$600,000	3 months base remuneration

1. This notice applies equally to either party.

2. Base remuneration including Superannuation as at 31 July 2017.

3. Base salary payable if the company terminates employees with notice, and without cause (e.g. for reasons other than unsatisfactory performance).

## 7. Share-based compensation

### Parent Company

Rights to deferred shares are granted under the WHSP Long Term Incentive Plan. Rights are granted for nil consideration. Rights are granted in accordance with the plan at the sole discretion of the WHSP Board. They vest and automatically convert to ordinary shares in WHSP following the satisfaction of the relevant performance and service conditions. Performance and service conditions applicable to each issue of Rights are determined by the Board at the time of grant. Rights granted under the plan carry no dividend or voting rights.

The assessed fair value of the Rights at grant date is allocated equally over the period from grant date to vesting date and these amounts are included in the remuneration of the executive. The fair value of the rights was independently determined by valuation specialists Lonergan Edwards & Associates Limited based on the market price of WHSP's shares at the grant date, with an adjustment made to take into account the vesting period, expected dividends during that period that will not be received by the participants and the probability that the market performance conditions will be met.

At each reporting date, the Company revises its estimate of the number of EPS rights that are expected to be exercised. The total value of the rights on issue is adjusted accordingly and the employee benefits expense for the period is based on this revised value.

## 7. Share-based Compensation continued

Rights affecting the remuneration of KMP in the current or future periods.

WHSP	Vesting Date					Grant Date Value
Grant Date	If met over 3 years			If re-tested over 4 years		\$
EPS Rights						
December 2015	50%	September 2018	50%	September 2019		13.86
	30%	August 2019	30%	September 2019		13.86
	20%	August 2020	20%	August 2020		13.86
TSR Rights						
December 2015	50%	September 2018	50%	September 2019		12.25
	30%	August 2019	30%	September 2019		11.08
	20%	August 2020	20%	August 2020		10.87
EPS Rights						
December 2016	50%	September 2019	50%	September 2020		13.10
	30%	August 2020	30%	September 2020		13.10
	20%	August 2021	20%	August 2021		13.10
TSR Rights						
December 2016	50%	September 2019	50%	September 2020		5.22
	30%	August 2020	30%	September 2020		3.25
	20%	August 2021	20%	August 2021		2.56

Rights to deferred shares granted, vested and forfeited during the year.

WHSP		Balance at start of year	Granted during the year	Rights to deferred shares				Balance at end of year	Maximum value in future periods <sup>1</sup>
				Vested		Forfeited			
				Number	%	Number	%		
Grant Date		Number	Number	Number	%	Number	%	Number	\$
T J Barlow	Dec 2015	31,045	—	—	—	—	—	31,045	169,027
	Dec 2016	—	29,398	—	—	—	—	29,398	169,737
M R Roderick	Dec 2015	18,992	—	—	—	—	—	18,992	103,403
	Dec 2016	—	15,875	—	—	—	—	15,875	91,658
I D Bloodworth	Dec 2015	4,967	—	—	—	—	—	4,967	27,043
	Dec 2016	—	4,116	—	—	—	—	4,116	23,765

1. The maximum value of the deferred rights in future periods has been determined as the fair value of the rights that is yet to be expensed.

The minimum value of the rights yet to vest is nil, as the rights will be forfeited if the vesting conditions are not met.



## New Hope Corporation Limited

Rights to deferred shares are granted under the New Hope Corporation Limited Employee Performance Rights Share Plan. Membership of the plan is open to those senior employees and those Directors of New Hope, its subsidiaries and associated bodies corporate whom the Directors of New Hope believe have a significant role to play in the continued development of the New Hope Group's activities.

Rights are granted for nil consideration at the sole discretion of the Directors of New Hope and in accordance with the New Hope Group's reward and retention strategy. Rights vest and automatically convert to ordinary shares in New Hope following the satisfaction of the relevant performance and service conditions. Performance and service conditions applicable to each issue of Rights are determined by the New Hope Board at the time of grant. Rights granted under the plan carry no dividend or voting rights.

The assessed fair value at grant date of Rights granted to executives is allocated equally over the period from grant date to vesting date and these amounts are included in the remuneration of the executive. The fair value of the Rights is determined based on the market price of New Hope's shares at the grant date, with an adjustment made to take into account the vesting period, expected dividends during that period that will not be received by the participants and the probability that the market performance conditions will be met.

Rights affecting the remuneration of KMP in the current or future periods.

NEW HOPE		Grant Date Value
Grant Date	Vesting Date	\$
December 2012	August 2016	4.08
December 2014	August 2017	1.58
November 2015	August 2017	0.96
November 2015	August 2018	1.08
December 2016	August 2019	0.80

Rights to deferred shares granted, vested and forfeited during the year.

NEW HOPE			Rights to deferred shares						Balance at end of year	Maximum value in future periods <sup>1</sup>
Grant Date	Vesting Date	Balance at start of year	Granted during the year	Vested		Forfeited				
				Number	%	Number	%			
S O Stephan	Dec 2012	Aug 2016	11,210	—	11,210	100%	—	—	—	—
	Nov 2015	Aug 2017	134,228	134,228	—	—	—	—	134,228	—
	Nov 2015	Aug 2018	204,082	204,082	—	—	—	—	204,082	80,375
	Dec 2016	Aug 2019	—	250,000	—	—	—	—	250,000	150,816
A L Boyd	Dec 2016	Aug 2019	—	124,497	—	—	—	—	124,497	75,104
M J Busch	Dec 2012	Aug 2016	8,408	—	8,408	100%	—	—	—	—
	Dec 2014	Aug 2017	50,336	—	—	—	—	—	50,336	—
	Nov 2015	Aug 2018	76,531	—	—	—	—	—	76,531	30,141
	Dec 2016	Aug 2019	93,750	93,750	—	—	—	—	93,750	56,556

1. The maximum value of the deferred rights in future periods has been determined as the fair value of the rights that is yet to be expensed.

The minimum value of the Rights yet to vest is nil, as the rights will be forfeited if the vesting conditions are not met.

## 8. Other statutory information

### Shareholdings of KMP

The following tables show the number of:

- shares in WHSP;
- shares in New Hope; and
- preference shares in Pitt Capital Partners Limited

that were held during the financial year by key management personnel of the Group, including their personally related parties.

Shares in Washington H. Soul Pattinson and Company Limited	Balance at start of year	Purchased/ (sold)	Received on the vesting of rights	Other changes during the Year	Balance at end of year
<b>Directors of Washington H. Soul Pattinson and Company Limited</b>					
R D Millner	21,098,602	300,000	–	(1,593,161) <sup>1</sup>	19,805,441
T J Barlow	5,000	–	–	–	5,000
M J Hawker	28,690	6,610	–	–	35,300
T C D Millner	18,382,977	300,000	–	–	18,682,977
W M Negus	47,000	–	–	–	47,000
M R Roderick	5,000	–	–	–	5,000
R G Westphal	22,739	–	–	–	22,739
D E Wills	396,433	–	–	508,582 <sup>2</sup>	905,015
<b>Other key management personnel</b>					
A L Boyd	–	– <sup>3</sup>	–	–	–

1. Distributions by an estate (2,101,744) and from estates 508,583

2. Distributions from estates

3. 1,700 shares purchased and sold during the year

Shares in New Hope Corporation Limited	Balance at start of year	Purchased/ (sold)	Received on the vesting of rights	Other changes during the Year	Balance at end of year
<b>Directors of Washington H. Soul Pattinson and Company Limited</b>					
R D Millner	3,781,962	143,867	–	–	3,925,829
T J Barlow	–	19,900	–	–	19,900
T C D Millner	3,774,368	–	–	–	3,774,368
R G Westphal	–	40,000	–	–	40,000
D E Wills	90,670	–	–	–	90,670
<b>Other key management personnel</b>					
S O Stephan	241,021	–	11,210	–	252,231
A L Boyd	15,438	–	–	–	15,438
M J Busch	711,324	–	8,408	–	719,732

<b>Pitt Capital Partners Limited Class RP01 Preference Shares</b>	<b>Balance at start of year</b>	<b>Purchased/ (sold)</b>	<b>Received on the vesting of rights</b>	<b>Other changes during the Year</b>	<b>Balance at end of year</b>
<b>Directors of Washington H. Soul Pattinson and Company Limited</b>					
T J Barlow	1	–	–	–	1

None of the shares above are held nominally by the Directors or any of the other KMP.

### Loans to KMP

No loans have been made to the Directors of WHSP or other KMP of the Consolidated Entity.

### Other transactions with KMP

The KMP and their related entities received dividends during the year in respect of their shareholdings in Group companies consistent with other shareholders.

Unsecured deposits were previously accepted from some Directors of WHSP and their related entities and interest is paid at normal commercial rates. Interest paid during the current financial year amounted to \$734,209 (2016: \$1,228,178). There were no funds on deposits at 31 July 2017 (2016: \$48,200,787). Deposits were received from Mr R D Millner, Mr T C D Millner and Mr R G Westphal and/or their related entities.

### Voting on the 2016 Remuneration Report

The Parent Company's Remuneration Report for the 2016 financial year was adopted at its 2016 Annual General Meeting on a show of hands.

*This is the end of the Remuneration Report*

## Directors' Report

### Options

The Parent Company did not issue any options over its unissued shares during the financial year or in the period to the date of this report. There are no such options on issue at the date of this report.

### Indemnification of Officers and Auditors

#### Indemnification

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

#### Insurance

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

#### Auditors

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

### Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Parent Company or to intervene in any proceedings to which the Parent Company is a party for the purpose of taking responsibility on behalf of the Parent Company for all or any part of those proceedings. The Parent Company was not a party to any such proceedings during the year.

### Non Audit Services

During the year, Pitcher Partners Sydney, the Parent Company's auditor, performed certain other services in addition to their statutory duties. An entity associated with Pitcher Partners Sydney was paid \$96,300 for providing tax compliance and other services in respect of the Group. Details of the amounts paid to the auditors are disclosed in note 36 of the financial statements.

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

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

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 31 July 2017 has been received and is included on page 49.

### Rounding of Amounts

The company is of a kind referred to in *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191*, and in accordance with that legislative instrument, amounts in the Directors' Report and Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

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



R D Millner  
Director – Chairman



T J Barlow  
Managing Director

Dated this 24th day of October 2017.





# Auditor's Independence Declaration



## Auditor's Independence Declaration to the Directors of Washington H. Soul Pattinson and Company Limited ABN 49 000 002 728

In relation to the independent audit for the year ended 31 July 2017, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct.

This declaration is in respect of Washington H. Soul Pattinson and Company Limited and the entities it controlled during the year.

J Gavljak  
Partner

Pitcher Partners  
Sydney

23 October 2017



# Financial Report

for the year ended 31 July 2017

## About this report

This financial report is for the Consolidated entity consisting of Washington H. Soul Pattinson and Company Limited and its controlled entities for the year ending 31 July 2017. Throughout the report, the Consolidated entity is also referred to as the 'Group'.

We are continuously developing the Group's financial reporting with the aim to enhance our shareholders understanding of the Group and to highlight the parent company information of Washington H. Soul Pattinson and Company Limited, illustrating the market value of our investments and the cash flows generated by them from which dividends to our shareholders are paid.

The notes to the financial statements are ordered so as to focus on the drivers of the Group's performance. Please refer to the contents page for how the notes are structured and ordered. In addition to the relevant financial information, the notes include a description of the accounting policies applied, and where applicable key judgements and estimates used by management in applying these policies.

## Consolidated entity perspective

This consolidated financial report combines the operating results, financial positions and cash flows of Washington H. Soul Pattinson and Company Limited (the Parent company) and each entity that it controls (subsidiaries), into a single set of financial statements.

A controlling stake in a subsidiary often occurs where the parent company owns less than 100% of the subsidiary. The term 'non-controlling interest' is used to describe that portion not owned by the parent company. The non-controlling interest's share of the consolidated profit and net assets is disclosed separately in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of changes in equity.

Investments in which the parent company or a subsidiary has significant influence but does not have control are termed 'associate entities'. Unlike controlled entities, the individual financial reports of associates are not consolidated. Associates are equity accounted with the Group's share of an associate's result recorded in profit. The investment in associates is disclosed as a line item (equity accounted associates) in the consolidated statement of financial position and is adjusted for the Group's share of the associate's result and decreased by any dividends received. This method treats dividends from associates as if they are a return of capital rather than being recognised in income.

## Parent company perspective

Financial information for Washington H. Soul Pattinson and Company Limited, the 'Parent company' has also been provided. In contrast to the consolidated financial report, the Parent company information reflects Washington H. Soul Pattinson and Company Limited's activities as an 'investor' and provides details of its investments (subsidiaries, associate entities and other investments), together with the cash flows generated by them (dividend income).

Washington H. Soul Pattinson and Company Limited is a for profit company limited by shares, incorporated and domiciled in Australia. The shares are publicly traded on the Australian Securities Exchange. Its registered office and principal place of business is as follows:

Washington H. Soul Pattinson and Company Limited  
Level 1, 160 Pitt Street, SYDNEY NSW 2000

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

This financial report was authorised for issue in accordance with a resolution of the Directors on 24 October 2017.

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# Consolidated Income Statement

for the year ended 31 July 2017

	Notes	2017 \$'000	2016 \$'000
<b>Revenue from continuing operations</b>	15	967,570	620,661
Other income	16	164,345	145,902
Cost of sales		(543,256)	(392,308)
Selling and distribution expenses		(172,992)	(153,806)
Administration expenses		(37,376)	(34,600)
Acquisition costs expensed		–	(45,604)
Other expenses		(7,019)	(13,313)
Impairment expense	17	(18,423)	(116,539)
Finance costs		(3,577)	(2,535)
Share of results from equity accounted associates	10b	162,067	122,503
<b>Profit before income tax</b>		<b>511,339</b>	<b>130,361</b>
Income tax (expense)	18a	(119,985)	(902)
<b>Profit after tax for the year</b>		<b>391,354</b>	<b>129,459</b>
(Profit)/loss after tax attributable to non-controlling interests		(57,743)	19,962
<b>Profit after tax attributable to members of Washington H. Soul Pattinson and Company Limited</b>		<b>333,611</b>	<b>149,421</b>

	2017 cents	2016 cents
<b>Earnings per share</b>		
Basic and diluted earnings per share attributable to ordinary equity holders of Washington H. Soul Pattinson and Company Limited		
<b>Earnings per share from all operations</b>	<b>139.36</b>	<b>62.42</b>
	No. of shares	No. of shares
Weighted average number of shares used in calculating basic and diluted earnings per share	239,395,320	239,395,320

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

# Consolidated Statement of Comprehensive Income

for the year ended 31 July 2017

	2017 \$'000	2016 \$'000
<b>Profit after tax for the year</b>	391,354	129,459
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to the income statement</b>		
Net movement in the fair value of long term equity investments, net of tax	1,808	(40,304)
Transfer to profit and loss on disposal of long term equity investments, net of tax	(25,397)	(10,692)
Net movement in hedge reserve, net of tax	10,666	17,141
Net movement in foreign currency translation reserve, net of tax	88	(320)
Net movement in equity reserve, net of tax	3,654	2,813
<b>Total other comprehensive (expense) for the year, net of tax</b>	<b>(9,181)</b>	<b>(31,362)</b>
<b>Total comprehensive income for the year</b>	<b>382,173</b>	<b>98,097</b>
Total comprehensive (income)/expense attributable to non-controlling interests	(62,559)	12,761
<b>Total comprehensive income attributable to members of Washington H. Soul Pattinson and Company Limited</b>	<b>319,614</b>	<b>110,858</b>

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



# Consolidated Statement of Financial Position

as at 31 July 2017

	Notes	31 July 2017 \$'000	31 July 2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents	14	301,275	126,709
Term deposits	13	1,044	47,660
Trade and other receivables	28	94,770	116,775
Inventories	29	79,968	79,039
Trading equities	11	46,993	31,605
Derivative financial instruments	22	18,075	2,313
Current tax asset		13,024	1,486
<b>Total current assets</b>		<b>555,149</b>	<b>405,587</b>
<b>Non-current assets</b>			
Trade and other receivables	28	3,563	30,187
Equity accounted associates	10	1,415,973	1,265,214
Long term equity investments	11	648,105	585,703
Other financial assets	11	4,984	11,837
Investment properties	12	165,016	92,932
Property, plant and equipment	25	1,370,420	1,388,735
Exploration and evaluation assets	26	418,582	402,298
Deferred tax assets	19	106,576	100,896
Intangible assets	27	60,026	60,478
<b>Total non-current assets</b>		<b>4,193,245</b>	<b>3,938,280</b>
<b>Total assets</b>		<b>4,748,394</b>	<b>4,343,867</b>
<b>Current liabilities</b>			
Trade and other payables	30	80,866	75,831
Interest bearing liabilities	23	42,356	52,167
Derivative financial instruments	22	69	167
Current tax liabilities		736	1,677
Provisions	31	45,345	50,066
<b>Total current liabilities</b>		<b>169,372</b>	<b>179,908</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	23	33,057	35,558
Deferred tax liabilities	19	394,882	284,858
Provisions	31	112,773	96,892
<b>Total non-current liabilities</b>		<b>540,712</b>	<b>417,308</b>
<b>Total liabilities</b>		<b>710,084</b>	<b>597,216</b>
<b>Net assets</b>		<b>4,038,310</b>	<b>3,746,651</b>
<b>Equity</b>			
Share capital	5	43,232	43,232
Reserves	4	611,226	623,684
Retained profits		2,603,186	2,372,467
<b>Parent entity interest</b>		<b>3,257,644</b>	<b>3,039,383</b>
Non-controlling interest		780,666	707,268
<b>Total equity</b>		<b>4,038,310</b>	<b>3,746,651</b>

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

# Consolidated Statement of Changes in Equity

for the year ended 31 July 2017

	Share capital \$'000	Retained profits \$'000	Reserves \$'000	Total Parent entity interest \$'000	Non-controlling interest \$'000	Total equity \$'000
<b>Year ended 31 July 2017</b>						
<b>Total equity at the beginning of the year – 1 August 2016</b>	<b>43,232</b>	<b>2,372,467</b>	<b>623,684</b>	<b>3,039,383</b>	<b>707,268</b>	<b>3,746,651</b>
<b>Net profit for the year after tax</b>	<b>–</b>	<b>333,611</b>	<b>–</b>	<b>333,611</b>	<b>57,743</b>	<b>391,354</b>
<b>Other comprehensive income for the year</b>						
Net movement in asset revaluation reserve, net of tax	–	–	(23,849)	(23,849)	260	(23,589)
Net movement in hedge reserve, net of tax	–	–	6,185	6,185	4,481	10,666
Net movement in foreign currency translation reserve, net of tax	–	–	13	13	75	88
Net movement in equity reserve, net of tax	–	–	3,654	3,654	–	3,654
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>333,611</b>	<b>(13,997)</b>	<b>319,614</b>	<b>62,559</b>	<b>382,173</b>
<b>Transactions with owners</b>						
Dividends declared and paid	–	(102,993)	–	(102,993)	(22,045)	(125,038)
Net movement in share-based payments reserve	–	101	1,539	1,640	(9)	1,631
Non-controlling interests share of subsidiaries	–	–	–	–	16	16
Equity transfer from members on issue of share capital in controlled entity	–	–	–	–	32,877	32,877
<b>Total equity at the end of the year – 31 July 2017</b>	<b>43,232</b>	<b>2,603,186</b>	<b>611,226</b>	<b>3,257,644</b>	<b>780,666</b>	<b>4,038,310</b>
<b>Year ended 31 July 2016</b>						
<b>Total equity at the beginning of the year – 1 August 2015</b>	<b>43,232</b>	<b>2,322,067</b>	<b>661,279</b>	<b>3,026,578</b>	<b>747,857</b>	<b>3,774,435</b>
<b>Net profit/(loss) for the year after tax</b>	<b>–</b>	<b>149,421</b>	<b>–</b>	<b>149,421</b>	<b>(19,962)</b>	<b>129,459</b>
<b>Other comprehensive income for the year</b>						
Net movement in asset revaluation reserve, net of tax	–	–	(51,139)	(51,139)	143	(50,996)
Net movement in hedge reserve, net of tax	–	–	9,979	9,979	7,162	17,141
Net movement in foreign currency translation reserve, net of tax	–	–	(216)	(216)	(104)	(320)
Net movement in equity reserve, net of tax	–	–	2,813	2,813	–	2,813
<b>Total comprehensive income/(expense) for the year</b>	<b>–</b>	<b>149,421</b>	<b>(38,563)</b>	<b>110,858</b>	<b>(12,761)</b>	<b>98,097</b>
<b>Transactions with owners</b>						
Dividends declared and paid	–	(99,064)	–	(99,064)	(27,963)	(127,027)
Net movement in share-based payments reserve	–	43	968	1,011	(95)	916
Non-controlling interests share of subsidiaries	–	–	–	–	(18)	(18)
Equity transfer from members on issue of share capital in controlled entity	–	–	–	–	248	248
<b>Total equity at the end of the year – 31 July 2016</b>	<b>43,232</b>	<b>2,372,467</b>	<b>623,684</b>	<b>3,039,383</b>	<b>707,268</b>	<b>3,746,651</b>

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

# Consolidated Statement of Cash Flows

for the year ended 31 July 2017

	Notes	2017 \$'000	2016 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers inclusive of GST		1,012,326	598,389
Payments to suppliers and employees inclusive of GST		(696,002)	(559,921)
		<b>316,324</b>	<b>38,468</b>
Dividends received		106,541	98,603
Interest received		8,705	32,202
Acquisition costs expensed	6	–	(45,604)
Finance costs		(2,317)	(973)
Income taxes paid		(29,861)	(2,869)
<b>Net cash inflow from operating activities</b>	14	<b>399,392</b>	<b>119,827</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment and intangibles		(77,913)	(68,533)
Proceeds from sale of property, plant and equipment		11,022	829
Payments for exploration and evaluation activities		(18,255)	(22,387)
Net proceeds from term deposits		46,368	1,161,399
Payment for acquisition and development of investment properties		(63,906)	(71,316)
Payments for equity investments		(80,482)	(86,149)
Proceeds from sale of equity investments		145,707	49,130
Proceeds from sale of equity accounted associates		81,708	4,108
Payments to acquire equity accounted associates		(167,849)	(6,287)
Loans advanced		(12,682)	(41,285)
Loan repayments		47,269	1,701
Payments for acquisition of businesses, net of cash	6	(800)	(849,530)
Proceeds on Bengalla acquisition settlement adjustment		1,669	–
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(88,144)</b>	<b>71,680</b>
<b>Cash flows from financing activities</b>			
Dividends paid to our shareholders		(126,880)	(122,092)
Dividends paid by subsidiaries to non-controlling interests		(22,045)	(27,963)
Proceeds from interest bearing liabilities		46,971	45,886
(Repayment) of interest bearing liabilities		(97,554)	(44,530)
Proceeds from external borrowings		95,000	23,358
(Repayment) of external borrowings		(57,400)	(988)
Transaction with subsidiary's non-controlling interests		32,797	–
<b>Net cash (outflow) from financing activities</b>		<b>(129,111)</b>	<b>(126,329)</b>
<b>Net increase in cash and cash equivalents</b>		<b>182,137</b>	<b>65,178</b>
Cash and cash equivalents at the beginning of the year		126,709	59,424
Effects of exchange rate changes on cash and cash equivalents		(7,571)	2,107
<b>Cash and cash equivalents at the end of the year</b>	14	<b>301,275</b>	<b>126,709</b>

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

# Notes to the Financial Statements

## Basis of preparation

This financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a for profit basis;
- is presented in Australian dollars with all values rounded to the nearest thousand dollars (\$'000), or in certain cases, to the nearest dollar, unless otherwise stated, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 August 2016;
- does not adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective such as *AASB 15 Revenue from Contracts with Customers*; *AASB 9 Financial Instruments* (December 2010) as amended by 2013-9 and *AASB 16 Leases*. Refer to note 35 – Other accounting policies for more information;
- has been prepared on a historical cost basis except for the following items, which are measured on an alternative basis.

