Platinum®
CAPITAL LIMITED

Annual Report 2018

Platinum Capital Limited

ABN 51 063 975 431

Directors

Margaret Towers
Richard Morath
Jim Clegg

Company secretary

Joanne Jefferies

Investment manager

Platinum Investment Management Limited (trading as Platinum Asset Management®)

Platinum Investment Management Limited neither guarantees the repayment of capital nor the investment performance of the Company

Shareholder liaison

Liz Norman

Registered office

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

Share registrar

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Phone +61 1300 554 474
Fax +61 2 9287 0303

Auditor and taxation advisor

PricewaterhouseCoopers

Securities exchange listing

Platinum Capital Limited shares are listed on the Australian Securities Exchange (ASX code: **PMC**)

Website

www.platinumcapital.com.au

Corporate Governance Statement

www.platinum.com.au/PlatinumSite/media/Find-a-form/pmc_corp_gov.pdf

Contents

Chairperson's Report 2018

Highlights

For the year ended 30 June 2018, Platinum Capital Limited ("PMC" or "the Company") performed strongly in absolute terms and also outperformed the MSCI All Country World Net Index (A$) (the "Index"). The highlights for the 2018 financial year can be summarised as follows:

- Investment performance as measured by the growth of the Company's pre-tax net tangible asset backing per share ("pre-tax NTA") in A$ terms, delivered a return of 15.6% for the 12 months to 30 June 2018, outperforming the Index by 0.6%;
- Net profit after tax was $50.4 million;
- The Company declared a fully-franked final dividend of 6 cents per share, bringing the total dividends declared for the 2018 financial year to 10 cents per share. This represents a dividend yield of 4.8% based on the closing share price as at 30 June 2018;
- In February 2018, the Company announced that portfolio management responsibilities would be reallocated from Kerr Neilson to Andrew Clifford. This change took effect on 1 July 2018; and
- The Company was not affected by the small company tax changes and will be able to distribute franking credits for the 2018 financial year at a tax rate of 30%.

Investment Performance[1]

For the year ended 30 June 2018, the Company's pre-tax NTA increased by 15.6% in A$ terms, compared to the MSCI All Country World Net Index in A$, which delivered a return of 15.0% for the same period. The comparable return from the Australian All Ordinaries Accumulation Index was 13.8% over the same period.

During the month of June 2018, the Company lost ground and surrendered part of the strong performance it had enjoyed earlier in the year. This was largely due to the market volatility and the heavy sell-off in China and other emerging markets as a result of global trade tensions and rising interest rates in the US.

Nevertheless, the Company outperformed the Index for the 12 month period whilst maintaining an average net equity exposure of approximately 79%, with the cash reserves providing downside protection for the portfolio. The strongest performing sectors for the Company during the year were Information Technology, Energy and Materials.

1. Source: Platinum Investment Management Limited (PMC's returns), FactSet (MSCI returns and Australian All Ordinaries Accumulation Index returns).

The investment returns are calculated using PMC's pre-tax net tangible asset backing per share for the specified period (as released to the ASX). Returns are calculated after the deduction of fees and expenses, take into account any capital flows and assume the reinvestment of dividends. Historical performance is not a reliable indicator of future performance.

For the five years to 30 June 2018, the Company delivered an annualised compound return of 12.1% per annum (measured by the Company's pre-tax NTA), behind the MSCI All Country World Net Index in A$, which delivered an annualised compound return of 14.2% per annum for the same period. The Company's five year performance was close to the Index for most of the year. However, as mentioned on the previous page, the month of June 2018 saw a setback given the Company's significant exposure to the Asian region and our underweighting to the US market.

From inception (29 June 1994) to 30 June 2018, the Company's annualised compound return (measured by the Company's pre-tax NTA) was 12.5% per annum, compared to an annualised compound return of 7.0% per annum for the MSCI All Country World Net Index in A$ and 9.3% per annum for the Australian All Ordinaries Accumulation Index. The investment performance of the Company has significantly exceeded the global Index over the long-term, endorsing the investment philosophy, process and expertise of Platinum Investment Management Limited ("Platinum" or the "Investment Manager").

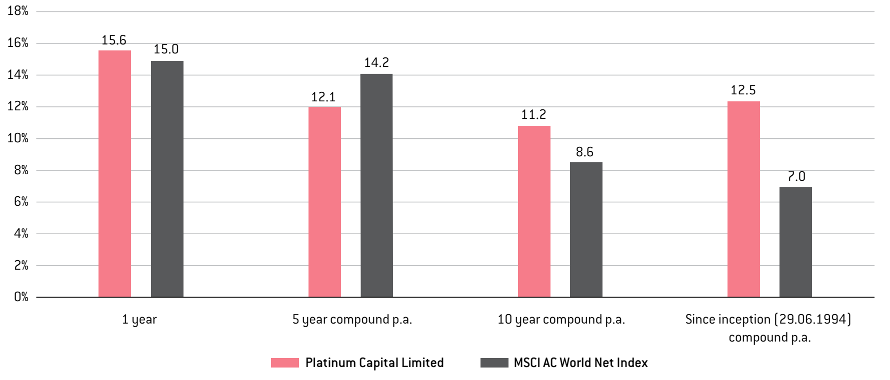
Over all rolling five-year periods commencing each month since inception in 1994 to 30 June 2018, the Company achieved positive returns 96% of the time. In contrast, the MSCI All Country World Net Index in A$ achieved positive returns 62% of the time. For all rolling monthly five-year periods since inception to 30 June 2018, the Company exceeded a compound return of 8% per annum 75% of the time, versus 41% of the time for the Index.

We owe much of the Company's strong long-term returns to the investment acumen of Kerr Neilson, who served as the Company's portfolio manager from the Company's inception until 1 July 2018. Supported by Platinum's deep pool of talented analysts and other experienced portfolio managers, Kerr guided the Company's portfolio through various market cycles over the last 24 years, successfully protecting and growing investors' capital. The same time-tested investment approach will continue to be applied in the future management of the Company's portfolio under Andrew Clifford's leadership.

The Board believes that the Company's long-term track record demonstrates the success of the investment philosophy and process of the Company's Investment Manager.

Chairperson's Report 2018 – continued

PMC's Pre-Tax Net Tangible Asset return (%) versus MSCI Index^ to 30 June 2018 (%)



^ Morgan Stanley Capital International All Country World Net Index in A$

Source: Platinum Investment Management Limited (PMC's returns) and FactSet (MSCI returns). The investment returns are calculated using PMC's pre-tax net tangible asset backing per share for the specified period (as released to the ASX). Returns are calculated after the deduction of fees and expenses, take into account any capital flows and assume the reinvestment of dividends. Please note that the results are not calculated from PMC's share price. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance.

MSCI Inc. Disclaimer: Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.

Financial Results

For the year ended 30 June 2018, the Company made a statutory pre-tax operating profit of $71.6 million and a post-tax operating profit of $50.4 million.

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

The Board maintains that a more appropriate measure of the Company's results is the percentage change in its pre-tax NTA, assuming the reinvestment of dividends and taking into account any capital flows. On this measure