Item	Measurement basis
Long term equity investments	Fair value
Trading equities	Fair value
Investment properties	Fair value
Inventories	Lower of cost and net realisable value

- where Parent company information is disclosed, relevant accounting policies are described when different to the Group accounting policies.

### Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of Washington H. Soul Pattinson and Company Limited and its subsidiaries, and equity accounts its associates. A diagram is set out in note 3, listing the main subsidiaries and associates.

#### i. Controlled entities (Subsidiaries)

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. For disposals to non-controlling interests, differences between any proceeds received and the relevant share of non-controlling interests are also recorded in equity.

#### ii. Joint arrangements

A joint arrangement is an arrangement where two or more parties share control. Joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure.

##### Joint operations

A joint operation is a joint arrangement in which the parties that share joint control, have rights to the assets, and obligations for the liabilities relating to the arrangement. The Group recognises its direct right to the assets, liabilities; revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated into the Group's financial statements under the appropriate headings.

##### Joint ventures

A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost.

#### iii. Associates

Associates are all entities over which the Group has significant influence and are neither subsidiaries nor jointly controlled. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received/receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

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



#### iv. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated. Unrealised gains arising from transactions with an associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Where practical, accounting policies of the associates have been changed to ensure consistency with the policies adopted by the Group.

#### Other accounting policies

Significant and other accounting policies relevant to gaining an understanding of the financial statements have been grouped with the relevant notes to the financial statements.

#### Key judgements and estimates

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

Note reference	Key judgements and estimates	Page
Note 6	Business combinations – acquisition fair value	74
Note 9	Classification of joint arrangements as a joint operation	76
Note 10	Recoverable value of investments in Associates	80
Note 11	Impairment of financial assets	83
Note 17	Recoverable value and impairment	92
Note 18	Petroleum resource rent tax (PRRT)	94
Note 19	Deferred tax assets	96
Note 25	New Hope Corporation Limited – Queensland Mining Operations <ul style="list-style-type: none"><li>• Impairment assessment</li><li>• Estimates of reserves and resources – Coal</li><li>• New Acland Coal Stage 3 approvals</li></ul>	110
Note 25	Impairment of oil producing assets – New Hope Corporation Limited	112
Note 25	Determination of recoverable value – Copper assets	112
Note 26	Exploration and evaluation expenditure	113
Note 27	Impairment of goodwill	116
Note 28	Recoverability of receivables	118
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# Parent Company Information

1

## NOTE 1 PARENT COMPANY FINANCIAL INFORMATION

### Source of shareholders dividends

The Board declares dividends having regard to regular operating cash flows before non-regular items. The following information has been provided to demonstrate the underlying value of the Parent company's investments and the regular profit and cash flows generated by them.

Regular profit after tax is a measure of the Parent company's performance. This measurement excludes the effects of non-regular items of income and expense which by nature are outside the ordinary course of business or are part of ordinary operations but are unusual due to their size.

The classification of income and expenses as regular or non-regular is consistent with the Consolidated entity's measurement of segment results.

### ACCOUNTING POLICIES

### Parent company

The statement of financial position, profit after tax and total comprehensive income for the Parent company, have been prepared on the same basis as the consolidated financial statements except for Investments in controlled entities (subsidiaries) and Investments in associates.

In the Parent company, investments in subsidiaries and associates are carried at the lower of cost or impaired cost. Dividends from these entities are recognised as income within profit. This approach reflects Washington H. Soul Pattinson and Company Limited's activities as an investor.

The consolidated financial statements recognises the individual assets, liabilities, income and expenses of the controlled entities. Associates are equity accounted, with the initial investment being increased/(decreased) by profits/(losses) recognised in the income statement, movements in other comprehensive income and decreased by dividends received. Dividends from both controlled entities and associates are not recognised in the consolidated financial income statement.

### Statement of Financial Position

	As at 31 July 2017 \$'000	As at 31 July 2016 \$'000
<b>Current assets</b>		
Cash and term deposits	55,876	72,453
Other current assets	55,253	36,585
<b>Total current assets</b>	<b>111,129</b>	<b>109,038</b>
<b>Non-current assets</b>		
Long term equity investments – measured at market value	645,419	581,432
<b>Other financial assets</b>		
– Listed controlled and associated entities – measured at the lower of cost or impaired value	578,070	562,309
– Unlisted entities – measured at the lower of cost or impaired value	269,355	265,259
Other non-current assets	113,327	147,318
<b>Total non-current assets</b>	<b>1,606,171</b>	<b>1,556,318</b>
<b>Total assets</b>	<b>1,717,300</b>	<b>1,665,356</b>
<b>Total current liabilities</b>	<b>43,288</b>	<b>52,134</b>
<b>Total non-current liabilities</b>	<b>74,910</b>	<b>72,866</b>
<b>Total liabilities</b>	<b>118,198</b>	<b>125,000</b>
<b>Net assets</b>	<b>1,599,102</b>	<b>1,540,356</b>
<b>Equity</b>		
Share capital	43,232	43,232
Reserves	583,962	571,178
Retained profits	971,908	925,946
<b>Total equity</b>	<b>1,599,102</b>	<b>1,540,356</b>

### Income Statement

<b>Profit after tax</b>	<b>172,842</b>	<b>98,737</b>
<b>Less: Non-regular items after tax</b>		
Special dividends received from New Hope Corporation Limited	–	(17,349)
Net gain on disposal of investments	(45,305)	(11,713)
Net impairment expense on investments	12,506	67,320
Other	1,353	441
<b>Regular profit after tax</b>	<b>141,396</b>	<b>137,436</b>
<b>Other comprehensive income</b>		
Net movement in the fair value of the listed investment portfolio	12,501	(39,363)

## Regular Profit after Tax and Regular Operating Cash Flows

For the year ended 31 July 2017

**2017**  
\$'000

**Interest income** (from cash and loans)

**7,017**

### Dividend and distribution income

Milton Corporation Limited	5,986
BKI Investment Company Limited	4,454
Commonwealth Bank of Australia	3,313
Hunter Hall Global Value Limited	853
National Australia Bank Limited	1,726
Woolworths Limited	597
Lindsay Australia Limited	1,055
Wesfarmers Limited	992
Macquarie Group Limited	1,006
Other listed entities	9,616

TPG Telecom Limited	33,077
Brickworks Limited	32,166
New Hope Corporation Limited	29,742
Australian Pharmaceutical Industries Ltd	8,381
Pengana Capital Group Limited <sup>A</sup>	220
Apex Healthcare Berhad	1,262
Clover Limited	309
Other controlled and associates	9,050

**Total dividend and distribution income** **143,805**

**Net pharmacy profit** **1,445**

**Other revenue** **2,177**

**Realised and fair value gains on equities** **1,240**

**Other expenses** **(10,305)**

**Finance costs** **(1,447)**

**Regular profit before tax** **143,932**

**Income tax (expense)** **(2,536)**

**Regular profit after tax** **141,396**

**Non-cash fair value movement in equities** **282**

**Net movements in working capital** **1,918**

**Regular operating cash flows** **143,596**

The Board declares dividends having regard to the Parent company's regular operating cash flows.

### Dividends paid/payable

Interim of 22 cents per share paid 11 May 2017	52,667
Final of 32 cents per share payable 11 Dec 2017	76,607

**Total dividends paid/payable** **129,274**

### Payout ratio

Dividends as a percentage of regular operating cash flows	90.0%
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### Market value of listed investments as at 31 July 2017 (based on ASX closing prices 31 July 2017)

**As at  
31 July  
2017**  
\$'000

#### Long term equity investments

Milton Corporation Limited	134,373
BKI Investment Company Limited	100,336
Commonwealth Bank of Australia	65,904
Hunter Hall Global Value Limited	28,635
National Australia Bank Limited	26,109
Woolworths Limited	23,760
Lindsay Australia Limited	23,321
Wesfarmers Limited	20,418
Bailador Technology Investments Limited	19,780
Macquarie Group Limited	18,369
Other listed entities	184,414

**Market value of long term equity investments** **645,419**

#### Listed controlled and associated entities

**Holding**

TPG Telecom Limited	25.2%	1,304,750
Brickworks Limited	44.0%	866,516
New Hope Corporation Limited	59.6%	793,114
Australian Pharmaceutical Industries Ltd	19.4%	166,845
Pengana Capital Group Limited <sup>A</sup>	39.2%	123,467
Apex Healthcare Berhad	30.3%	49,108
TPI Enterprises Limited	18.9%	40,338
Clover Limited	22.7%	17,209
Verdant Minerals Limited	38.3%	11,437

**Market value of listed controlled and associated entities** **3,372,784**

**Total value of WHSP's listed investments** **4,018,203**

### Tax payable if WHSP's listed investments were disposed of:

WHSP is a long term equity investor.

If WHSP had disposed of its listed investments on 31 July 2017, a capital gains tax liability of approximately \$861.1 million would have arisen based on market values as at 31 July 2017. Of this amount, only \$67.5 million has been recognised in the Parent company accounts at 31 July 2017.

The market values of the listed investments are based on the last sale prices as quoted on the ASX on 31 July 2017 and are therefore subject to price fluctuations.

**Note A** Pengana Capital Group Limited was acquired during the 2017 financial year.

## Parent Company Information

1

### NOTE 1

#### PARENT COMPANY FINANCIAL INFORMATION (continued)

**a) Interest bearing liabilities of the Parent company**

During the year, the Parent company accepted deposits from its Directors and Director-related parties under normal commercial terms and conditions. On 31 July 2017, these deposits were transferred to a separate bank account and are held in trust for these Directors and their related parties. As the Parent company no longer has control over these funds, accordingly these funds are no longer included as a liability in the Group's Statement of Financial Position. Refer note 23 and note 33.

During the year, the Parent company utilised short term bank finance. At 31 July 2017, the debt owing was \$40 million and is included within current liabilities in the Statement of Financial Position. The debt is secured by certain assets of the Parent company, is repayable upon either the bank or the Parent company providing 30 days notice, and incurs interest at a variable rate. The interest rate at 31 July 2017 was 2.18% per annum. Refer note 23.

The Parent company is not subject to any externally imposed capital requirements by financial institutions.

**b) Guarantees entered into by the Parent company**

The Parent company provides cash backed guarantees for environmental bonds that are required by the 100% owned subsidiary, CopperChem Limited. As at 31 July 2017 these guarantees totalled \$5.279 million (2016: \$5.013 million).

**c) Contingent liabilities of the Parent company**

The Parent company did not have any contingent liabilities as at 31 July 2017 or 31 July 2016.

**d) Contractual commitments made by the Parent company, for the acquisition of property, plant or equipment**

The Parent company did not have any contractual commitments for property, plant or equipment as at 31 July 2017 or 31 July 2016.

# 2

## NOTE 2 PAYMENT OF DIVIDENDS TO SHAREHOLDERS

### Accounting policy

A liability is recognised for the amount of any dividend declared on or before the end of the financial year but not distributed at reporting date. As the final dividend was declared by Directors after year end, the final dividend has not been recognised as a liability.

	2017 \$'000	2016 \$'000
<b>a) Dividends paid during the year</b>		
Final dividend for the year ended 31 July 2016 of 31 cents (2015: 30 cents) per fully paid ordinary share paid on 12 December 2016 (2015: 7 December 2015) fully franked based on tax paid at 30%	74,213	71,819
Interim dividend for the year ended 31 July 2017 of 22 cents (2016: 21 cents) per fully paid ordinary share paid on 11 May 2017 (2016: 12 May 2016) fully franked based on tax paid at 30%	52,667	50,273
<b>Total dividends paid</b>	<b>126,880</b>	<b>122,092</b>
<b>b) Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the Directors have declared the payment of:  A final dividend of 32 cents per fully paid ordinary share, (2016: 31 cents) fully franked based on tax paid at 30%	76,607	74,213
This dividend is due to be paid on 11 December 2017 (2016: 12 December 2016) out of retained profits as at 31 July 2017, and has not been recognised as a liability at year end.		
<b>c) Franking of dividends</b>		
The final dividend for 31 July 2017 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 July 2017.		
<b>Franking credits available for future dividend payments</b>		
Franking credits available for subsequent financial years based on an Australian company tax rate of 30% (2016: 30%).	544,915	540,553
The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of provision for income tax, franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.		
Subsequent to year end, the franking account will be reduced by the final dividend to be paid on 11 December 2017 (2016: 12 December 2016).	(32,831)	(31,805)
<b>Balance of franking credits available after payment of the final dividend</b>	<b>512,084</b>	<b>508,748</b>



# 3

## Group Structure and Performance

### NOTE 3

#### SEGMENT INFORMATION – HOW THE GROUP IS ORGANISED AND MANAGED

##### How the Group is organised – Corporate structure

The Parent company invests in a diversified range of entities. Larger holdings in a single entity are classified as follows:

<b>Controlled entities: (subsidiaries)</b>	The Parent company is able to control the activities of the organisation.
<b>Associates:</b>	The Parent company has significant influence but does not control the activities of the organisation.

During the year, the Group established three property trusts: PSRE Urban Regeneration Trust No.3; PSRE Urban Regeneration Trust No.4; and PSRE Urban Regeneration Trust No.5 to hold investments in industrial and commercial properties in Sydney. These properties are classified as investment properties at reporting date. Washington H. Soul Pattinson and Company holds 50.1% of each of these Trusts at 31 July 2017.

No controlled entities were acquired or disposed of during the year ended 31 July 2017.

For changes in ownership of Associates, refer note 10.

##### How the Group is managed – Segment reporting

The Parent company, its subsidiaries and associates operate within four segments. Segments are based on product and service type and are predominately based in Australia.

The level of ownership determines the extent to which the Parent company is able to manage the underlying operations of its investment. The Group is managed by operating segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

As the Chief Operating Decision Maker is not regularly provided with the operating results from the listed associates (material contributors to reported profit) these associates are included within the Investing activities segment except for Syndicated Metals Limited and Novonix Limited, which are included within the Copper and gold operations segment. Results for listed associates are sourced from publicly available information. Unlisted associates have also been included within the investing segment.

The Group's operating segments are described as:

##### ***Investing activities***

The Group invests in cash, term deposits, and diversified equity investments portfolio.

##### ***Energy***

The Group engages in coal, oil and gas activities which include exploration, development, production, processing, associated transport infrastructure and ancillary activities.

##### ***Copper and gold operations***

The Group engages in copper and gold mining activities which includes exploration, mining and processing of ore into copper concentrate, copper sulphide and gold.

##### ***Property***

The Group engages in property investment activities including the identification and management of real estate to be held, sold or developed to earn rental income or capital appreciation, or both.



## WHSP CONSOLIDATED GROUP

### CONTROLLED ENTITIES (SUBSIDIARIES)

WHSP group percentage ownership of subsidiaries



### SEGMENTS

#### INVESTING ACTIVITIES

#### ENERGY OPERATIONS

#### PROPERTY ACTIVITIES

#### COPPER AND GOLD OPERATIONS

##### ACTIVITIES

WHSP Listed Equities Portfolio	WHSP 100%
WHSP Cash and Term Deposits	WHSP 100%

##### ACTIVITIES

Coal Production and Exploration
Brisbane Port Coal Loading
Oil and Gas Operations

### ASSOCIATES (SIGNIFICANT INFLUENCE)

WHSP group percentage ownership of associates



**Various unlisted associates**



## Group Structure and Performance

3

### NOTE 3

#### SEGMENT INFORMATION – HOW THE GROUP IS ORGANISED AND MANAGED (continued)

##### Business performance – measurement of segment results

Segment performance is measured by regular profit and regular profit after tax attributable to members. These results are non-statutory profit measures and represent profit from continuing operations before non-regular items. The measurement basis in general, excludes the effects of non-regular items of income and expense which by nature are outside the ordinary course of business or part of ordinary activities but are unusual due to their size.

Regular profit after tax attributable to members is the main measure of segment profit.

A reconciliation between regular profit after tax attributable to members and profit after tax is set out below, and for each segment is set out in note 3a.

The Directors have presented this information which is used by the Chief Operating Decision Maker, as they consider the disclosure enhances the understanding of the results to members and users of the financial statements. Non-regular items are disclosed in note 3b.

The allocation of income and expense items between regular and non-regular profit is consistent with the prior year. Transactions between business segments are on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, expenses and results include transactions between business segments. These transfers are eliminated on consolidation.

##### Reconciliation between regular profit after tax attributable to members and profit after tax:

	2017 \$'000	2016 \$'000
<b>Regular profit after tax attributable to members</b>	282,019	177,222
<b>Non-regular items – net of tax</b>		
Gain on disposal of equity investments	25,103	11,713
Gain on disposal of equity accounted associates	24,059	1,489
Gain/ (loss) on initial recognition of equity accounted associate	43,049	(1,682)
(Loss)/gain on deemed disposal of equity accounted associates	(201)	83,318
Gain on derecognition as an associate	7,169	–
Share of significant (expenses) from associate entities	(10,915)	(29,834)
Deferred tax (expense) recognised on equity accounted associate entities	(32,535)	(20,900)
Impairment (expense) on equity accounted associates	–	(7,554)
Impairment (expense) on equity investments	(5,126)	(12,023)
Impairment (expense) on oil producing and exploration assets	–	(13,277)
Impairment (expense) – copper assets	–	(22,374)
Impairment (expense) on other assets	(7,258)	(6,675)
Recovery of prior period rail access charges	8,313	–
Acquisition costs expensed	–	(19,042)
Land access compensation	–	2,982
Recovery of legal fees	1,575	–
Other items	(1,641)	6,058
<b>Total non-regular profit/(loss) after tax attributable to members</b>	<b>51,592</b>	<b>(27,801)</b>
<b>Profit after tax attributable to members</b>	<b>333,611</b>	<b>149,421</b>

## a) Reporting segments

	Investing activities \$'000	Energy \$'000	Copper and gold operations \$'000	Property \$'000	Intersegment/ unallocated \$'000	Consolidated \$'000
<b>Year ended 31 July 2017</b>						
<b>Revenue from external customers</b>	<b>63,501</b>	<b>844,077</b>	<b>18,394</b>	<b>28,309</b>	<b>13,289</b>	<b>967,570</b>
Intersegment revenue	38,711	–	–	935	(39,646)	–
<b>Total revenue</b>	<b>102,212</b>	<b>844,077</b>	<b>18,394</b>	<b>29,244</b>	<b>(26,357)</b>	<b>967,570</b>
<b>Regular profit/(loss) before income tax</b>	<b>235,868</b>	<b>182,215</b>	<b>(5,445)</b>	<b>15,839</b>	<b>(34,428)</b>	<b>394,049</b>
Non-regular items before tax (note 3b)	97,445	19,908	(63)	–	–	117,290
<b>Profit/(loss) before income tax</b>	<b>333,313</b>	<b>202,123</b>	<b>(5,508)</b>	<b>15,839</b>	<b>(34,428)</b>	<b>511,339</b>
Less income tax benefit/(expense)	(54,817)	(61,594)	2,740	(5,172)	(1,142)	(119,985)
<b>Profit/(loss) after tax</b>	<b>278,496</b>	<b>140,529</b>	<b>(2,768)</b>	<b>10,667</b>	<b>(35,570)</b>	<b>391,354</b>
Less (profit) attributable to non-controlling interests	(819)	(56,085)	–	(282)	(557)	(57,743)
<b>Profit/(loss) after tax attributable to members</b>	<b>277,677</b>	<b>84,444</b>	<b>(2,768)</b>	<b>10,385</b>	<b>(36,127)</b>	<b>333,611</b>
<b>Profit/(loss) after tax attributable to members (as above)</b>	<b>277,677</b>	<b>84,444</b>	<b>(2,768)</b>	<b>10,385</b>	<b>(36,127)</b>	<b>333,611</b>
Non-regular (profit)/loss after tax attributable to members (note 3b)	(43,492)	(8,313)	213	–	–	(51,592)
<b>Regular profit/(loss) after tax attributable to members</b>	<b>234,185</b>	<b>76,131</b>	<b>(2,555)</b>	<b>10,385</b>	<b>(36,127)</b>	<b>282,019</b>
<b>Profit/(loss) before income tax includes the following items:</b>						
Interest revenue	7,042	2,089	41	18	58	9,248
Interest (expense)	(1,458)	(903)	(411)	(805)	–	(3,577)
Depreciation and amortisation (expense)	(1,770)	(97,880)	(1,806)	(133)	(14)	(101,603)
Impairment (expense)/reversal	(18,413)	–	(10)	–	–	(18,423)
Share of results from equity accounted associates	162,181	–	(146)	–	32	162,067

## Group Structure and Performance

# 3

### NOTE 3

#### SEGMENT INFORMATION – HOW THE GROUP IS ORGANISED AND MANAGED (continued)

##### a) Reporting segments (continued)

	Investing activities \$'000	Energy \$'000	Copper and gold operations \$'000	Property \$'000	Intersegment/ unallocated \$'000	Consolidated \$'000
<b>Year ended 31 July 2016</b>						
<b>Revenue from external customers</b>	<b>86,281</b>	<b>514,164</b>	<b>616</b>	<b>5,867</b>	<b>13,733</b>	<b>620,661</b>
Intersegment revenue	29,708	–	–	914	(30,622)	–
<b>Total revenue</b>	<b>115,989</b>	<b>514,164</b>	<b>616</b>	<b>6,781</b>	<b>(16,889)</b>	<b>620,661</b>
<b>Regular profit/(loss) before income tax</b>	<b>230,288</b>	<b>(18,361)</b>	<b>(9,746)</b>	<b>3,239</b>	<b>(23,409)</b>	<b>182,011</b>
Non-regular items before tax (note 3b)	72,615	(68,750)	(55,515)	–	–	(51,650)
<b>Profit/(loss) before income tax</b>	<b>302,903</b>	<b>(87,111)</b>	<b>(65,261)</b>	<b>3,239</b>	<b>(23,409)</b>	<b>130,361</b>
Less income tax benefit/(expense)	(62,586)	25,795	39,092	(930)	(2,273)	(902)
<b>Profit/(loss) after tax</b>	<b>240,317</b>	<b>(61,316)</b>	<b>(26,169)</b>	<b>2,309</b>	<b>(25,682)</b>	<b>129,459</b>
Less loss/(profit) attributable to non-controlling interests	(3,119)	24,742	–	(51)	(1,610)	19,962
<b>Profit/(loss) after tax attributable to members</b>	<b>237,198</b>	<b>(36,574)</b>	<b>(26,169)</b>	<b>2,258</b>	<b>(27,292)</b>	<b>149,421</b>
<b>Profit/(loss) after tax attributable to members (as above)</b>	<b>237,198</b>	<b>(36,574)</b>	<b>(26,169)</b>	<b>2,258</b>	<b>(27,292)</b>	<b>149,421</b>
Non-regular loss/(profit) after tax attributable to members (note 3b)	(18,654)	29,337	17,118	–	–	27,801
<b>Regular profit/(loss) after tax attributable to members</b>	<b>218,544</b>	<b>(7,237)</b>	<b>(9,051)</b>	<b>2,258</b>	<b>(27,292)</b>	<b>177,222</b>
<b>Profit/(loss) before income tax includes the following items:</b>						
Interest revenue	22,484	567	273	15	109	23,448
Interest (expense)	(1,338)	(249)	(304)	(644)	–	(2,535)
Depreciation and amortisation (expense)	(2,209)	(74,905)	(2,339)	(143)	(17)	(79,613)
Impairment (expense)/reversal	(35,001)	(28,146)	(53,392)	–	–	(116,539)
Share of results from equity accounted associates	124,693	–	(2,183)	(7)	–	122,503



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

				Attributable to:	
				Non-controlling interest	Members
	Before tax \$'000	Tax \$'000	After tax \$'000	\$'000	\$'000
<b>Year ended 31 July 2017</b>					
Gain on disposal of equity investments	33,291	(8,188)	25,103	–	25,103
Gain on disposal of associates	21,538	2,521	24,059	–	24,059
Gain on initial recognition of an associate	61,499	(18,450)	43,049	–	43,049
Net (loss) on deemed disposals of associates	132	(333)	(201)	–	(201)
Gain on derecognition as an associate	10,507	(3,338)	7,169	–	7,169
Share of significant (expenses) from associate entities	(10,915)	–	(10,915)	–	(10,915)
Deferred tax recognised on equity accounted associate entities	–	(32,535)	(32,535)	–	(32,535)
Net Impairment (expense) of assets	(18,423)	5,220	(13,203)	(819)	(12,384)
Recovery of prior period rail access charges	19,908	(5,972)	13,936	5,623	8,313
Recovery of legal fees	2,250	(675)	1,575	–	1,575
Other	(2,497)	856	(1,641)	–	(1,641)
<b>Total non-regular items</b>	<b>117,290</b>	<b>(60,894)</b>	<b>56,396</b>	<b>4,804</b>	<b>51,592</b>
<b>Year ended 31 July 2016</b>					
Gain on disposal of equity investments	16,501	(4,788)	11,713	–	11,713
Gain on disposal of associates	2,127	(638)	1,489	–	1,489
Loss on initial recognition of an associate	(1,682)	–	(1,682)	–	(1,682)
Gain on deemed disposal of associates	118,850	(35,532)	83,318	–	83,318
Share of significant (expenses) from associate entities	(29,834)	–	(29,834)	–	(29,834)
Deferred tax recognised on equity accounted associate entities	–	(20,900)	(20,900)	–	(20,900)
Impairment (expense) of assets	(116,539)	43,627	(72,912)	(11,009)	(61,903)
Acquisition costs expensed	(45,604)	13,681	(31,923)	(12,881)	(19,042)
Land access compensation	5,000	–	5,000	2,018	2,982
Significant tax items	–	6,413	6,413	–	6,413
Other	(469)	114	(355)	–	(355)
<b>Total non-regular items</b>	<b>(51,650)</b>	<b>1,977</b>	<b>(49,673)</b>	<b>(21,872)</b>	<b>(27,801)</b>

## Group Structure and Performance

# 4

### NOTE 4 ACCOUNTING MOVEMENTS IN VALUE THAT ARE NOT REFLECTED IN PROFIT: RESERVES

#### Accounting policies – Reserves

Reserves represent the portion of the consolidated entity's reserves that are attributable to our shareholders. Certain changes in the value of assets and liabilities are not recognised in the income statement but are instead included in other comprehensive income.

Also included in reserves is the Group's share of the reserves of equity accounted associates.

#### Asset Revaluation reserve

Changes in the fair value of certain assets including long term equity investments are not recognised in the income statement but instead are recognised in other comprehensive income and accumulated in the asset revaluation reserve within equity. Amounts are reclassified to the profit or loss when investments are sold or impaired. Refer note 11.

#### Hedge Reserve

The hedge reserve records the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, as described in note 22. The gain or loss relating to the ineffective portion is recognised in the income statement.

	2017 \$'000	2016 \$'000
<b>a) Reserves attributable to members</b>		
General reserve	404,548	404,548
Asset revaluation reserve	196,254	220,103
Capital profits reserve	11,368	11,368
Hedging reserve	6,429	244
Share-based payments reserve	3,216	1,677
Foreign currency translation reserve	(114)	(126)
Equity reserve	(10,475)	(14,130)
<b>Balance 31 July</b>	<b>611,226</b>	<b>623,684</b>
<b>b) Major movements in reserves consist of:</b>		
<b>Asset revaluation reserve</b>		
<b>Balance 1 August</b>	<b>220,103</b>	<b>271,242</b>
Revaluation of long term equity investments, gross	18,454	(55,960)
Revaluation of long term equity investments, deferred tax	(5,963)	18,373
Transfer on sale of long term equity investments to profit, gross	(34,463)	(12,324)
Transfer on sale of long term equity investments to profit, deferred tax	9,066	1,844
Transfer of long term equity investment to associate, gross	(7,486)	561
Transfer of long term equity investment to associate, deferred tax	2,227	(168)
Transfer on impairment of long term equity investments to profit, gross	6,023	12,934
Transfer on impairment of long term equity investments to profit, deferred tax	(1,733)	(3,880)
Share of associates (decrements)	(9,974)	(12,519)
<b>Balance 31 July</b>	<b>196,254</b>	<b>220,103</b>

#### Asset revaluation reserve

At balance date, the asset revaluation reserve predominately relates to the net unrealised gains of Washington H. Soul Pattinson and Company Limited's long term equity investments.

	2017 \$'000	2016 \$'000
<b>Hedge reserve</b>		
<b>Balance 1 August</b>	<b>244</b>	<b>(9,735)</b>
Revaluation, gross	15,018	1,925
Revaluation, deferred tax	(4,476)	(627)
Transfer to profit, gross	(5,456)	13,032
Transfer to profit, deferred tax	1,637	(3,909)
Share of associates (decrements)	(538)	(442)
<b>Balance 31 July</b>	<b>6,429</b>	<b>244</b>

#### ***Hedge reserve***

Movements in the hedge reserve predominately relate to New Hope Corporation Limited's derivative financial instruments which are used to hedge exposures to foreign currency exchange rates. Refer to note 22 for further details.

### **c) Nature and purpose of other reserves**

#### **General reserve**

The general reserve records funds set aside for future requirements of the Group and relate to Washington H. Soul Pattinson and Company Limited (the Parent company).

#### **Capital profits reserve**

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

#### **Share-based payments reserve**

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

#### **Foreign currency translation reserve**

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

#### **Equity reserve**

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

## Group Structure and Performance

### 5

#### NOTE 5 SHARE CAPITAL AND CAPITAL MANAGEMENT

##### Accounting policy – Share capital

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

	Group and Parent company		Group and Parent company	
	2017	2017	2016	2016
	No of shares	\$'000	No of shares	\$'000
Fully paid ordinary shares	239,395,320	43,232	239,395,320	43,232

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

##### Capital Management

The Group's capital management approach is conservative with the objective to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain the future development of the Consolidated entity.

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

The Group's capital consists of total shareholders' equity, borrowings and other interest bearing liabilities. The movement in shareholders equity is shown in the statement of changes in equity. Refer to page 55.

In the current year, the Parent company utilised short term bank finance. At 31 July 2017, this balance was \$40 million. Refer note 23a. In addition, non-recourse debt of \$22.825 million has been drawn to finance investment properties held within 100% controlled entities. Refer to note 23a.

The Parent company is not subject to any externally imposed capital requirements by financial institutions.

The Board declares dividends having regard to the Parent company's regular operating cash flows, refer to note 1.

# 6

## NOTE 6 BUSINESS COMBINATIONS

### Accounting policy – Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred is the sum of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree.

The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the investment. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

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

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

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

### Acquisitions during the year

#### New Hope Corporation Limited acquisition of Oil producing business

During the year ended 31 July 2017, the Group acquired a business constituting the Greater Kenmore and Bodalla Area (GKBA) oil producing and exploration fields. This transaction constitutes a business combination. The Group acquired 100% of the interests in the Kenmore (PL32), Bodalla South (PL31) and Blackstump (PL47) oil producing assets. The acquisition also included two joint ventures: ATP 269 (Coolum/Byrock) JV (93.21%) and ATP 269 (Glenvale/Bargie) JV (93.9%).

The Group acquired oil-producing assets of \$13.300 million and assumed rehabilitation related provisions of \$12.500 million, resulting in a net cash outflow of \$800,000.

### Acquisitions during the prior year

#### New Hope Corporation Limited acquisition of Bengalla Joint Venture

On 1 March 2016, a subsidiary of Washington H. Soul Pattinson and Company Limited, New Hope Corporation Limited, acquired a 40% interest in the Bengalla Joint Venture, a coal mining and extraction operation producing thermal coal in the Hunter Valley, New South Wales.

The Joint Venture is accounted for as a joint operation, whereby the Group recognises its direct right to the assets, liabilities, revenue and expenses of the joint operation and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

## Group Structure and Performance

6

### NOTE 6 BUSINESS COMBINATIONS (continued)

	2016 \$'000
<b>i) Purchase Consideration</b>	
Cash Paid	850,796
Purchase price adjustment receivable	(1,668)
<b>Total Purchase Consideration</b>	<b>849,128</b>

	2016 \$'000
The fair value of assets and liabilities recognised as a result of the acquisition are as follows:	
Cash	4,748
Receivables	15,079
Inventories	12,464
Property, plant and equipment	829,532
Intangibles	41,500
Accounts payables and accruals	(18,386)
Provisions	(35,809)
<b>Net assets acquired</b>	<b>849,128</b>

<b>ii) Net cash outflow to acquire Bengalla Joint Venture</b>	2016 \$'000
<b>Outflow of cash to acquire Bengalla Joint Venture, net of cash acquired</b>	
Total cash consideration	850,796
Less: Cash balance acquired	(4,748)
Outflow of cash – investing activities	846,048
Stamp duty expensed	44,738
Other acquisition costs expensed	737
<b>Total net outflow of cash</b>	<b>891,523</b>

#### Significant judgements and estimates

##### Acquisition fair value

The determination of the fair values of net identifiable assets acquired, and of any goodwill, involves significant judgement. The allocation of fair value between intangible assets, and the tangible assets with which they are used, is also judgemental. The Group engages third-party valuers to advise on the purchase price allocation for significant acquisitions.



# 7

## NOTE 7 EVENTS AFTER THE REPORTING DATE

Since the end of the financial year, no matters or circumstances not referred to elsewhere in this report have arisen that have or will significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

## Accounting for Our Investments

The Group invests in equities (subsidiaries, joint arrangements, associated entities, and other equity investments), investment properties, term deposits and cash. This section describes how each of these investments are recognised and measured in the consolidated financial statements.

# 8

## NOTE 8 INVESTMENTS IN CONTROLLED ENTITIES (SUBSIDIARIES)

### Accounting policy – Investments in controlled entities

Investments in controlled entities such as New Hope Corporation Limited, the PSRE Urban Regeneration Trust, CopperChem Limited and Exco Resources Limited (refer to segment note for a detailed listing of subsidiaries) are not recognised as individual investments in the consolidated financial statements. The assets and liabilities of each controlled entity are instead recognised in the statement of financial position. Dividends from controlled entities are not recognised in the consolidated income statement, instead the results from each controlled entity are included in profit and loss.

Washington H. Soul Pattinson and Company Limited, the Parent company has a 59.65% shareholding in its subsidiary, New Hope Corporation Limited. New Hope Corporation Limited is a diversified energy company, with operations covering coal mining and production, coal port operations and oil and gas production and exploration. Operations are mainly based in South East Queensland and most recently in the Hunter Valley region, NSW with the Bengalla Joint Venture. The remaining 40.35% shareholding in New Hope Corporation Limited (non-controlling interests) has a proportional share in the results and equity of New Hope Corporation Limited.

The Group consolidates the net assets and results of subsidiaries in full, and discloses separately for each, the amounts not controlled by the Group (non-controlling interests). The following provides a summary of the financial information of New Hope Corporation Limited:

- Total assets \$2.182 billion (2016: \$2.019 billion); Total liabilities \$328.217 million (2016: \$268.137 million);
- Net assets \$1.853 billion (2016: \$1.750 billion) and a net increase in cash and cash equivalents \$153.294 million (2016: increase \$64.266 million), Non-controlling interest share of net assets \$747.850 million (2016: \$706.289 million), profit after income tax for the year \$56.710 million (2016: loss of \$20.013 million).

## Accounting for Our Investments

### 9

#### **NOTE 9** **INVESTMENTS IN JOINTLY CONTROLLED ENTITIES** **(JOINT OPERATIONS AND JOINT VENTURES)**

##### **Accounting policy – Investments in Joint arrangements**

A joint arrangement is an arrangement where two or more parties share control. Joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure.

##### **Joint operations**

A joint operation is a joint arrangement in which the parties that share joint control, have rights to the assets, and obligations for the liabilities relating to the arrangement. The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated into the Group's financial statements under the appropriate headings.

##### **Joint ventures**

A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost.

Through New Hope Corporation Limited and its subsidiaries, the Group holds interests in the following Joint arrangements, each of which have been accounted for as a Joint operation as described in the accounting policy above.

Name	Accounted for as:	Group's interest	Segment allocated to:
Bengalla Joint Venture	Joint operation	40%	Energy operations
Lenton Joint Venture	Joint operation	90%	Energy operations
Yamala Joint Venture	Joint operation	70%	Energy operations
Cuisiner Joint Venture – Barta projects	Joint operation	15%	Energy operations
Cuisiner Joint Venture – Wompi project	Joint operation	17.5%	Energy operations

##### **Key judgement**

##### **Classification of joint arrangements as a joint operation**

The Group assesses whether it has the power to direct the relevant activities of the investee by considering the rights it holds with respect to the work programme and budget approval, investment decision approval, voting rights in joint operating committees and changes to the joint arrangement participant holdings. Where the Group has control, judgement is also required to assess whether the arrangement is a joint operation or a joint venture.

# 10

## NOTE 10 INVESTMENTS IN ASSOCIATES

### Accounting policy – Investments in associates

Associates are equity accounted, with the initial investment being increased/(decreased) by the Group's share of the associate's profits/(losses) as recognised in the income statement, movements in their reserves (other comprehensive income) and decreased by dividends received. Dividends from associates are not recognised in the consolidated income statement.

As the accounting policy for Investments in associates is considered key to understanding the Group's results and financial position, the detailed accounting policy is set out in the basis of consolidation at the beginning of the notes to the financial report (refer to page 58).

	2017 \$'000	2016 \$'000
<b>Non-Current Assets</b>		
Equity accounted associates	1,415,973	1,265,214

The equity accounted carrying amount of an associate does not reflect the fair value of the Group's investment in the associate. Details of the fair value of investments in listed associates are provided in note 10b.

### a) Movements in equity accounted carrying values

Carrying amount at 1 August	1,265,214	1,088,592
New investments during the period	176,495	6,287
Reclassification of long term equity investment to equity accounted associate	(123,498)	2,803
Fair value gain/(loss) on initial recognition as an equity accounted associate	61,499	(1,682)
Gains on deemed disposal of equity accounted associates	132	118,850
Disposal of equity accounted associates	(60,182)	(1,981)
Share of profits after income tax, before write downs	162,067	122,503
Impairment (expense) of equity accounted associates	–	(7,554)
Dividends received/receivable	(81,467)	(72,722)
Add back share of dividends received by associate	23,880	23,028
Share of associates (decrement) in reserves	(8,167)	(12,910)
<b>Equity accounted carrying amount at 31 July</b>	<b>1,415,973</b>	<b>1,265,214</b>

## 10

## Accounting for Our Investments

**NOTE 10**  
INVESTMENTS IN ASSOCIATES

## b) Details of investments and results in associates

Name of associated entity	Group's percentage of holding at balance date*	
	July 2017	July 2016
Balance date	%	%
<b>Associates – held by WHSP</b>		
<b>Apex Healthcare Berhad</b> Pharmaceutical manufacturer and distributor	31 Dec	30.3
<b>Australian Pharmaceutical Industries Limited<sup>(i)</sup></b> Pharmaceutical wholesaler	31 Aug	19.4
<b>BKI Investment Company Limited<sup>(ii)</sup></b> Listed investment company	30 June	9.5
<b>Brickworks Limited<sup>(iii)</sup></b> Manufacturer of building products	31 July	44.0
<b>Clover Corporation Limited<sup>(iv)</sup></b> Refinement and processing of natural oil	31 July	22.7
<b>Pengana Capital Group Limited<sup>(v)</sup></b> Funds Management	30 June	39.2
<b>Ruralco Holdings Limited<sup>(vi)</sup></b> Rural supplies and services	30 Sept	–
<b>TPG Telecom Limited<sup>(vii)</sup></b> Telecommunications and internet provider	31 July	25.2
<b>TPI Enterprises Limited<sup>(viii)</sup></b> Manufacturer of narcotic concentrate from poppy straw	31 Dec	18.9
<b>Verdant Minerals Limited</b> Phosphate and Potash explorer	30 June	38.3
<b>Associates – held by controlled entities</b>	various	various
<b>Share of results from equity accounted associates</b>		
Gain on disposal of associates, net of tax		
Gain/(loss) on initial recognition of an associate, net of tax		
Gain on derecognition of an associate, net of tax		
Net loss/(gain) on deemed disposal of associates, net of tax		
Deferred tax of equity accounted associates carrying values		
Impairment expense of an associate		
<b>Total gain on disposals, initial recognition, derecognition, impairment expense of associates and deferred tax on equity accounted associates</b>		
<b>Share of results, gains and losses and deferred tax on deemed disposals of associates and impairment from equity accounted associate</b>		

\* The percentage holding represents the Group's total holding in each associate.

\*\* Contribution to Group net profit represents the amount included in profit after tax before non-controlling interest. As the Group does not control associates, an associates' balance date may not be the same as the Group's balance date. An associate's contribution to Group profit is based on the annual result reported for each associate, adjusted for any change in the Group's holding of that associate.

Contribution to Group net profit for the year**						Fair value of listed investments***	
2017			2016			July 2017	July 2016
Regular \$'000	Non-Regular# \$'000	Total \$'000	Regular \$'000	Non-regular# \$'000	Total \$'000		
3,757	(441)	3,316	3,417	–	3,417	49,108	45,247
13,560	659	14,219	11,611	(600)	11,011	166,845	230,813
4,599	(1,034)	3,565	4,524	–	4,524	100,336	100,668
41,212	(4,883)	36,329	38,841	(29,211)	9,630	866,516	986,646
876	–	876	632	–	632	17,209	19,336
467	(1,250)	(783)	–	–	–	123,467	–
2,930	(1,949)	981	3,787	(1,572)	2,215	–	52,947
104,956	(880)	104,076	91,825	5,699	97,524	1,304,750	2,737,949
(2,599)	(332)	(2,931)	(3,128)	(1,631)	(4,759)	40,338	28,898
(702)	(479)	(1,181)	–	–	–	11,437	8,486
3,926	(326)	3,600	829	(2,520)	(1,691)	n/a	n/a
<b>172,982</b>	<b>(10,915)</b>	<b>162,067</b>	<b>152,338</b>	<b>(29,835)</b>	<b>122,503</b>		
–	24,059	24,059	–	1,489	1,489		
–	43,049	43,049	–	(1,682)	(1,682)		
–	7,169	7,169	–	–	–		
–	(201)	(201)	–	83,318	83,318		
–	(32,535)	(32,535)	–	(20,900)	(20,900)		
–	–	–	–	(7,554)	(7,554)		
–	<b>41,541</b>	<b>41,541</b>	–	<b>54,671</b>	<b>54,671</b>		
<b>172,982</b>	<b>30,626</b>	<b>203,608</b>	<b>152,338</b>	<b>24,836</b>	<b>177,174</b>		

\*\*\* Fair value of listed investments represents the last sale price of listed associates at balance date. These are subject to capital gains tax and other transaction costs. Fair value of listed associates is classified as level 1 in the fair value hierarchy.

# Non-regular items defined in note 3.

All associates are incorporated in Australia except for Apex Healthcare Berhad (incorporated in Malaysia).

# 10

## Accounting for Our Investments

### NOTE 10 INVESTMENTS IN ASSOCIATES

#### b) Details of investments and results in associates (continued)

- (i) During the year, Washington H. Soul Pattinson and Company Limited disposed of shares in Australian Pharmaceutical Industries Limited for an after tax profit of \$20.482 million. This resulted in the Group's interest decreasing from 24.6% to 19.4%.
- (ii) During the year, Washington H. Soul Pattinson and Company Limited's investment in BKL Investment Company Limited, decreased from 10.3% to 9.5%. This decrease was a consequence of:
  - Non participation in BKL's dividend reinvestment plan;
  - The issue of shares by BKL to a third party following the acquisition of a company; and
  - Disposal of 3.26 million shares for an after tax profit of \$0.465 million.

Further, BKL Investment Company Limited was derecognised from being an equity accounted associate to a long-term equity investment resulting in an after tax profit of \$7.788 million.

- (iii) During the year, Washington H. Soul Pattinson and Company Limited's interest in Brickworks Limited decreased by 0.11% to 44.03% as a consequence of Washington H. Soul Pattinson and Company Limited's non participation in the employee share scheme.
- (iv) Washington H. Soul Pattinson and Company Limited's interest in Clover Corporation Limited decreased from 28.6% to 22.7%. This was a result of a disposal of shares in Clover Corporation Limited for an after tax profit of \$1.708 million.
- (v) During the year, Washington H. Soul Pattinson and Company Limited acquired shares in Hunter Hall International Limited and Pengana Capital Limited. In June 2017, these two companies merged their operations and Washington H. Soul Pattinson and Company Limited became the largest shareholder in the merged entity with 39.2% of Pengana Capital Group Limited. As a result, Washington H. Soul Pattinson and Company Limited classified its investment in Pengana Capital Group Limited as an equity accounted associate. On initial recognition as an associate, the Group recognised a fair value gain of \$61.499 million, net of tax \$43.049 million.
- (vi) By year-end, Washington H. Soul Pattinson and Company Limited had disposed of all of its shares in Ruralco Holdings Limited for an after tax loss of \$1.860 million. During the year, Washington H. Soul Pattinson and Company Limited participated in the institutional and retail offers.
- (vii) Washington H. Soul Pattinson and Company Limited maintained its interest in TPG Telecom Limited of 25.15% after participating in TPG Telecom Limited's capital raising to part fund the purchase of 700MHz spectrum from the Australian government.
- (viii) Washington H. Soul Pattinson and Company Limited decreased its interest in TPI Enterprises Limited by 0.45% to 18.92% after participating in the TPI Enterprises Limited capital raisings to institutional and professional investors.

#### Key estimate and judgements

##### *Recoverable value of investments in associates*

The recoverable amount of investments in equity accounted associates is reviewed at each reporting date after taking into consideration any applicable impairment indicators. Significant judgement is used when assessing impairment and the reversal of previously recognised impairment for equity accounted associates.

#### c) Group's share of associates' expenditure commitments

	2017 \$'000	2016 \$'000
Capital commitments	386,199	100,596
Lease commitments	126,145	137,211



	2017 \$'000	2016 \$'000
<b>d) Group's share of associates' contingent liabilities</b>		
Share of contingent liabilities incurred jointly with other investors of the associate	15,122	19,179
<b>e) Summarised Group's share of associates financial information</b>		
Assets	2,735,115	2,796,095
Liabilities	(981,139)	(1,168,989)
Net assets	1,753,976	1,627,106
Revenue	2,652,935	2,312,674
Profit before income tax	228,857	176,751
Income tax expense	(66,790)	(54,248)
Profit after income tax	162,067	122,503

**f) Extract of financial information as reported by associates that are material to the Group**

The information disclosed reflects the total amounts reported in the financial statements of Brickworks Limited and TPG Telecom Limited amended to reflect adjustments made by the Group in applying the equity method.

	Brickworks Limited		TPG Telecom Limited	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current assets	356,979	344,168	211,200	358,600
Non-current assets	1,129,735	1,021,450	3,699,800	3,412,400
Current liabilities	(160,215)	(145,498)	(567,600)	(513,900)
Non-current liabilities	(393,321)	(356,931)	(944,100)	(1,477,900)
<b>Net assets</b>	<b>933,178</b>	<b>863,189</b>	<b>2,399,300</b>	<b>1,779,200</b>
<b>Group's percentage holding</b>	<b>44.03%</b>	<b>44.14%</b>	<b>25.15%</b>	<b>25.15%</b>
Group's share of total net assets	410,878	381,012	603,424	447,469
Goodwill/(discount)	16,552	16,054	358	(433)
<b>Equity accounted carrying value</b>	<b>427,430</b>	<b>397,066</b>	<b>603,782</b>	<b>447,036</b>
Revenue	841,816	750,985	2,490,700	2,387,800
Profit after tax attributable to members	186,210	78,190	413,800	379,600
Other comprehensive income	(1,816)	(12,851)	(59,800)	(34,700)
<b>Total comprehensive income</b>	<b>184,394</b>	<b>65,339</b>	<b>354,000</b>	<b>344,900</b>
<b>Dividends received by Washington H. Soul Pattinson and Company Limited from the associate</b>	<b>32,166</b>	<b>30,194</b>	<b>33,077</b>	<b>27,744</b>

Refer to note 10 (b) for associates profit contributions to the Group.

# 11

## Accounting for Our Investments

### NOTE 11 OTHER EQUITY INVESTMENTS

**Accounting policies – Other equity investments (excluding controlled entities, jointly controlled entities and associates)**

**Recognition**

Purchases of equity investments are recognised on trade date being the date on which the Group commits to purchase the asset.

**Classification**

The Group classifies its equity investments into the following categories: long term equity investments, trading equities and held for sale equities. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition.

**Trading equities**

Trading equities are initially recognised at fair value and any transaction costs are immediately expensed.

The portfolio consists of equity investments that are principally held for the purpose of selling in the short to medium term. Trading equities are included in current assets.

**Long term equity investments**

Long term equity investments are initially recognised at fair value plus any transaction costs. These investments are intended to be held for the long term for capital growth and dividend income. These investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date at which time they are transferred to and disclosed as held for sale equities.

**Subsequent measurement**

At each balance date, trading equities and long term equity investments are remeasured to fair value. Gains or losses arising from changes in the fair value of trading equities are recognised in the income statement within other income in the period in which they arise. Changes in the fair value of long term equity investments are recognised in equity through the asset revaluation reserve after allowing for deferred capital gains tax. All long term equity investments are subject to capital gains tax.

**Impairment**

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as long term equity investments, a significant or prolonged decline in the value of a security below its cost is considered an indicator that the security may be impaired. Impairment losses are recognised in the income statement unless the asset has previously been revalued through the asset revaluation reserve, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised in the income statement. An impairment recognised for a long term equity investment is prohibited from being reversed through profit and loss. Any future increments in the fair value of these investments will be recognised as a fair value increment in the asset revaluation reserve.

**Dividend income**

Dividend income is recognised as revenue when the right to receive the dividend is established, and is generally the ex-dividend date.

**Derecognition**

Equity investments are derecognised when the rights to receive cash flows from the equity investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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

	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
Trading equities – Listed	32,509	15,459
Trading equities – Unlisted	14,484	16,146
Total trading equities	46,993	31,605
<b>Non-Current Assets</b>		
Long term equity investments – Listed (refer to note 11a)	648,102	585,700
Long term equity investments – Unlisted	3	3
Total long term equity investments	648,105	585,703
Other financial assets – unlisted equity investments	4,984	11,837

#### a) Long term equity investments pledged as security for short term finance

Long term equity investments with a fair value of \$48.957 million have been transferred to the bank as security for the \$40.000 million equity finance loan. As the Parent company retains the risks and benefits of ownership of the transferred long term equity investments, including the right to receive dividends, these long term equity investments continue to be included as an asset on the Group's Statement of Financial Position. Refer note 23a.

#### b) Fair value and price risk

Information regarding the Group's exposure to price risk is set out in note 20 and fair value classification is set out in note 21.

The fair value of these investments is based on quoted market prices being the last sale price, at the reporting date. Listed equities are traded in an active market, with the majority of the Group's investments being publicly traded on the Australian Securities Exchange. Unlisted investments do not trade in an active market. The fair value measurement of other financial assets is approximated by the lower of cost price or impaired value.

#### Long term equity investments – Listed

At 31 July 2017, Washington H. Soul Pattinson and Company Limited (the Parent company) held \$645.419 million (2016: \$581.432 million).

#### Listed and unlisted trading equities

Represents equities held by Washington H. Soul Pattinson and Company Limited (the Parent company).

#### Key estimate and judgements

##### *Impairment of financial assets*

The Group has made significant judgements about the impairment of a number of its long term equity investments and its unlisted other financial assets.

Where there was a decrease in the share price below the cost of a long term equity investments judgement was made as to whether the decrease was 'significant and prolonged', and if so the investment was considered to be impaired.

## 12

## Accounting for Our Investments

**NOTE 12**  
**INVESTMENT PROPERTIES****Accounting policy – Investment properties**

Investment properties consist of properties held for long term rentals and/or capital appreciation and properties being constructed or developed for future use as investment properties.

Investment properties are initially recognised at cost including transaction costs. Other costs capitalised into the carrying value of investment properties include development, construction, redevelopment, refurbishment (other than repairs and maintenance) and interest (until the property is ready for its intended use).

Investment properties are subsequently stated at fair value. Changes in fair values are recognised as gains or losses in the Income Statement as part of 'Other income'.

Valuations are obtained at least every three years from independent Registered Property Valuers who hold recognised and relevant qualifications and have recent valuation experience in the location and categories of each property held.

At the end of each reporting period, the Directors update their assessment of the fair value of each property, taking account of the most recent independent valuations.

Amounts provided to customers as lease incentives and assets relating to fixed rental income increases in operating lease contracts are included within investment property values. Lease incentives are amortised over the term of the lease on a straight line basis. The amortisation is applied to reduce gross rental income. Rental income is recognised on a straight line basis within revenue.

On disposal of an investment property, a gain or loss is recognised in the income statement in the year of disposal. It is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds received.

	2017 \$'000	2016 \$'000
<b>Non-Current Assets</b>		
<b>Investment properties</b>		
Industrial property	46,889	21,008
Commercial property	95,689	71,924
Property under development	22,438	–
<b>Total investment properties</b>	<b>165,016</b>	<b>92,932</b>
<b>Reconciliation</b>		
Opening net book amount	92,932	20,720
Acquisitions	63,883	71,603
Capitalised costs	178	146
Movement in tenant incentives, 'make good' contributions, contracted rent uplift balances and leasing fee asset	(871)	463
Net fair value gain on investment properties	8,894	–
<b>Closing net book amount</b>	<b>165,016</b>	<b>92,932</b>

In the current year, the Group acquired three investment properties for a total of \$63.883 million. WHSP holds a 50.1% interest in these properties, with URB Investments Limited (ASX:URB) holding 49.9%. These properties are all located within the greater Sydney area. In the prior year, the Group acquired two commercial properties in Pennant Hills for a total of \$71.603 million.

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

	<b>2017</b> \$'000	<b>2016</b> \$'000
Rental income	6,929	4,768
Direct operating expenses from property that generated rental income	3,701	2,652
Direct operating expenses from property that did not generate income	287	–

Operating expenses for property that generated income includes finance costs of \$804,000 (2016: \$644,000).

**b) Measuring investment properties at fair value**

The basis of valuations for investment properties is fair value, being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

In determining fair value, appropriate valuation techniques may be used, including the discounted cashflow and capitalisation methods. Discount rates and capitalisation rates are determined based on industry experience and knowledge and where possible, a direct comparison to third party rates for similar assets in comparable locations. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are reflected in fair value.

In relation to properties under development, fair value is determined based on the market value of the property on the assumption it has already been completed at the valuation date less costs to complete the project, including an appropriate adjustment for profit and risk.

The fair value hierarchy, as discussed in note 21 to this report, provides an indication about the reliability of the inputs used in determining fair value. All investment properties have been categorised within the Level 3 fair value basis as some of the inputs required to value property are not based on 'observable market data'.

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

As at 31 July 2017, \$45.705 million of the Group's investment property was pledged as security. Refer to note 23 for information on non-current assets pledged as security by the Group.

**d) Leasing arrangements**

	<b>2017</b> \$'000	<b>2016</b> \$'000
The Group is entitled to receive rental income from non-cancellable operating leases on investment properties. The amounts have not been recognised in the financial statements and are receivable as follows:		
Within one year	5,947	5,125
Later than one year but not later than five years	13,625	8,805
Later than five years	1,859	524
	<b>21,431</b>	<b>14,454</b>

# 13

## Accounting for Our Investments

### NOTE 13 TERM DEPOSITS

#### Accounting policy – Term deposits

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

#### Recognition and derecognition

A term deposit is recognised on the date when the cash funds are deposited with the bank. The term deposit is derecognised on the maturity date of the deposit.

#### Subsequent measurement

Term deposits are carried at amortised cost using the effective interest method.

	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
Term deposits	1,044	47,660

Term deposits are held to their maturity of less than one year and carry a weighted average interest rate of 2.62% per annum (2016: 2.44%).

Term deposits in the statement of financial position at reporting date include term deposits held by the Parent company and its controlled entities.

At 31 July 2017, Washington H. Soul Pattinson and Company Limited (the Parent company) held nil (2016: \$46.000 million); and Exco Resources Limited, a controlled entity, held \$1.044 million (2016: \$1.044 million) of the consolidated balance.



# 14

## NOTE 14 CASH AND CASH EQUIVALENTS

### Accounting policy – Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash at bank, and deposits held with financial institutions for which there is a short-term identified use in the operating cash flows of the Group. Bank overdrafts, should they occur, are shown within borrowings in current liabilities in the statement of financial position.

	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
Cash at bank and on deposit	301,275	126,709

Cash at bank and on deposit attracts interest at rates between 0% and 1.50% per annum (2016: 0% and 1.90%).

Cash at bank in the statement of financial position at reporting date includes cash held by the Parent company and its controlled entities. At 31 July 2017, Washington H. Soul Pattinson and Company Limited (the Parent company) held \$55.876 million (2016: \$26.453 million); New Hope Corporation Limited, a controlled entity of Washington H. Soul Pattinson and Company Limited held \$236.885 million (2016: \$91.162 million) of the consolidated balance.

<b>Reconciliation of profit after income tax to net cash inflow from operating activities</b>	2017 \$'000	2016 \$'000
<b>Profit after tax for the year</b>	<b>391,354</b>	<b>129,459</b>
<b>Adjustments for non-cash items:</b>		
Depreciation and amortisation	101,603	79,613
Impairment charges	18,423	116,539
Net (gain) on disposal of long term equity investments	(33,291)	(16,501)
Fair value (gain) on revaluation of trading equities	(1,240)	(5,140)
Recovery of prior year rail access charges	(19,908)	–
Net (gain) on sale of non-current assets	(1,470)	–
(Gain) on revaluation of investment property	(8,894)	–
Share of (profits) of associates not received as dividends or distributions	(80,601)	(48,393)
Net foreign exchange loss/(gain)	7,571	(2,107)
Fair value (gain)/loss on initial recognition of an equity accounted associate	(61,499)	1,682
(Gain) on derecognition of an equity accounted associate	(10,507)	–
(Gains) on deemed disposal of equity accounted associates	(132)	(118,850)
(Gains) on sale of equity accounted associates	(21,538)	(2,127)
Other non-cash items	(212)	(27)
<b>Changes in operating assets and liabilities, net of effects from purchase and sales of businesses:</b>		
Decrease/(increase) in trade debtors, other debtors and prepayments	12,600	(61,906)
(Increase) in inventory	(927)	(6,169)
Increase in trade creditors and accruals	5,035	66,503
Increase/(decrease) in employee entitlements, other liabilities and provisions	11,160	(1,238)
(Increase)/decrease in current tax asset	(11,538)	1,486
(Decrease) in current tax payable	(941)	(3,226)
Increase/(decrease) in deferred tax liability	110,024	(13,004)
(Increase)/decrease in deferred tax asset	(5,680)	3,233
<b>Net cash inflow from operating activities</b>	<b>399,392</b>	<b>119,827</b>

## 15

## Revenue and Expenses

**NOTE 15**  
**REVENUE****Accounting policy – Revenue**

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

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

- Coal sales revenue is recognised at the time the risks and benefits of ownership have been transferred to the customer in accordance with the sale terms. For export sales this is normally at the time of loading the shipment, and for domestic sales this is generally at the time the coal is delivered to the customer.
- Revenue from the sale of goods (net of returns, discounts and allowances) is recognised when title has transferred to the customer in accordance with the sales terms. Where a sale is settled through instalments, interest revenue is recognised over the contract term, using the effective interest rate method.
- Service fee income, including consulting and management fee income, is recognised as the services are performed.
- Interest income is recognised on a time proportion basis using the effective interest method.
- Dividend income is taken into revenue when the right to receive payment is established. As earnings from controlled entities and associates are included in consolidated profit, dividends from controlled entities and associates are not included in consolidated revenue.
- Rental income is recognised on a straight-line basis over the lease term.

	2017 \$'000	2016 \$'000
<b>From continuing operating activities</b>		
<b>Sales revenue</b>		
Sale of goods	899,612	526,355
Services	22,161	34,071
<b>Total Sales revenue</b>	<b>921,773</b>	<b>560,426</b>
<b>Other revenue</b>		
Dividends received – Other corporations	25,144	28,398
Interest received – Other corporations	9,248	23,448
Rental income	8,181	5,973
Other	3,224	2,416
Total other revenue	45,797	60,235
<b>Total revenue</b>	<b>967,570</b>	<b>620,661</b>

**Revenue composition**

A significant portion of the Group's sales revenue is derived from New Hope Corporation Limited \$824.570 million (2016: \$486.220 million) through the sale of:

- Coal, both internationally and domestically; and
- Oil and gas, domestically.

Sales revenue also includes the sale of:

- Pharmaceutical products through Washington H. Soul Pattinson and Company Limited's Pitt Street chemist;
- Copper concentrate and copper sulphate, domestically and internationally through CopperChem Limited;
- Gold, domestically through Exco Resources Limited; and
- Pipe and film, domestically through Cromford Pty Limited.

# 16

## NOTE 16 OTHER INCOME

### Accounting policies – Other income

Other income represents gains or losses made on:

- changes in the fair value for certain assets including trading equities, investment properties and where a previously held equity investment becomes an equity accounted associate.
- the sale of an asset including the sale of equity investments, investment properties and equity accounted associates. With the exception of the long term equity investments, the gain or (loss) is calculated as the difference between the proceeds received and the carrying value of the asset. For the sale of long term equity investments, whilst the gain is calculated in the same manner, it also includes any fair value changes that have previously been recognised in equity (through reserves). As these amounts have not previously been recognised in the profit and loss, they are included in the gain when the long term equity investment is sold; and
- deemed disposals of equity accounted associates. This occurs when the Group's percentage holding in an associate decreases but there has not been a loss of significant influence. The Group continues to equity account the associate.

	2017 \$'000	2016 \$'000
Gains on sale of long term equity investments	33,291	16,501
Gain on disposal of equity accounted associates	21,538	2,127
Gain/(loss) on initial recognition of an equity accounted associate	61,499	(1,682)
Gains on deemed disposals of equity accounted associates	132	118,850
Gain on derecognition as an associate	10,507	–
Gains on trading equities fair valued through profit and loss	1,240	5,140
Gain on revaluation of investment property	8,894	–
Recovery of prior period rail access charges	19,908	–
Land access compensation	–	5,000
Recovery of legal costs	2,250	–
Insurance recovery	2,000	–
Other items	3,086	(34)
<b>Total other income</b>	<b>164,345</b>	<b>145,902</b>

# 17

## Revenue and Expenses

### NOTE 17 EXPENSES

#### **Accounting policies – Expenses**

##### ***Depreciation and amortisation***

Depreciation and amortisation expenses are non-cash expenses and represent the allocation of the cost of certain fixed assets such as buildings, plant and equipment and mining reserves and development, over the time that the asset is expected to generate revenue for the Group.

Different depreciation rates apply to each asset and are included in the notes for each asset.

##### ***Impairment***

Impairment charges are non-cash expenses and are recognised when the carrying value of an asset or group of assets is no longer recoverable either through the use or sale of the asset. Recoverable value assessment for each asset class is discussed within the notes for each asset.

Impairment losses are expensed to the income statement unless the asset has been previously revalued. Where the asset has been previously revalued, the reduction in value is recognised as a reversal to the extent of the previous revaluation, and any residual is recognised as an impairment expense.

An impairment expense recognised on goodwill or a long term equity investment is permanent and is prohibited from being reversed.

For all other assets, an assessment is made at each reporting date as to whether an impairment loss recognised in a prior period no longer exists or has decreased. If it is determined that the impairment is no longer required, the carrying value of the asset is increased and the previously recognised impairment expense is reversed in the income statement.

##### ***Employee benefits expense***

Employee benefits expense includes the payment of salary and wages (including the value of non-cash benefits such as share-based payments), sick leave and accruals for annual leave and long service leave.

##### ***Finance costs***

Finance costs are expensed when incurred, except for interest incurred on borrowings that relate to the construction of Investment properties. This interest was included in the cost of the properties.

##### ***Exploration costs expensed***

Exploration costs that do not satisfy the criteria to be capitalised are expensed. Refer note 26 for discussion on the criteria.

	Notes	2017 \$'000	2016 \$'000
<b>Profit before income tax expense includes the following specific expenses:</b>			
<b>Depreciation</b>			
Buildings		1,235	1,374
Plant and equipment		56,946	53,996
<b>Total depreciation</b>		<b>58,181</b>	<b>55,370</b>
<b>Amortisation</b>			
Mining reserves and mine development		34,236	18,795
Intangible assets		2,284	1,722
Oil producing assets		6,769	3,593
Lease incentive and leasing fee assets		133	133
<b>Total amortisation</b>		<b>43,422</b>	<b>24,243</b>
<b>Impairment charges</b>			
Equity accounted associates <sup>(i)</sup>		–	7,554
Long term equity investments <sup>(ii)</sup>		8,052	17,912
Oil producing assets <sup>(iii)</sup>		–	28,146
Copper assets <sup>(iv)</sup>		–	53,392
Other assets <sup>(v)</sup>		10,371	9,535
<b>Total impairment charges</b>		<b>18,423</b>	<b>116,539</b>
<b>Impairment is allocated to asset classes:</b>			
Equity accounted associates	10	–	7,554
Long term equity investments	11	8,052	17,912
Property, plant and equipment	25	(2,075)	48,247
Exploration and evaluation assets	26	–	28,192
Other operating assets		12,446	14,634
<b>Total impairment charges</b>		<b>18,423</b>	<b>116,539</b>
<b>Employee benefits expense <sup>(vi)</sup></b>		<b>144,672</b>	<b>120,185</b>
<b>Finance costs <sup>(vii)</sup></b>		<b>3,577</b>	<b>2,535</b>
<b>Operating lease costs expensed</b>		<b>12,943</b>	<b>7,627</b>
<b>Exploration costs expensed <sup>(viii)</sup></b>		<b>14,735</b>	<b>13,820</b>

## Revenue and Expenses

# 17

### NOTE 17 EXPENSES (continued)

#### **i) Impairment (expense)/reversal on equity accounted associates**

The recoverable amount of investments in equity accounted associates has been assessed as at 31 July 2017. Where the carrying value of an investment exceeds the recoverable amount, the investment has been impaired. At each reporting date, an assessment is made as to whether there are any circumstances that would indicate that the impairment recognised has decreased or no longer exists. Where evidence supports a reduction in the impairment, the impairment expense may be reversed through the income statement. Impairment expense required for the current year was nil (2016: \$7.554 million).

#### **ii) Impairment of long term equity investments**

In accordance with AASB 139, a 'prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment'. Where a long term equity investment's last sale price is lower than the original cost, and the investment is considered by management to be 'impaired', the Group has recognised an impairment expense in respect of these investments. Impairments were recognised by WHSP \$6.023 million and New Hope Corporation Limited \$2.029 million. An impairment recognised for a long term equity investment is prohibited from being reversed through profit and loss. Any future increments in the last sale price of these investments will be recognised as a fair value increment in the asset revaluation reserve. The impairment loss after tax impacted the result attributable to members by \$5.126 million (2016: \$12.023 million).

#### **iii) Impairment of oil producing assets**

New Hope Corporation Limited have assessed the carrying value of their oil producing and exploration assets.

In the current year no impairment was required. In the prior year, due to the decline in global oil prices, an impairment expense of \$28.146 million was recognised on the following asset classes: Oil producing assets \$15.029 million and Oil exploration assets \$13.117 million. The impairment loss after tax impacted the prior year result attributable to members by \$13.277 million. Refer to notes 25 and 26.

#### **iv) Impairment of copper assets**

The Group has assessed that no further impairment was required for the current year. An impairment expense of \$53.392 million was required in the prior year. These impairment losses after tax impacted the prior year result attributable to members by \$22.374 million.

#### **v) Impairment of other assets**

During the year ended 31 July 2017, the Parent company determined that the carrying value of certain unlisted trading equities and loan receivables exceeded their recoverable amount. The Parent company recognised an impairment expense on unlisted trading equities of \$8.332 million (2016: nil) and loan receivable of \$3.952 million (2016: \$6.535 million). In addition, a controlled entity has reversed previously recognised impairment of \$2.075 million (in 2016 impairment expense of \$3.000 million) on the carrying value of certain property plant and equipment. The net impairment losses after tax impacted the result attributable to members by \$7.258 million.

#### **vi) Employee benefits expense**

Employee benefits expense represents expenses paid to all employees within the Group. This amount includes \$126.414 million (2016: \$100.782 million) paid to employees of New Hope Corporation Limited.

#### **vii) Finance costs**

This amount includes interest of \$775,682 (2016: \$1,228,178) paid by the Parent company to Directors and their related parties.

#### **viii) Exploration costs expensed**

These amounts relate to New Hope Corporation Limited exploration costs expensed.

### **Key Estimate**

#### **Recoverable value and impairment**

The assessments of the recoverable value of non-current assets involves significant areas of estimation and judgement by management. Valuations have an element of uncertainty and therefore may not reflect the actual values of these assets in the future.

# 18

## Taxation

### NOTE 18 INCOME TAX EXPENSE

#### Accounting policy – Income tax expense

The income tax expense or benefit for the period represents the tax payable on the current period's taxable income based on the Australian corporate income tax rate (30%) adjusted by changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

#### Tax consolidation legislation

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

Controlled entities within the relevant tax consolidated groups, continue to be responsible under tax funding agreements, for funding their share of tax payments that are required to be made by the head entity in their tax consolidation group. These tax amounts are measured as if each entity within the tax consolidated group, continues to be a stand-alone tax payer in their own right.

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

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

	2017 \$'000	2016 \$'000
<b>a) Income tax expense comprises:</b>		
<b>Current income tax expense/(benefit)</b>		
Current year	13,246	2,278
Adjustments in respect of prior years	2,051	(4,185)
<b>Deferred income tax expense/(benefit)</b>		
– Relating to the origination and reversal of temporary differences	104,688	(765)
– Petroleum resource rent tax expense	–	3,574
<b>Income tax expense recognised in the income statement</b>	<b>119,985</b>	<b>902</b>
Deferred income tax expense included in income tax expense comprises:		
Decrease/(Increase) in deferred tax assets	10,556	(33,944)
Increase in deferred tax liabilities	94,132	36,753
	<b>104,688</b>	<b>2,809</b>



## 18

## Taxation

## NOTE 18

## INCOME TAX EXPENSE (continued)

## b) Reconciliation of prima facie tax expense to income tax expense:

	2017 \$'000	2016 \$'000
<b>Profit before income tax</b>	<b>511,339</b>	<b>130,361</b>
Tax at the Australian tax rate of 30% (2016: 30%)	153,402	39,108
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Sale of long term equity investments	(10,596)	(172)
Net Impairment	307	(11,235)
Franking credits received (excluding controlled and associate entities)	(10,598)	(11,379)
Tax effect of entities entering into the Washington H. Soul Pattinson and Company Limited tax consolidated group	–	(7,379)
Deferred tax asset not recognised on current year net losses	–	2,864
Net effect of New Hope Corporation Limited's PRRT*	–	2,502
Tax (benefit) on the carrying value of equity accounted associates	(16,379)	(15,469)
Other	3,849	2,062
<b>Total income tax expense</b>	<b>119,985</b>	<b>902</b>
The effective tax rates are as follows:	23.5%	0.7%

## c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly charged or credited to equity		
Decrease/(increase) to deferred tax assets	4,838	4,917
(Decrease)/increase to deferred tax liabilities	(5,182)	(17,497)
<b>Net deferred tax – (credited) directly to equity</b>	<b>(344)</b>	<b>(12,580)</b>

## d) Unrecognised deferred tax assets

Relating to the tax consolidated groups of:		
Washington H. Soul Pattinson and Company Limited	42,453	49,220
New Hope Corporation Limited	160,423	74,968
<b>Total unrecognised deferred tax assets</b>	<b>202,876</b>	<b>124,188</b>
<b>Potential tax benefit at 30%</b>	<b>60,863</b>	<b>37,256</b>

## Key Estimates:

**\*Petroleum resource rent tax (PRRT) – New Hope Corporation Limited**

As a result of the 100% acquisition of Bridgeport Energy Limited during 2013, the Group is subject to Petroleum resource rent tax (PRRT) effective 1 July 2012 being the date of the extension of the PRRT to onshore petroleum projects. The Group has accounted for the current and deferred tax impact of PRRT in accordance with the requirements outlined in the income tax expense policy. As such, the Group has recorded current and deferred tax assets and liabilities relating to PRRT at the prevailing PRRT rate at 31 July 2017 and 31 July 2016.

A subsidiary of the Group, New Hope Corporation Limited (New Hope), as head company of the New Hope income tax consolidated group, has made a PRRT consolidation election and as such the New Hope tax consolidated group includes three PRRT consolidated groups at 31 July 2017 and 31 July 2016. New Hope has accounted for its PRRT tax balances in accordance with the stand alone taxpayer method in alignment with the tax funding arrangements.

# 19

## NOTE 19 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

### Accounting policy – Deferred tax assets and deferred tax liabilities

Deferred tax assets and liabilities are calculated on the differences (temporary differences) between the carrying amount of assets and liabilities as recognised in the consolidated financial statements and their tax cost base multiplied by the tax rate expected to apply when these assets are recovered or liabilities are settled. The current Australian corporate tax rate applicable to the Group is 30%.

Deferred tax asset or liabilities are provided in full, using the liability method. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

	2017 \$'000	2016 \$'000
<b>Deferred tax assets temporary differences attributed to:</b>		
<b>Amounts recognised in the income statement</b>		
Provisions	47,883	44,549
Accrued expenses	1,024	973
Impairment losses	18,409	14,909
Capitalised exploration	9,515	7,334
Property, plant and equipment	5,509	5,509
Tax value of losses carried-forward	70,904	88,028
Other	11,034	10,625
	<b>164,278</b>	<b>171,927</b>
<b>Amounts recognised directly in equity</b>		
Long term equity investments	717	4,701
Share issue costs	10	10
	<b>727</b>	<b>4,711</b>
<b>Total deferred tax assets</b>	<b>165,005</b>	<b>176,638</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	(58,429)	(75,742)
<b>Net deferred tax assets</b>	<b>106,576</b>	<b>100,896</b>
<b>Movements:</b>		
Opening balance at 1 August	176,638	136,756
(Charged)/credited to the income statement – operating profit (note 18a)	(10,556)	33,944
(Charged)/credited to equity (note 18c)	(4,838)	(4,917)
Amounts recognised on acquisition of businesses	3,761	10,855
<b>Closing balance at 31 July</b>	<b>165,005</b>	<b>176,638</b>

## 19

## Taxation

## NOTE 19

## DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

## Key Estimate

**Deferred tax assets**

Deferred tax assets have been recognised relating to carried forward capital losses, income losses and temporary differences, based on current tax rates. Utilisation of capital tax losses and income losses requires the realisation of capital gains and taxable income respectfully, in subsequent years and the ability to satisfy certain tests at the time the losses are recouped. The actual tax results in future periods may differ from the estimate made at the time the deferred taxes are recognised.

	2017 \$'000	2016 \$'000
<b>Deferred tax liabilities temporary differences attributed to:</b>		
<b>Amounts recognised in the income statement</b>		
Property, plant and equipment	3,675	1,897
Capitalised exploration	93,979	92,681
Inventories	6,502	6,619
Investments	219,896	163,067
Receivables	–	44
Other	6,012	3,929
	<b>330,064</b>	<b>268,237</b>
<b>Amounts recognised directly in equity</b>		
Long term equity investments	69,060	76,640
Property, plant and equipment	45,729	9,662
Cash flow hedges	5,423	694
Other investments	3,035	5,367
	<b>123,247</b>	<b>92,363</b>
<b>Total deferred tax liabilities</b>	<b>453,311</b>	<b>360,600</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	(58,429)	(75,742)
<b>Net deferred tax liabilities</b>	<b>394,882</b>	<b>284,858</b>
<b>Movements:</b>		
Opening balance 1 August	360,600	330,489
Charged to the income statement – operating profit (note 18a)	94,132	36,753
(Credited)/charged to equity (note 18c)	(5,182)	(17,497)
Amounts recognised on acquisition of businesses	3,761	10,855
<b>Closing balance at 31 July</b>	<b>453,311</b>	<b>360,600</b>

It is important to note, that the deferred tax liability recognised above does not represent the total tax that would be incurred if all assets of the Group were to be disposed. This is predominately due to subsidiaries and the associate entities not being carried at their market value in the consolidated financial statements. The market values of the listed investments together with the estimate of capital gains tax payable thereon is set out in note 1, Parent company financial information.

## Risk Management

### NOTE 20 FINANCIAL RISK MANAGEMENT

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

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

	2017 \$'000	2016 \$'000
<b>The Group holds the following financial instruments:</b>		
<b>Financial assets</b>		
Cash and cash equivalents	301,275	126,709
Term deposits	1,044	47,660
Loans and receivables	98,333	146,962
Trading equities	46,993	31,605
Derivative financial instruments	18,075	2,313
Long term equity investments	648,105	585,703
Equity accounted associates	1,415,973	1,265,214
Other financial assets	4,984	11,837
<b>Total financial assets</b>	<b>2,534,782</b>	<b>2,218,003</b>
<b>Financial liabilities</b>		
Trade and other payables	80,866	75,831
Deposits accepted	–	49,861
Derivative financial instruments	69	167
Borrowings	62,825	22,825
Lease liabilities	12,588	15,039
<b>Total financial liabilities</b>	<b>156,348</b>	<b>163,723</b>

#### a) Market Risk

##### i. Foreign exchange risk

Foreign exchange risk arises when in local currency terms the value of a financial commitment or a recognised asset or liability, fluctuates due to changes in exchange rates. The Group is exposed to foreign exchange risk arising from currency exposures to the US Dollar through its subsidiary, New Hope Corporation Limited.

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

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

## 20

## Risk Management

**NOTE 20**  
**FINANCIAL RISK MANAGEMENT****a) Market Risk****i. Foreign exchange risk (continued)**

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

	<b>2017</b> USD \$'000	<b>2016</b> USD \$'000
<b>US Dollar exposure</b>		
Cash and cash equivalents	90,848	9,135
Trade receivables	26,521	13,501
Trade payables	538	389
Forward exchange contracts – sell foreign currency (cash flow hedge)	162,000	20,000

**Sensitivity analysis**

Based on the trade receivables, cash held and trade payables at 31 July 2017, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's post-tax profit for the year would have increased/(decreased) by \$11.377 million/(\$9.309 million) (2016: \$2.300 million/(\$1.882 million)), mainly as a result of foreign exchange gains/(losses) on translation of US dollar receivables and cash balances as detailed in the above table. The Group's equity as at reporting date would have increased/(decreased) by the same amounts.

Based on the forward exchange contracts held at 31 July 2017, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's equity would have increased/(decreased) by \$22.493 million/(\$18.400 million) (2016: \$2.961 million/(\$2.419 million)). There is no effect on post-tax profits.

**ii. Price Risk**

The Group is an investment company and is exposed to equity securities price risk. The majority of the Group's investments are publicly traded on the Australian Securities Exchange.

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

Investments held for the short to medium term are classified in the statement of financial position as trading equities. As the market value of individual companies fluctuate, the fair value of this portfolio changes with the movement being recognised through the income statement.

Investments in associates are not carried at fair value in the statement of financial position but are instead equity accounted. The initial investment is increased/(decreased) by the Group's share of the associate's profits/(losses) as recognised in the income statement, movements in their reserves (other comprehensive income) and decreased by dividends received. For listed associates the market value is taken into consideration when assessing the recoverable value of an equity accounted associate.

**Sensitivity analysis**

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

	Impact to post-tax profit		Impact on reserves	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Trading equities	(1,625)	(773)	–	–
Long term equity investments	–	–	(22,677)	(20,503)
<b>Total</b>	<b>(1,625)</b>	<b>(773)</b>	<b>(22,677)</b>	<b>(20,503)</b>

### iii. Fair value interest rate risk

Refer to 20e below.

### b) Credit Risk

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

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, long term equity investments provided to the bank as security for short term debt, as well as credit exposure to export and domestic customers, including outstanding receivables and committed transactions. The Group has no significant concentrations of credit risk.

The Group's derivative counterparties and term deposits are limited to financial institutions with a rating of at least BBB. The Group has policies that limit the maximum amount of credit exposure to any one financial institution.

Credit risk further arises in relation to financial guarantees given to certain parties (refer note 23c). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

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

The maximum exposure to credit risk at the reporting date is the carrying amount of assets as stated in the statement of financial position. The following table summarises these assets:

	2017 \$'000	2016 \$'000
Cash and cash equivalents	301,275	126,709
Term deposits	1,044	47,660
Loans and receivables	98,333	146,962
Long term equity investments	48,957	–
Derivative financial instruments	18,075	2,313
	<b>467,684</b>	<b>323,644</b>

The loans and receivables balances as stated above reflect the recoverable value and are net of any impairments or provisions. Refer note 28 for further description on the impairment of receivables.

The long term equity investments balance as stated above represents amounts that the bank holds as security against short term debt. Refer note 23.

### c) Liquidity risk

Liquidity risk is the risk that an entity is unable to meet its financial obligations as they fall due.

Prudent liquidity risk management is adopted by the Group through maintaining sufficient cash and marketable securities, the ability to borrow funds from credit providers and to close-out market positions.

The Group entities manage liquidity risk by continually monitoring forecast and actual cashflows and matching maturity profiles of financial assets and liabilities. Surplus funds are only invested in conservative financial instruments such as term deposits with major banks.

### Financing arrangements

Details of existing financial arrangements are set out in note 23.

# 20

## Risk Management

### NOTE 20 FINANCIAL RISK MANAGEMENT

#### d) Maturity of financial liabilities

The Group's trade and other payables are all payable within one year. The Group's maturity analysis for derivative financial instrument's is set out in note 22.

#### e) Cash flow and fair value interest rate risk

The Group may from time to time have significant interest-bearing assets which are placed with reputable financial institutions for up to 12 months. The Group has treasury investment policies approved by each of the relevant entity's Board which stipulates the maximum exposure to each financial institution. Significant changes in market interest rates may have an effect on the Group's income and operating cash flows. Cash flow interest rate risk is managed by placing excess funds in at call deposits, term deposits and other fixed interest bearing assets. Refer to notes 13 and 14 for details.

Based on the deposits held at reporting date, the sensitivity to a hypothetical 1% per annum increase or decrease in interest rates would increase/(decrease) after tax profit by \$2.116 million (2016: \$1.221 million). This scenario assumes all cash and term deposits at balance date continue to remain invested for the whole year.

Investment properties are partly funded by borrowings. The long term borrowings incur interest at variable rates. The Group partially hedges its exposure to interest rate risk by using a derivative financial instrument, an interest rate swap, to effectively convert the variable interest rate facility into a fixed interest rate facility. Refer to note 23a for further details.

The Parent company utilises short term bank financing. The balance at year-end was \$40.000 million. The debt is exposed to variable interest rates. Interest rate risk is minimised as the outstanding debt can be repaid by providing 30 days notice. Refer note 23a.

# 21

### NOTE 21 FAIR VALUE ESTIMATION

#### Accounting policy – Fair value estimation

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets and liabilities held by the Consolidated entity is the last sale price.

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

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



## Fair value hierarchy

Judgements and estimates are made in determining the fair values of assets and liabilities. To provide an indication of the reliability of the inputs used in determining fair value, the Group categorises each asset and liability into one of the following three levels as prescribed by accounting standards:

- Level 1: Fair value is determined by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities as at the end of the reporting period.
- Level 2: Fair value is determined by using valuation techniques incorporating observable market data inputs.
- Level 3: Fair value is determined by using valuation techniques that rely on inputs that are not based on observable market data.

## Fair value measurements

The following table presents the Group's assets measured and recognised at fair value as at 31 July 2017 and 31 July 2016.

		Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000
<b>As at 31 July 2017</b>					
	Note				
<b>Financial assets</b>					
Trading equities	11	32,509	–	14,484	46,993
Long term equity investments	11	648,102	–	3	648,105
Other financial assets – equity investments	11	–	–	4,984	4,984
Derivatives – foreign exchange hedge	22	–	18,075	–	18,075
<b>Non-financial assets</b>					
Investment properties	12	–	–	165,016	165,016
<b>Total assets</b>		<b>680,611</b>	<b>18,075</b>	<b>184,487</b>	<b>883,173</b>
<b>Financial liabilities</b>					
Derivatives – interest rate swaps	22	–	69	–	69
<b>Total liabilities</b>		<b>–</b>	<b>69</b>	<b>–</b>	<b>69</b>
<b>As at 31 July 2016</b>					
<b>Financial assets</b>					
Trading equities	11	15,459	–	16,146	31,605
Long term equity investments	11	585,700	–	3	585,703
Other financial assets – equity investments	11	–	–	11,837	11,837
Derivatives – foreign exchange hedge	22	–	2,313	–	2,313
<b>Non-financial assets</b>					
Investment properties	12	–	–	92,932	92,932
<b>Total assets</b>		<b>601,159</b>	<b>2,313</b>	<b>120,918</b>	<b>724,390</b>
<b>Financial liabilities</b>					
Derivatives – foreign exchange hedge	22	–	167	–	167
<b>Total liabilities</b>		<b>–</b>	<b>167</b>	<b>–</b>	<b>167</b>

# 22

## Risk Management

### NOTE 22 DERIVATIVE FINANCIAL INSTRUMENTS

#### Accounting policy – Derivative financial instruments

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

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

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

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

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

At reporting date the outstanding contractual receivables/payables at fair value are (AUD Equivalents):

	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
– Forward exchange contracts	18,075	2,313
<b>Current Liabilities</b>		
– Interest rate swaps	69	167

#### Fair value measurement

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

The fair value of interest rate swaps is determined using forward interest rates at the reporting date.

New Hope Corporation Limited and certain of its controlled entities are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign currency exchange rates.

These instruments are used in accordance with the Group's financial risk management policies.

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

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. A material exposure arises from forward exchange contracts and the Group is exposed to losses in the event that counterparties fail to deliver the contracted amount. Refer to note 20 for additional information.

At balance date the details of outstanding forward exchange contracts are:

	Sell US dollars Buy Australian dollars		Average exchange rate	
	2017 \$'000	2016 \$'000	2017	2016
<b>Maturity</b>				
0 to 6 months	221,183	7,297	0.73243	0.68520
6 to 12 months	–	21,831	–	0.68709
	<b>221,183</b>	<b>29,128</b>		

## 23

### NOTE 23 INTEREST BEARING LIABILITIES

#### Accounting policy – Interest bearing liabilities

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

#### Lease liabilities

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

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

	2017 \$'000	2016 \$'000
<b>Current Liabilities</b>		
Equity finance loan (refer to note 23a)	40,000	–
Deposits accepted – Directors and Director related parties (refer below)	–	49,861
Lease liabilities (refer to note 23b)	2,356	2,306
	<b>42,356</b>	<b>52,167</b>
<b>Non-Current Liabilities</b>		
Long term borrowings (refer to note 23a)	22,825	22,825
Lease liabilities (refer to note 23b)	10,232	12,733
	<b>33,057</b>	<b>35,558</b>

## 23

## Risk Management

## NOTE 23

## INTEREST BEARING LIABILITIES (continued)

## Fair value disclosures

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

## Director deposits

During the year, the Parent company accepted deposits from Directors and Director related parties under normal commercial terms. On 31 July 2017, these deposits were transferred to a separate bank account and are held in trust for these Directors and their related parties. As the Parent company no longer has control over these funds, accordingly these funds are no longer included as a liability in the Group's Statement of Financial Position. These deposits were repayable at call. The effective interest rate earned by the Director's and their related parties, was consistent with the interest rate that deposits of the Parent company received after ensuring a margin of at least 25 basis points was earned by the Parent company for administering these funds. Refer to note 33 for interest incurred on Director related deposits.

## a) Borrowings

## Secured by assets pledged as security

The total borrowings secured are as follows:

	2017 \$'000	2016 \$'000
Equity finance loan <sup>(i)</sup>	40,000	—
Long term borrowings <sup>(ii)</sup>	22,825	22,825
	<b>62,825</b>	<b>22,825</b>

(i) During the year, the Parent company utilised short term bank finance. This debt incurs interest at a variable rate and is repayable upon either the bank, or the Parent company, providing notice of 30 days. The variable interest rate at balance date was 2.18% per annum. As security, the Parent company transfers ownership of title over certain long term equity investments to the bank. As the Parent company retains the risks and benefits of ownership of the transferred equity investments, including the right to receive dividends, these securities continue to be included as an asset on the Group's balance sheet. Upon repayment of the debt, ownership of title of the equity investments, is transferred back to the Parent company.

At 31 July 2017, Long term equities with a fair value of \$48.957 million have been transferred to the bank as security for the outstanding debt of \$40 million. Should the fair value of the transferred equity investments fall below 110% of an outstanding debt balance, the Parent company is required to transfer title of additional long term equity investments to make up the shortfall. The Parent company retains the right to substitute any of the transferred equity investments with other long term equity investments, should it require to do so.

(ii) On 23 October 2015, the Group entered into a bank loan facility agreement for \$22.825 million for the purpose of acquiring a commercial property at Pennant Hills. This property is classified as an Investment property in these financials statements. The loan was fully drawn from the first day of the loan. The loan is for a period of three years and is a variable rate facility. A three year interest rate swap agreement has also been established to manage the fluctuations in interest rates over the term of the facility. The interest rate for 50% of the loan facility is effectively fixed at 3.42% per annum. The variable rate at balance date was 2.845% per annum. The bank loan facility is secured by a first mortgage over this commercial property (refer note 12).

## b) Secured – finance lease liabilities

	2017 \$'000	2016 \$'000
<b>Commitments in relation to finance leases are payable as follows:</b>		
Within one year	2,767	2,802
Later than one year but not later than five years	10,876	13,813
Minimum finance lease	13,643	16,615
Future finance charges	(1,055)	(1,576)
	<b>12,588</b>	<b>15,039</b>
<b>The present value of finance lease liabilities is as follows:</b>		
Current	2,356	2,306
Non-current	10,232	12,733
<b>Recognised as a liability</b>	<b>12,588</b>	<b>15,039</b>

### Secured liability

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

## c) Other financing arrangements

The Consolidated entity has access to bank overdraft and bank guarantee facilities as follows:

	2017 \$'000	2016 \$'000
<b>Bank overdraft</b>		
Total facility	1,000	1,000
Used at balance date	–	–
<b>Unused at balance date</b>	<b>1,000</b>	<b>1,000</b>
<b>Bank guarantees</b>		
Total facilities	146,703	141,377
Used at balance date	(145,928)	(124,356)
<b>Unused at balance date</b>	<b>775</b>	<b>17,021</b>
<i><b>Bank guarantees include:</b></i>		
<i><b>Unsecured facilities, for no fixed term and bear variable rates:</b></i>		
i. <b>Mining restoration and rehabilitation</b>	111,360	91,667
The liability has been recognised by New Hope Corporation Limited in relation to its rehabilitation obligations.		
ii. <b>Statutory Body suppliers</b>	34,651	33,380
No liability was recognised by New Hope Corporation Limited in relation to these guarantees as no losses are foreseen on these contingent liabilities.		
<i><b>Secured, for no fixed term and bear variable rates:</b></i>		
iii. <b>Environmental bond</b>	5,279	5,013
The net present value of this liability has been recognised by CopperChem Limited in relation this guarantee. The guarantee has been provided by Washington H. Soul Pattinson and Company Limited (the Parent company).		
	<b>151,290</b>	<b>130,060</b>

# 24

## Risk Management

### NOTE 24 CONTINGENT LIABILITIES

Details and estimates of maximum amounts of contingent liabilities for which no provision has been recognised in these financial statements, are as follows:

	2017 \$'000	2016 \$'000
i. Undertakings and guarantees issued by a Controlled entity's bankers to the Department of Natural Resources and Mines, Statutory Power Authorities and various other entities	20,949	19,262
ii. Undertakings and guarantees issued by a Controlled entity's bankers for stage 1 of the Wiggins Island Coal Export Terminal expansion project and expansion of rail facilities	12,194	12,494
iii. Undertakings and guarantees issued by the bankers of the Bengalla Joint Venture (of which a Controlled entity is a party) for rail and port suppliers	6,786	6,636
	<b>39,929</b>	<b>38,392</b>

The contingent liabilities as described above are not secured by any charges on the Consolidated entity's assets. For contingent liabilities of the Parent company, refer to note 1c, page 62. For contingent liabilities relating to associates refer to note 10d, page 81.

## Fixed Assets

### NOTE 25 PROPERTY, PLANT AND EQUIPMENT

#### **Accounting policy – Property, plant and equipment**

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

Property, plant and equipment (excluding investment properties, refer to note 12), are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Cost may also include transfers from equity relating to any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate where relevant, of the cost of dismantling and removing the items and restoring the site under which they are located and an appropriate portion of production overhead.

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

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated commencing from the time the asset is held ready for use.

Depreciation is calculated so as to write off the cost of each item of property, plant and equipment during its expected economic life to the Consolidated entity. Each item's useful life has due regard both to its own physical life limitations and to present assessments of economically recoverable resources (when related to mining activities). Estimates of residual values and remaining useful lives are made on an annual basis. The straight line method is predominately used (copper float and solvent extraction plants are depreciated on the units of production method). The expected useful life of plant and equipment is 4 to 20 years, buildings is 25 to 40 years and motor vehicles is 4 to 8 years. Land is not depreciated.

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

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

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

#### **Accounting policy – Mine development costs, mining reserves and leases and oil producing assets**

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

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

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

Oil producing assets are amortised on a unit of production basis. This method uses the actual costs of the asset to date plus all its projected future costs. Amortisation commences when an area of interest is ready for use.

#### **Impairment of non-current assets**

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. For the purposes of assessing impairment under value in use testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Annual assessments of impairments reversals are undertaken.

All property, plant and equipment allocated to cash generating units (CGU's) containing goodwill must be tested for impairment at the CGU level on an annual basis. Other property, plant and equipment assets must also be tested for impairment when impairment indicators are identified.



## Fixed Assets

25

**NOTE 25**  
PROPERTY, PLANT AND EQUIPMENT (continued)

<b>Non-current assets 2017</b>	<b>Land</b> \$'000	<b>Buildings</b> \$'000	<b>Plant, fixtures, motor vehicles</b> \$'000	<b>Oil producing assets</b> \$'000	<b>Mining reserves and leases</b> \$'000	<b>Mine develop- ment</b> \$'000	<b>Total</b> \$'000
<b>At 1 August 2016</b>							
Cost	167,955	48,779	972,612	120,782	663,841	143,234	2,117,203
Accumulated depreciation/ amortisation and impairment	–	(20,359)	(489,019)	(76,110)	(39,529)	(103,451)	(728,468)
<b>Net book amount</b>	<b>167,955</b>	<b>28,420</b>	<b>483,593</b>	<b>44,672</b>	<b>624,312</b>	<b>39,783</b>	<b>1,388,735</b>
<b>Year ended 31 July 2017</b>							
Opening net book amount	167,955	28,420	483,593	44,672	624,312	39,783	1,388,735
Acquisition of businesses	–	–	–	13,337	–	–	13,337
Additions	1,786	343	58,597	12,446	–	780	73,952
Transfers in/(out)	(2,304)	2,372	(17,977)	2,972	–	16,137	1,200
Disposal of assets	(3,522)	(2,445)	(3,726)	–	–	–	(9,693)
Reversal of Impairment of assets	–	525	1,550	–	–	–	2,075
Depreciation/amortisation charge	–	(1,235)	(56,946)	(6,769)	(25,557)	(8,679)	(99,186)
<b>Closing net book amount</b>	<b>163,915</b>	<b>27,980</b>	<b>465,091</b>	<b>66,658</b>	<b>598,755</b>	<b>48,021</b>	<b>1,370,420</b>
<b>At 31 July 2017</b>							
Cost	163,915	51,820	972,075	149,537	663,841	163,348	2,164,536
Accumulated depreciation/ amortisation and impairment	–	(23,840)	(506,984)	(82,879)	(65,086)	(115,327)	(794,116)
<b>Net book amount</b>	<b>163,915</b>	<b>27,980</b>	<b>465,091</b>	<b>66,658</b>	<b>598,755</b>	<b>48,021</b>	<b>1,370,420</b>

## Pledged assets

Plant, fixtures and motor vehicles includes assets with a net book value of \$12.588 million, which the Group is a lessee under a finance lease. Refer note 23 for details.

<b>Non-current assets 2016</b>	<b>Land \$'000</b>	<b>Buildings \$'000</b>	<b>Plant, fixtures, motor vehicles \$'000</b>	<b>Oil producing assets \$'000</b>	<b>Mining reserves and leases \$'000</b>	<b>Mine develop- ment \$'000</b>	<b>Total \$'000</b>
<b>At 1 August 2015</b>							
Cost	164,665	37,053	731,851	104,832	30,502	118,263	1,187,166
Accumulated depreciation/ amortisation and impairment	–	(16,587)	(426,778)	(57,488)	(16,847)	(84,763)	(602,463)
<b>Net book amount</b>	<b>164,665</b>	<b>20,466</b>	<b>305,073</b>	<b>47,344</b>	<b>13,655</b>	<b>33,500</b>	<b>584,703</b>
<b>Year ended 31 July 2016</b>							
Opening net book amount	164,665	20,466	305,073	47,344	13,655	33,500	584,703
Acquisition of businesses – (refer note 6)	3,290	11,694	163,644	11,483	633,267	17,932	841,310
Additions	–	664	79,013	4,277	602	5,685	90,241
Transfers in/(out)	–	130	(1,799)	190	(530)	1,354	(655)
Disposal of assets	–	(762)	(97)	–	–	–	(859)
Impairment of assets	–	(2,398)	(8,245)	(15,029)	(11,965)	(10,610)	(48,247)
Depreciation/amortisation charge	–	(1,374)	(53,996)	(3,593)	(10,717)	(8,078)	(77,758)
<b>Closing net book amount</b>	<b>167,955</b>	<b>28,420</b>	<b>483,593</b>	<b>44,672</b>	<b>624,312</b>	<b>39,783</b>	<b>1,388,735</b>
<b>At 31 July 2016</b>							
Cost	167,955	48,779	972,612	120,782	663,841	143,234	2,117,203
Accumulated depreciation/ amortisation and impairment	–	(20,359)	(489,019)	(76,110)	(39,529)	(103,451)	(728,468)
<b>Net book amount</b>	<b>167,955</b>	<b>28,420</b>	<b>483,593</b>	<b>44,672</b>	<b>624,312</b>	<b>39,783</b>	<b>1,388,735</b>

### Pledged assets

Plant, fixtures and motor vehicles includes assets with a net book value of \$15.039 million, which the Group is a lessee under a finance lease. Refer note 23 for details.

### Impairments of Property plant and equipment

During the year ended 31 July 2016, impairment charges of Property, plant and equipment include write downs on copper assets of \$30.218 million and oil producing assets of \$15.029 million.

# 25

## Fixed Assets

### NOTE 25

#### PROPERTY, PLANT AND EQUIPMENT (continued)

##### Key estimates – impairment of non-current assets

##### *New Hope Corporation Limited - Queensland Mining Operations*

In accordance with accounting standards, New Hope Corporation Limited has completed an impairment assessment for its Queensland Mining Operations.

As a result of this assessment, New Hope Corporation Limited has determined that no impairment is required in relation to these assets for the year ended 31 July 2017.

Details of the assessment, the significant judgements and estimates, are as follows:

##### (a) Impairment assessment

All property, plant and equipment allocated to cash generating units (CGU's) containing goodwill must be tested for impairment at the CGU level on an annual basis. Other property, plant and equipment assets must also be tested for impairment when impairment indicators are identified.

Judgement is involved in assessing whether there are indicators of impairment of property, plant and equipment including in relation to the impact of events or changes in circumstances. For coal mining and oil production assets, key judgements include external factors such as forecast commodity prices and foreign exchange rates. Judgement is also required in relation to the estimation of coal and oil reserves and resources (refer (b) below for further information in relation to the estimation of coal reserves and resources).

Where the recoverable amounts of New Hope Corporation Limited's CGU's are tested for impairment using analyses of discounted cash flows, the resulting valuations are also sensitive to changes in estimates of long-term commodity prices, production timing and recovery rates, exchange rates, operating costs, reserve and resource estimates, closure costs and discount rates. Estimates in respect of the timing of project expansions and the cost to complete asset construction are also critical to determining the recoverable amounts for cash-generating units (refer (c) below in relation to specific considerations related to Acland Stage 3 approvals).

##### (b) Estimates of reserves and resources – Coal

New Hope Corporation Limited estimates its coal reserves and resources based on information compiled by 'Competent Persons' as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC code, which is produced by the Australasian Joint Ore Reserves Committee).

The estimation of reserves and resources requires judgment to interpret available geological data and then to select an appropriate mining method and establish an extraction schedule. It also requires assumptions about future commodity prices, exchange rates, production costs, recovery rates and discount rates and, in some instances, the renewal of mining licences. There are many uncertainties in the estimation process and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in coal reserves could have an impact on: the calculation of depreciation, amortisation and impairment charges; the timing of the payment of closedown and restoration costs; and the recovery of deferred tax assets. Changes in coal resources could have an impact on the recoverability of exploration and evaluation costs capitalised.

##### (c) New Acland Coal Stage 3 approvals

In recent years the process to secure mining tenements has become more complex and time consuming, and this has been evident in the New Acland Stage 3 (NAC03) approvals process. As a result, there are a number of uncertainties associated with the approvals timeline and conditionality of the NAC03 project. New Hope Corporation Limited considers that approvals for the NAC03 project will be secured. Any significant delay in the approvals process has the potential to delay the commencement of NAC03 operations and has been assessed to be an indicator of impairment in the year ended 31 July 2017.

The financial statements have been prepared on the basis that approvals are granted within a reasonable time period, and as a result, there is no significant impact on the value recoverable from the project and therefore the QLD coal mining cash generating unit (CGU) at 31 July 2017.

New Hope Corporation Limited has carefully considered the potential impact that recent developments in the legal and regulatory environment or the possibility of further delays in the approvals process would have on future cash flows. Having due regard to all relevant information, New Hope Corporation Limited has concluded that none of these matters, either individually or in aggregate, result in the recoverable amount for the CGU being below its carrying value.

The carrying value of the Queensland Mining Operations CGU's assets is set out below:

	2017 \$'000
<b>Property, plant and equipment</b>	
Land and buildings – mining	47,697
Plant and equipment	123,849
Mining reserves, leases and development assets	8,513
Mine development	55,571
<b>Intangibles</b>	
Software	1,487
<b>Exploration and evaluation</b>	
Exploration and evaluation at cost	35,816
<b>Total carrying value</b>	<b>272,933</b>

#### *Considerations in respect of changes to the legal and regulatory environment*

The approval under the Commonwealth Environment Protection and Biodiversity Conservation Act 1999 (EPBC) for the NAC03 project was received in January 2017 which provides positive outcomes to the project.

The Queensland Government made amendments to the Water Act 2000 and the Mineral Resources Act 1989 in late 2016 which now requires the NAC03 project to apply for and be granted an Associated Water Licence (AWL). While this is a new approval requirement, it is largely covering matters already dealt with as part of the existing Mining Lease (ML), Environmental Authority (EA) and EPBC approval processes and updated modelling is being undertaken to address issues previously identified by the regulators and during the recent Land Court proceedings. As such, New Hope Corporation Limited is confident that an AWL will be secured and the only relevant impact of this new legislation is the time required to secure the AWL.

The Land Court hearing was completed during the year with recommendations to the State Minister for Natural Resources and Mines (the Minister) and the Department of Environment and Heritage Protection (DEHP) being made on 31 May 2017. The recommendations were for the Minister to not grant the ML and for the DEHP to not grant the amendment to the existing EA. Both the MLs and the EA are required for the project to proceed.

While the Land Court considered many matters, the only matters identified by the Court as leading to the negative recommendations were the perceived impacts that the NAC03 project may have on groundwater and night time noise limits with close neighbours. New Hope Corporation Limited considers that these issues can be appropriately addressed and managed and will not ultimately result in a failure to obtain the ML and EA approvals.

The Land Court recommendation is a non-binding recommendation and is not determinative to the outcome of the approval process. In considering whether to grant the MLs and EA amendment, the Minister and the DEHP are required to consider a number of relevant factors including the recommendations of the Land Court. New Hope Corporation Limited is working with the regulators to address the concerns raised by the Land Court and that will enable the approval of the ML and EA. The AWL application referred to above will also deal with the groundwater issues.

In addition, New Hope Corporation Limited through its wholly-owned subsidiary New Acland Coal Pty Ltd has commenced a Judicial Review process in respect to the Land Court recommendations. The Judicial Review seeks to address a number of concerns that New Hope Corporation Limited has about the Land Court process and resultant recommendations. If successful, the Judicial Review process may result in the Land Court changing its findings in respect of groundwater and night time noise concerns and ultimately recommending grant of the ML and EA.

New Hope Corporation Limited has assessed that, despite the changes to the legal and regulatory environment, the NAC03 approvals will ultimately be received. However, it is acknowledged that the changes to the legal and regulatory environment could result in delays in securing the necessary project approvals and these are discussed separately below.

#### *Considerations in respect of approval timing*

At the time of preparing these financial statements, the Minister has extended the time to make an interim decision relevant to the grant of the ML and EA until 31 January 2018. This does not stop the Minister electing to make the decision earlier or agreeing to extend this date. There is no fixed timing associated with the Minister making a final decision on the grant of the ML but once the Minister makes the interim decision referred to above, the DEHP only has 10 business days to make a decision on the EA amendment.

## Fixed Assets

### NOTE 25

#### PROPERTY, PLANT AND EQUIPMENT (continued)

##### *Considerations in respect of approval timing – continued*

Stage 2 operations at New Acland can continue to operate until all economically recoverable coal has been mined from within the Stage 2 lease boundary. The Queensland coal mining CGU has take or pay agreements for rail, port and water supply. The rail agreement is generally aligned to the recovery of Stage 2 coal while the port and water agreements have a longer term however is not of an amount which for any foreseeable approval delay would constitute a material impact on value.

The saleable product is exposed to minimal risk of decline in quality and value over time. The Queensland coal mining operations maintain a cost competitive structure within the mining industry with quality products available for export and domestic sale and this will not be materially influenced by any delay in securing project approvals.

The fair value discounted cash flow models prepared for the CGU have confirmed that the recoverable amount exceeds the carrying value. Having due regard to the above factors and the reasonably foreseeable time required to secure project approvals New Hope Corporation Limited considers the basis on which the financial statements have been prepared and assets recognised is appropriate. The models included the typical input assumptions and sensitivities for a coal mining company and were expanded to include a sensitivity analysis for a number of possible approval timelines. The key assumptions underpinning the models and sensitivity analysis are outlined below:

##### *i) Extension of approvals timeline*

Sensitivity analysis included adjusting the commencement of Stage 3 operations at Acland to reflect a range of possible approval scenarios. The scenarios assume that project approvals will be received in 2018 in the earliest instance, or in 2022 at the latest instance.

##### *ii) Weighted Average Cost of Capital (WACC)*

A range of WACC sensitivities were considered between the ranges of 9–11%.

##### *iii) Foreign exchange*

In considering the AUD:USD foreign exchange assumptions, New Hope Corporation Limited had regard to observable market forward curves, consensus market data, reports from reputable financial institutions, as well as the expertise of its senior executive team. The AUD:USD foreign exchange rates assumptions were between 0.73 – 0.75. These estimates are within the range supported by externally sourced data.

##### **Impairment of oil producing assets – New Hope Corporation Limited**

In the prior year it was determined that the recoverable amount of oil producing assets was \$7.187 million, resulting in an impairment of \$15.029 million. In the current financial year, there are no indicators of impairment or reversal of impairment in relation to these assets.

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

The assessment of recoverable value includes key estimates in relation to quantities of economically recoverable reserves and resources, resource grades and mine plans. These are based upon interpretations of geological models and other matters. It also requires key assumptions to be made regarding a number of factors including short and long-term exchange rates, short and long-term copper prices, future capital expenditure and working capital. Estimates are also required to be made in relation to the economic life of the plant and its residual value. Changes in these estimates and applying different assumptions may impact significantly the assessment of the recoverable value of the plant, equipment and capitalised mine development costs, as well as the amount of depreciation and amortisation charged to the income statement. The directors are satisfied that the estimates and assumptions made are based on observable and other supportable inputs and therefore that the impaired carrying value of the copper processing plant, equipment and capitalised mine development costs at 31 July 2017 is appropriate.

## NOTE 26 EXPLORATION AND EVALUATION ASSETS

### Accounting policy – Exploration and evaluation assets

Exploration, evaluation and relevant acquisition costs are accumulated separately for each area of interest for which a mining tenement is current. They are initially recognised at cost and includes the acquisition of rights to explore, studies, exploratory drilling, trenching, sampling and an appropriate portion of related overhead expenditure.

Costs are carried forward only if they relate to an area of interest for which rights of tenure are current and such costs are expected to be recouped through successful development and exploitation or from sale of the area.

Exploration and evaluation expenditure which does not satisfy these criteria is written off.

Where a decision is made to proceed to the development of a mine, the relevant exploration and evaluation costs for that area of interest are transferred to mine development (disclosed within note 25 – Property, plant and equipment).

	2017 \$'000	2016 \$'000
<b>Non-Current Assets</b>		
Exploration and evaluation at cost	418,582	402,298
<b>Reconciliation</b>		
Opening net book amount	402,298	407,831
Additions	17,583	22,129
Impairment <sup>(a)</sup>	–	(28,192)
Transfers (out)/in	(1,299)	530
<b>Closing net book amount</b>	<b>418,582</b>	<b>402,298</b>

- (a) In the prior year, an impairment expense of \$15.075 million relates to copper exploration assets, which are allocated to the copper cash generating unit for the purpose of assessing recoverable value, and \$13.117 million relates to oil exploration assets. Refer to note 25 for details of impairment testing.

Exploration and evaluation assets include New Hope Corporation Limited of \$392.569 million (2016: \$382.048 million) and Exco Resources Limited of \$22.205 million (2016: \$19.309 million).

### Key Estimate

#### Exploration and evaluation expenditure

During the year, the controlled entities New Hope Corporation Limited, CopperChem Limited and Exco Resources Limited, capitalised various items of expenditure to exploration and evaluation assets. The relevant items of expenditure were deemed to be part of the capital cost of developing future mining operations, which would then be amortised over the useful life of the mine.

The key judgement applied in considering whether the costs should be capitalised, is that costs are expected to be recovered through either successful development (through mining operations) or sale of the relevant mining interest.

Factors that could impact the exploration and evaluation costs being transferred to future mine operations include the level of reserves and resources, changes in commodity prices and foreign exchange rates, future legal changes and any future technology changes.

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## Fixed Assets

**NOTE 27**  
**INTANGIBLE ASSETS****Accounting policy – Intangible assets****Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in the carrying amount of the investments in associates.

Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it may be impaired, and is carried at cost less accumulated impairment losses. Goodwill acquired is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or group of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Cash generating units are discussed in the impairment section below.

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

**Water rights and mining information**

The Group benefits from water rights associated with its mining operations through the efficient and cost effective operations of the mine. The value of exploration, pre-feasibility and feasibility costs necessary for regulatory, reporting and internal control purposes have been recognised as a mining information intangible asset.

**Software**

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

**Other intangible assets**

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

**Subsequent expenditure**

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

**Amortisation of intangible assets**

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

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

<b>Class of intangible</b>	<b>Useful life</b>
Goodwill	Indefinite life
Water rights and mining information	Estimated life of mine
Software	3–5 years

**Impairment**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if changes or circumstances indicate that they may be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Refer to note 25 for details on impairment testing.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Intangible assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Goodwill impairments are not reversible.

Impairment losses for intangible assets are recognised in the income statement.



<b>Non-Current Assets</b>	<b>Goodwill</b> \$'000	<b>Water rights</b> \$'000	<b>Mining information</b> \$'000	<b>Other</b> \$'000	<b>Total</b> \$'000
<b>At 1 August 2015</b>					
Cost	22,830	–	–	15,121	37,951
Accumulated amortisation and impairment	(4,157)	–	–	(13,256)	(17,413)
<b>Net book amount</b>	<b>18,673</b>	<b>–</b>	<b>–</b>	<b>1,865</b>	<b>20,538</b>
<b>Year ended 31 July 2016</b>					
Opening net book amount	18,673	–	–	1,865	20,538
Additions	–	–	–	37	37
Asset acquired by purchase of businesses	–	6,560	34,900	40	41,500
Amortisation (charged) to the income statement (refer note 17)	–	(110)	(585)	(1,027)	(1,722)
Transfers in	–	–	–	125	125
<b>Closing net book amount</b>	<b>18,673</b>	<b>6,450</b>	<b>34,315</b>	<b>1,040</b>	<b>60,478</b>
<b>At 31 July 2016</b>					
Cost	22,830	6,560	34,900	15,323	79,613
Accumulated amortisation and impairment	(4,157)	(110)	(585)	(14,283)	(19,135)
<b>Net book amount</b>	<b>18,673</b>	<b>6,450</b>	<b>34,315</b>	<b>1,040</b>	<b>60,478</b>
<b>Year ended 31 July 2017</b>					
Opening net book amount	18,673	6,450	34,315	1,040	60,478
Additions	–	–	–	1,733	1,733
Amortisation (charged) to the income statement (refer note 17)	–	(262)	(1,396)	(626)	(2,284)
Transfers in	–	–	–	99	99
<b>Closing net book amount</b>	<b>18,673</b>	<b>6,188</b>	<b>32,919</b>	<b>2,246</b>	<b>60,026</b>
<b>At 31 July 2017</b>					
Cost	22,830	6,560	34,900	17,155	81,445
Accumulated amortisation and impairment	(4,157)	(372)	(1,981)	(14,909)	(21,419)
<b>Net book amount</b>	<b>18,673</b>	<b>6,188</b>	<b>32,919</b>	<b>2,246</b>	<b>60,026</b>

#### a) Recoverable amount of goodwill

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

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

	<b>Country of operation</b>	<b>2017</b> \$'000	<b>2016</b> \$'000
<b>Energy</b>			
Carrying amount of Goodwill	Australia	18,098	18,098
<b>Consulting</b>			
Carrying amount of Goodwill	Australia	575	575
<b>Closing net book value</b>		<b>18,673</b>	<b>18,673</b>

# 27

## Fixed Assets

### NOTE 27 INTANGIBLE ASSETS (continued)

The recoverable amount of the cash generating units for which goodwill has been allocated is determined based on the fair value less cost of disposal method. Assumptions and methodology applied to each cash-generating unit are as follows:

#### (i) Energy

The brought forward balance of goodwill relates to acquisitions by New Hope Corporation Limited, including Queensland Bulk Handling Pty Limited (goodwill of \$5.596 million) and Northern Energy Corporation Limited (goodwill of \$12.271 million).

The recoverable amount of the cash-generating unit to which the Northern Energy Corporation Limited goodwill is attributable has been based on the fair value less cost of disposal method using a comparable resource transaction multiple multiplied by the resources attributable to this cash generating unit. This assessment is determined under Level 2 of the fair value hierarchy based on observable external market data for reserve and resources transaction multiples, rather than quoted prices (refer note 21 for an explanation on fair value hierarchy). Observable transactions included in the assessment of an appropriate multiple are comparable transactions in the last 4 years for Australian coal exploration projects with the same coal type as the cash-generating unit assets. The estimation of the resources used to determine the recoverable amount requires judgement and assumptions as detailed in note 25.

The recoverable amount of Queensland Bulk Handling Pty Limited cash generating units has been based on value in use calculations using discounted cash flow model. The future cash flows have been discounted using a post-tax rate of 9% (2016: 10%).

#### (ii) Consulting

Brought forward goodwill relates to obtaining control of Pitt Street Real Estate Partners Pty Limited.

#### Key Estimates

##### ***Impairment of goodwill***

At each reporting date the Group considers the recoverable value of goodwill. Goodwill is allocated to cash-generating units for which the recoverable value is determined. The recoverable value may be determined based on fair value less costs to sell and is estimated based on recent market transaction information. These calculations require the use of assumptions.

## Other Operating Assets and Liabilities

### NOTE 28

#### TRADE AND OTHER RECEIVABLES

##### Accounting policy – Trade and other receivables

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

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

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

##### Measurement

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

	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
Trade receivables	52,170	66,203
Less impairment of receivables	(5)	(6,382)
	52,165	59,821
Loans to other parties – secured	5,000	25,185
Other receivables	30,673	25,410
Prepayments	6,932	6,359
<b>Total current receivables</b>	<b>94,770</b>	<b>116,775</b>
<b>Non-current Assets</b>		
Loans to others – secured	203	26,877
Other receivables and prepayments	3,360	3,310
<b>Total non-current receivables</b>	<b>3,563</b>	<b>30,187</b>

## Other Operating Assets and Liabilities

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### NOTE 28

#### TRADE AND OTHER RECEIVABLES (continued)

##### a) Credit, foreign exchange, fair value and interest rate risk

Information about the Group's exposure to these risks in relation to trade and other receivables is provided in note 20. The carrying value less impairment provisions of trade receivables are assumed to approximate their fair value.

#### Key Estimate

##### *Recoverability of receivables*

As at reporting date, trade receivables past due but not impaired were nil (2016: \$14.251 million). In 2016, the post due receivable balance relates solely to invoices issued by Queensland Bulk Handling Limited (QBH) (a wholly owned subsidiary of New Hope Corporation) to Peabody (Wilkie Creek) Pty Limited for coal port services.

An agreed settlement to recover the full balance not impaired at 31 July 2016 was achieved in September 2016.

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### NOTE 29

#### INVENTORIES

##### Accounting policy – Inventory

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

	2017 \$'000	2016 \$'000
<b>Current Assets</b>		
Raw materials and stores – at cost	27,115	35,050
Work in progress – at cost	14,314	14,011
Finished goods – at cost	38,539	29,978
	<b>79,968</b>	<b>79,039</b>

##### Inventory expense

Inventories recognised as an expense during the year ended 31 July 2017 amounted to \$593.691 million (2016: \$283.704 million).

In the current year, write-down of inventory to net realisable value recognised as an expense was nil (2016: \$1.086 million).

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## NOTE 30 TRADE AND OTHER PAYABLES

	2017 \$'000	2016 \$'000
<b>Current Liabilities</b>		
Trade and other payables	80,866	75,831

### ***Trade and other payables***

The balance at 31 July 2017 includes \$65.289 million (2016: \$64.513 million) relating to New Hope Corporation Limited.

# 31

## NOTE 31 PROVISIONS

### **Accounting policy – Provisions**

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

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

#### ***i. Restoration, rehabilitation and environmental expenditure***

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

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

#### ***ii. Employee entitlements***

##### **Short-term obligations**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and vesting sick leave, expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability of annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term benefit obligations are presented as payables.

##### **Other long-term employee benefit obligations**

The liabilities for long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period based on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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## Other Operating Assets and Liabilities

**NOTE 31**  
**PROVISIONS (continued)**

	<b>2017</b> \$'000	<b>2016</b> \$'000
<b>Current Liabilities</b>		
Mining restoration and site rehabilitation (ii)	8,487	13,613
Employee benefits (i)	36,858	36,453
	<b>45,345</b>	<b>50,066</b>
<b>Non-Current Liabilities</b>		
Mining restoration and site rehabilitation (ii)	105,279	89,877
Employment benefits (i)	7,174	6,950
Other	320	65
	<b>112,773</b>	<b>96,892</b>

**(i) Employee benefits****Current liabilities not expected to be settled within the next 12 months**

The current provision for employee benefits includes accrued annual leave, vested sick leave and long service leave for all unconditional settlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payment in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

**(ii) Mining restoration and site rehabilitation**

	<b>2017</b> \$'000	<b>2016</b> \$'000
<b>Movements in provision 2017</b>		
<b>Carrying amount at beginning of year</b>	<b>103,490</b>	<b>65,436</b>
Provision arising on acquisition of businesses	12,537	37,982
Provisions (written down)	(4,179)	(3,118)
Provisions (credited)/charged to income statement	(1,475)	53
Charged to income statement – unwinding of discount	3,393	3,137
<b>Carrying amount at end of year</b>	<b>113,766</b>	<b>103,490</b>
Disclosed as:		
Current liabilities	8,487	13,613
Non-current liabilities	105,279	89,877
<b>Total provision for mining restoration and site rehabilitation</b>	<b>113,766</b>	<b>103,490</b>

**Key Estimate*****Mining restoration and site rehabilitation***

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

## Other Notes

### NOTE 32 SHARE-BASED PAYMENTS

#### Accounting policies – Share-based payments

Share-based compensation benefits are provided to employees of Washington H. Soul Pattinson and Company Limited (the Parent company) and New Hope Corporation Limited via various employee incentive schemes.

A summary of each scheme is provided below.

The fair value of options and rights granted under each of these schemes is recognised as an employee benefits expense with a corresponding increase in the share-based payment reserve within equity.

The fair value is measured at grant date and the total amount to be expensed is recognised over the period during which the employee becomes unconditionally entitled to the options and rights. The fair value of options and rights granted is based on the market price of the issuing company's shares, adjusted to reflect any market performance conditions and the impact of any non-vesting conditions. Non-market vesting conditions are included in assumptions about the number of options and rights that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options and rights that are expected to become exercisable. The employee benefits expense each period takes into account the most recent estimate. The impact of the revision to the original estimate, is recognised in profit or loss with a corresponding adjustment to equity.

#### Washington H. Soul Pattinson and Company Limited – Long term incentive plan

Washington H. Soul Pattinson and Company Limited (the Parent company) provides share based compensation benefits to its executive team and management team via a Long Term Incentive Plan (LTI plan) whereby rights to shares are granted for nil consideration. Rights are granted in accordance with the plan at the sole discretion of the Washington H. Soul Pattinson and Company Limited Board. Rights vest and automatically convert to ordinary shares in Washington H. Soul Pattinson and Company Limited following the satisfaction of the relevant performance and service conditions. Performance and service conditions applicable to each issue of rights are determined by the Board at the time of the grant. Rights granted under the plan carry no dividend or voting rights until they have vested and have been converted into shares in the Parent company. Detailed vesting conditions are set out in the Remuneration report. Refer to pages 30 to 47.

The fair value of services received in return for performance rights granted is based on the fair value of the performance rights granted. The fair value of rights was independently determined by valuation specialists Lonergan Edwards & Associates Limited and was based on the market price of Washington H. Soul Pattinson and Company Limited's shares at the grant date, with an adjustment made to take into account the vesting period, expected dividends during that period that will not be received by the participants and the probability that the market performance conditions will be met.



## Other Notes

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**NOTE 32**  
**SHARE-BASED PAYMENTS (continued)**

Set out below are the summaries of rights granted under the Parent company LTI plan:

Grant Date	Vest Date	Performance hurdle	Movement in number of performance rights granted					Balance at end of year
		TSR Hurdle or Non TSR Hurdle	Fair value at grant date	Balance at start of year	Granted during the year	Vested	Forfeited	
Dec 2016	Sep 2019 (Sep 2020)*	Non-TSR	\$13.10	–	12,717	–	–	12,717
Dec 2016	Sep 2019 (Sep 2020)*	TSR	\$5.22	–	12,716	–	–	12,716
Dec 2016	Aug 2020 (Sep 2020)*	Non-TSR	\$13.10	–	7,630	–	–	7,630
Dec 2016	Aug 2020 (Sep 2020)*	TSR	\$3.25	–	7,630	–	–	7,630
Dec 2016	Aug 2021	Non-TSR	\$13.10	–	5,086	–	–	5,086
Dec 2016	Aug 2021	TSR	\$2.56	–	5,086	–	–	5,086
Dec 2015	Sep 2018 (Sep 2019)*	Non-TSR	\$13.86	14,198	–	–	–	14,198
Dec 2015	Sep 2018 (Sep 2019)*	TSR	\$12.25	14,197	–	–	–	14,197
Dec 2015	Aug 2019 (Sep 2019)*	Non-TSR	\$13.86	8,518	–	–	–	8,518
Dec 2015	Aug 2019 (Sep 2019)*	TSR	\$11.08	8,518	–	–	–	8,518
Dec 2015	Aug 2020	Non-TSR	\$13.86	5,679	–	–	–	5,679
Dec 2015	Aug 2020	TSR	\$10.87	5,679	–	–	–	5,679
				56,789	50,865	–	–	107,654

\* Certain tranches of performance rights are subject to 're-testing dates'. Details of vesting conditions and performance hurdles are set out in the Remuneration report. Refer to pages 30 to 47.

For the current year an expense of \$281,679 (2016: \$201,810) was recognised in the income statement for the rights issued under the Parent company LTI plan. The total fair value of the performance rights outstanding at year end was \$1.161 million (2016: \$723,577).

**New Hope Corporation Limited – Employee Share option and Performance rights share plans**

New Hope Corporation Limited provides share based compensation benefits to its employees via the New Hope Corporation Limited Employee Share Option Plan and the New Hope Corporation Limited Employee Performance Rights Share Plan (Rights plan). Membership of the Rights plan is open to those senior employees and those Directors of New Hope Corporation Limited, its subsidiaries and associated bodies corporate whom, the Directors believe have a significant role to play in the continued development of the Group's activities. Detailed vesting conditions are set out in the Remuneration report. Refer to pages 30 to 47.

Rights are granted for nil consideration. Rights will vest at the nominated vesting date and automatically convert to ordinary shares in New Hope Corporation Limited following the satisfaction of the relevant performance and service conditions. Service and performance conditions applicable to each issue of rights are determined by the New Hope Corporation Limited's Board at the time of the grant. Total expense arising from rights issued under the New Hope Corporation Limited employee performance share rights plan during the financial year was \$309,000 (2016: \$123,000). The total fair value of the performance rights outstanding at year end was \$1.760 million (2016: \$1.024 million). Further details are provided in the published financial report of New Hope Corporation Limited for year ended 31 July 2017 (ASX code: NHC).

## NOTE 33 RELATED PARTIES

### a) Parent company

The ultimate Parent company is Washington H. Soul Pattinson and Company Limited.

### b) Subsidiaries and Associates

Interests in Subsidiaries and Associates are set out in note 3.

### c) Key management personnel compensation

	Key management personnel of the Consolidated entity		Key management personnel of the Parent company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Short-term employee benefits	7,068	6,720	4,494	4,166
Post-employment benefits	297	283	238	223
Long-term employee benefits	112	115	69	61
Termination benefits	–	136	–	–
Share-based payments	581	319	273	195
	<b>8,058</b>	<b>7,573</b>	<b>5,074</b>	<b>4,645</b>

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report on pages 30 to 47.

### d) Related parties transactions and balances

Details of loans to and other transactions with key management personnel are included in the Remuneration Report section of the Directors' Report on page 47.

During the year, the Parent company accepted deposits from Director and Director related parties on normal commercial terms and received fees for administering these funds. The Parent company incurred interest of \$775,682 (2016: \$1,228,178). On 31 July 2017, these deposits were transferred to a separate bank account and are held in trust for these Directors and their related parties. As the Parent company no longer has control over these funds, accordingly these funds are no longer included as a liability in the Group's Statement of Financial Position. Refer to note 23 for further details.

#### i. Subsidiaries

Transactions between the Parent company and its subsidiaries and between subsidiaries are at normal commercial terms and conditions. Transactions consist of the transfer of funds for day to day financing, provision of consulting, management and advisory services, loans advanced and repaid, interest, dividend and rental payments.

Transactions between members of the Group which are eliminated on consolidation are not disclosed in this note.

#### ii. Associates

Transactions with associates are at normal commercial terms and conditions.

Transactions consist of the supply of pharmaceutical products to the Parent company, advisory, consulting, underwriting, management fees, and rent received from/paid to associates, loans advanced and repaid, interest and dividend payments.

## Other Notes

**NOTE 33**  
**RELATED PARTIES (continued)**

	2017 \$'000	2016 \$'000
<b>Summary of transactions with subsidiaries and associates</b>		
Advisory, consulting, underwriting, management and other fees:		
– received by Parent company from associates	461	–
– received by Parent company from Director related entities (refer below)	1,249	–
– received by subsidiaries from associates	1,826	999
– received by associates from subsidiaries	100	–
– rent income received by Parent company from associate	13	12
Purchases of pharmaceutical products from associate	5,653	5,868
Interest income from associate	1,501	984
Purchase of Barbara Copper Project from associate (capitalised)	2,300	–

During the year, a controlled entity, Copperchem Limited acquired the remaining 50% share of the Barbara Copper Project from an associate, Syndicated Metals Limited for \$2.300 million. This asset is included within Exploration and Evaluation assets within the Group's Statement of Financial Position.

### Loans to associates

During the year, the Parent company provided a stand-by loan facility to TPI Enterprises Limited. The current facility limit is for \$12.500 million. The amount owed at 31 July 2017 was nil. Interest is charged at market rates. The facility matures on 31 August 2018.

During the year, the Parent company converted a loan balance of \$8,331 million (2016: \$7,077 million) owed from TPI Enterprises Limited to equity. All accrued interest was settled in cash. Interest was charged at market rates.

### Director related entities

*Transactions with URB Investments Limited (ASX: URB)*

Mr Warwick M. Negus is a director of both Washington H. Soul Pattinson and Company Limited (WHSP) and URB Investments Limited (URB).

During the year, WHSP entered into agreements to acquire three investments properties within NSW (Kingsgrove, Penrith and Prestons).

At the time of entering into these purchase agreements, WHSP also granted call options to URB. The call options provided URB the right to acquire a 49.9% interest in these properties. On exercise of these options, WHSP received from URB 49.9% of the total purchase price of the properties (including costs associated with the acquisitions) and \$1.249 million of option fees. WHSP has retained 50.1% interest in each of these properties.

WHSP and URB have also entered into a co-investment agreement providing each entity with the right to co-invest in future investment property opportunities, which are identified by either party.

## NOTE 34 COMMITMENTS FOR EXPENDITURE

	2017 \$'000	2016 \$'000
<b>a) Capital commitments</b>		
Capital expenditure contracted for at the reporting date payable within one year:		
Property, plant and equipment	15,716	8,705
Amounts contracted for construction projects classified as inventories	–	5,261
<b>b) Lease commitments: Group as lessee</b>		
<b>Operating leases</b>		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	12,109	10,792
Later than one year but not later than five years	24,332	28,406
Later than five years	30,933	37,188
	<b>67,374</b>	<b>76,386</b>
<p>The Group leases port facilities and has a share in commitments for minimum lease payments relating to property, plant and equipment under non-cancellable operating leases expiring within five to ten years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Group leases office space and small items of office equipment under operating leases.</p>		

For commitments relating to associates refer to note 10c.

### Other Notes

# 35

#### **NOTE 35** **OTHER ACCOUNTING POLICIES**

##### **a) New accounting standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 July 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

##### **i. AASB 15 Revenue from Contracts with Customers**

This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including *AASB 118 Revenues*, *AASB 111 Construction Contracts and related interpretations*. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also allows costs associated with obtaining a contract to be capitalised and amortised over the life of the new contract. The Group has not yet assessed how its own revenue recognition would be affected by the new accounting standard. The Group does not intend on adopting the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 July 2019.

##### **ii. AASB 9 Financial Instruments**

This standard will be applicable retrospectively and includes revised classification, measurement and derecognition of financial assets and financial liabilities and simplified requirements for hedge accounting. The Group does not intend on adopting the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 July 2019.

The Group has considered the adoption of *AASB 9* with the major impact to long term equity investments. Currently, changes in market value of these investments are recognised in the revaluation reserve. When an investment is disposed of, the gain or loss measured from the original cost is then recognised in the income statement.

Under the new standard, no gain or loss on the disposal of long term equity investments would be recognised in the income statement and investments would no longer be subject to impairment reviews as all movements in market value are only recognised in the revaluation reserve.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule, it will be easier to apply hedging going forward. The new standard also introduces expanded disclosure requirements and changes in presentation. The Group has not yet assessed how its own hedging arrangements would be affected by the new rules.

##### **iii. AASB 16 Leases**

This standard replaces *AASB 117 Leases* and some lease related Interpretations and requires that all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases. The standard provides new guidance on the application of the definition of leases and on sale and lease back accounting. It largely retains the existing lessor accounting requirements in *AASB 117*. It requires new and different disclosures about leases. The Group is currently undertaking a detailed assessment of the impact of *AASB 16*.

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

## **b) Foreign currency translation**

### **i. Functional and presentation currency**

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

### **ii. Transactions and balances**

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

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

### **iii. Group entities**

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

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

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

## **c) Deferred stripping costs**

The Group does not recognise any deferred stripping costs. Based on the nature of the Group's mining operations and the stripping ratio for the components of its operations, the recognition criteria of a deferred stripping asset are not satisfied. Further, it is anticipated that the operations will maintain a consistent stripping ratio at the component level and as such no overburden in advance should be recognised. In the event that a stripping campaign is undertaken in the future a deferred stripping asset will be recognised at that time and amortised in accordance with the requirements of *Australian Interpretation 20*. An asset will be recognised for stripping activity where the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

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## Other Notes

### NOTE 35

#### OTHER ACCOUNTING POLICIES (continued)

##### d) Leases

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

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

##### e) Trade and other payables

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

##### f) Borrowing costs

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

##### g) Earnings per share

###### Basic earnings per share

Basic earnings per share is calculated by dividing:

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

###### Diluted earnings per share

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

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

##### h) Goods and Services Tax (GST)

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

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

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



### i) Financial statement presentation

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

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

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

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### NOTE 36 REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor.

	2017 \$'000	2016 \$'000
<b>a) Audit Services</b>		
<b>Parent Company and Consolidated entity</b>		
Pitcher Partners Sydney for audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	306	292
<b>Other Group entities</b>		
Pitcher Partners Sydney for audit and review of financial reports	158	122
Other audit firms for the audit or review of financial reports	475	454
<b>Total remuneration for audit and review services</b>	<b>939</b>	<b>868</b>
<b>b) Other services</b>		
<b>Pitcher Partners Sydney</b>		
Tax compliance services	96	116
<b>Other auditors of Group entities</b>		
Other services	24	57
<b>Total remuneration for other services</b>	<b>120</b>	<b>173</b>

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## Other Notes

### NOTE 37 DEED OF CROSS GUARANTEE

During 2012, Washington H. Soul Pattinson and Company Limited and Souls Private Equity Limited entered into a deed of cross guarantee under which each company guarantees the debts of the other. During 2013, Exco Resources Limited and its wholly-owned subsidiaries became party to this deed.

Whilst party to this deed, wholly owned entities are relieved from the requirements to prepare a financial report and directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* issued by the Australian Securities and Investments Commission.

The parties to this deed are referred to as the 'Closed Group'. The effect of the deed is that each party to it has guaranteed to pay any deficiency in the event of the winding up of any of the companies in the Closed Group.

On 15 June 2017, Exco Resources Limited and its wholly-owned subsidiaries left the Closed Group by way of a 'Revocation Deed'.

#### i) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained profits and consolidated statement of financial position for the members of the Closed Group

	2017 \$'000	2016 \$'000
<b>Consolidated income statement – Closed Group</b>		
Profit before income tax	331,267	254,449
Income tax benefit/(expense)	(56,032)	(44,018)
<b>Profit after tax attributable to Closed Group</b>	<b>275,235</b>	<b>210,431</b>
<b>Consolidated statement of comprehensive income – Closed Group</b>		
<b>Other comprehensive income</b>		
Net movement in fair value of long term equity investments, net of tax	(23,885)	(51,879)
Share of other comprehensive income movements, net of tax	4,420	3,351
<b>Total other comprehensive income for the year, net of tax</b>	<b>(19,465)</b>	<b>(48,528)</b>
<b>Total comprehensive income attributable to the Closed Group</b>	<b>255,770</b>	<b>161,903</b>
<b>Summary of movements in consolidated retained earnings – Closed Group</b>		
<b>Retained profits attributable to the Closed Group</b>		
Retained profits at the beginning of the year	1,401,250	1,289,883
Profit for the year	275,235	210,431
Adjustment for companies transferred out of the Closed Group	15,619	–
Dividends declared and paid	(102,993)	(99,064)
<b>Retained profits at the end of the year</b>	<b>1,589,111</b>	<b>1,401,250</b>

	2017 \$'000	2016 \$'000
<b>Consolidated statement of financial position – Closed Group</b>		
<b>Current assets</b>		
Cash and cash equivalents	56,029	26,530
Term deposits	–	47,044
Trade and other receivables	14,485	28,345
Inventories	1,024	7,571
Trading equities	46,993	31,605
<b>Total current assets</b>	<b>118,531</b>	<b>141,095</b>
<b>Non-current assets</b>		
Trade and other receivables	68,041	66,946
Equity accounted associates	1,422,364	1,272,092
Long term equity investments	645,048	581,061
Other financial assets	166,064	124,647
Property, plant and equipment	5,568	10,642
Exploration and evaluation costs	–	19,309
Deferred tax assets	113,811	109,864
<b>Total non-current assets</b>	<b>2,420,896</b>	<b>2,184,561</b>
<b>Total assets</b>	<b>2,539,427</b>	<b>2,325,656</b>
<b>Current liabilities</b>		
Trade and other payables	10,574	20,563
Interest bearing liabilities	40,000	49,942
Provisions	406	3,090
<b>Total current liabilities</b>	<b>50,980</b>	<b>73,595</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	287,756	219,758
Provisions	952	960
<b>Total non-current liabilities</b>	<b>288,708</b>	<b>220,718</b>
<b>Total liabilities</b>	<b>339,688</b>	<b>294,313</b>
<b>Net assets</b>	<b>2,199,739</b>	<b>2,031,343</b>
<b>Equity</b>		
Share capital	43,232	43,232
Reserves	567,396	586,861
Retained profits	1,589,111	1,401,250
<b>Total equity</b>	<b>2,199,739</b>	<b>2,031,343</b>



# Directors' Declaration

## In the opinion of the Directors of the Company:

1. the financial statements and notes, as set out on pages 50 to 131 are in accordance with the *Corporations Act 2001*, including:
  - a) complying with Accounting Standards and the *Corporations Regulations 2001*;
  - b) giving a true and fair view of the financial position as at 31 July 2017 and the performance for the year ended on that date of the consolidated entity;
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
3. at the date of this declaration, there are reasonable grounds to believe that the Company and the wholly owned subsidiaries identified in Note 37 to the financial statements as being parties to a Deed of Cross Guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the Deed.

The Basis of Preparation on page 57 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 declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

R D Millner  
Director

T J Barlow  
Managing Director

Dated this 24th day of October 2017.



# Independent Auditor's Report



## Independent Auditor's Report to the Members of Washington H. Soul Pattinson and Company Limited ABN 49 000 002 728

### Report on the Financial Report

#### Opinion

We have audited the accompanying financial report of Washington H. Soul Pattinson and Company Limited, which comprises the consolidated statement of financial position as at 31 July 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration of the consolidated entity comprising Washington H. Soul Pattinson and Company Limited ("WHSP") and the entities it controlled at year end or from time to time during the financial year ("the Group").

In our opinion the financial report of Washington H. Soul Pattinson and Company Limited and its controlled entities is in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the consolidated entity's financial position as at 31 July 2017 and of its performance for the year then ended; and
- ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis of Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the Directors of Washington H. Soul Pattinson and Company Limited on 23 October 2017, would be on the same terms if provided to the Directors as at the date of signing this audit report.

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<b>Consolidation and reliance on the work of other auditors</b> <i>Refer to Basis of consolidation</i>	
<p>The consolidated financial statements of the Group comprise the financial statements of Washington H. Soul Pattinson and Company Limited, its subsidiaries, and its' share of results from equity accounted associates.</p> <p>This involves the reporting from subsidiaries and associates ("components") and reliance is placed on the work of the auditors of those components.</p> <p>Given the number of associates and subsidiaries within the Group, and accounting complexities due to the transactions undertaken by the Group during the year, the key audit matter for us was whether the consolidation process had been accurately and completely performed by management.</p> <p>As a result we focused on:</p> <ul style="list-style-type: none"> <li>identifying and understanding the components and the significant risks of material misstatement within them;</li> <li>the assessment of each components' compliance with Group accounting policies; and</li> <li>the consolidation procedures (including consolidation journals and intercompany transactions) undertaken by management.</li> </ul>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>We provided instructions and questionnaires to component auditors and worked with component auditors, to identify risks that are significant to the audit of the Group and to plan relevant audit procedures.</li> <li>We reviewed investment movements during the year for consolidation/equity accounting impacts.</li> <li>We enquired of management about WHSP's procedures in place in relation to the identification of intercompany transactions.</li> <li>We performed detailed testing of consolidation workpapers, journals and supporting documentation including reconciliations.</li> <li>We tested the financial data used in the consolidation process for consistency with the financial data audited by component auditors.</li> <li>We reviewed the financial reports of significant subsidiaries and associates.</li> <li>We evaluated the accounting policies of subsidiaries to ensure consistency with WHSP policies and the accounting standards.</li> <li>Based on our assessment of risk we met with those selected component auditors to discuss the outcome of their audit procedures and where we deemed necessary review relevant component auditor workpapers.</li> </ul>
<b>Valuation, existence and classification of other equity investments</b> <i>Refer to Note 11: Other Equity Investments and Note 17: Expenses</i>	
<p>Other equity investments is a significant asset in the consolidated statement of financial position, representing \$700.1 million or 14.7% of total assets.</p> <p>There is significant focus in ensuring the underlying investments are valued appropriately and are owned at year end.</p> <p>The determination of the valuation of financial investments, held at fair value, is based on a range of inputs, the majority of which can be obtained from quoted prices in active markets.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>We reviewed and tested key controls surrounding investment purchases and disposals.</li> <li>We confirmed the proper recording and ownership of investments.</li> <li>We verified the valuation of the total listed investment portfolio at balance date by reference to external sources.</li> <li>We reviewed the analysis prepared by management for indicators of impairment and assessed the reasonableness of the judgements and estimates of impairments made by reference to market and specific entity conditions.</li> </ul>

### **Directors' Responsibility for the Financial Report**

The Directors of Washington H. Soul Pattinson and Company Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the Directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Other information

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 July 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Report on the Remuneration Report

#### Opinion

We have audited the Remuneration Report included in pages 30 to 47 of the Directors' Report for the year ended 31 July 2017. In our opinion, the Remuneration Report of Washington H. Soul Pattinson and Company Limited for the year ended 31 July 2017, complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

The Directors of Washington H. Soul Pattinson and Company Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



J Gavljak  
Partner



Pitcher Partners  
Sydney

24 October 2017





# ASX Additional Information

## Distribution of Equity Securities as at 1 October 2017

Size of Holding	Number of Holders	
	Ordinary Shares	Performance Rights
1 – 1,000	10,164	–
1,001 – 5,000	5,805	1
5,001 – 10,000	1,133	1
10,001 – 100,000	903	2
100,001 and over	89	–
<b>TOTAL</b>	<b>18,094</b>	<b>4</b>
Holding less than a marketable parcel	305	

## Top 20 Shareholders as at 1 October 2017

	Ordinary Shares Held	% of Issued shares
1 Brickworks Limited	102,257,830	42.72
2 HSBC Custody Nominees (Australia) Limited	10,204,782	4.26
3 Milton Corporation Limited	9,174,640	3.83
4 J S Millner Holdings Pty Limited	8,822,859	3.69
5 Dixon Trust Pty Limited	8,611,540	3.60
6 J P Morgan Nominees Australia Limited	6,810,826	2.85
7 T G Millner Holdings Pty Limited	3,441,051	1.44
8 National Nominees Limited	3,396,087	1.42
9 Hexham Holdings Pty Limited	2,953,127	1.23
10 Citicorp Nominees Pty Limited	2,396,891	1.00
11 Argo Investments Limited	2,182,606	0.91
12 Australian Foundation Investment Company Limited	1,708,571	0.71
13 Farjoy Pty Ltd	1,344,463	0.56
14 Dixon Trust Pty Limited (A/C NO 1)	1,158,190	0.48
15 Mary Millner Holdings Pty Limited	1,156,860	0.48
16 Diversified United Investment Limited	1,100,000	0.46
17 Mr Geoffrey Edward Marshall	1,050,612	0.44
18 Australian United Investment Company Limited	1,000,000	0.42
19 BNP Paribas Noms Pty Ltd (DRP)	966,307	0.40
20 Millane Pty Limited	887,990	0.37

### Substantial Shareholders as at 1 October 2017

As disclosed in notices received by the Company.

	Ordinary Shares Held	% of Issued Shares	Notice Received
Brickworks Limited and its subsidiaries	102,257,830	42.72	18 Nov 2013
Mr Robert Dobson Millner	19,921,975	8.32	3 Mar 2014
Mr Thomas Charles Dobson Millner	17,211,350	7.19	3 Mar 2014

17,195,965 of the above ordinary shares in which Mr R Millner and Mr T Millner have an interest relate to holdings by the same entities.

For further details refer to the notices lodged on 3 March 2014 on the ASX announcements list for WHSP (ASX code: SOL).

### Unquoted Equity Securities

As at 1 October 2017 The Company had the following unquoted equity securities on issue.

	Number of Rights	Number of Holders
Performance Rights – issued under the Long-term Incentive Plan	107,654	4

### Voting Rights

#### Ordinary shares:

- (a) on a show of hands, each member has one vote;
- (b) subject to section 250L(4) of the Corporations Act 2001, on a poll each member has:
  - (i) for each fully paid share held by the member, one vote; and
  - (ii) for each partly-paid share held by the member, a fraction of a vote equivalent to the proportion which the amount paid (not credited nor paid in advance of a call) is of the total amounts paid and payable (excluding amounts credited) for the share.

#### Performance Rights:

No voting rights.

### Australian Securities Exchange Listing

Washington H. Soul Pattinson and Company Limited ordinary shares are listed on the Australian Securities Exchange under the ASX Code: SOL.



### **Registered Office**

Level 1, 160 Pitt Street Mall, Sydney NSW 2000

Telephone: (02) 9232 7166

Facsimile: (02) 9233 1025

[www.whsp.com.au](http://www.whsp.com.au)

### **Share Register**

**Advanced Share Registry Limited**

110 Stirling Highway, Nedlands WA 6009

Telephone: (08) 9389 8033 or +61 8 9389 8033 (outside Australia)  
(02) 8096 3502 (NSW) (07) 3103 3838 (Qld) (03) 9018 7102 (Vic)

Facsimile: (08) 9262 3723 or +61 8 9262 3723 (outside Australia)

[www.advancedshare.com.au](http://www.advancedshare.com.au)

### **Auditors**

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**Washington H. Soul Pattinson  
and Company Limited**

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ASX Code: SOL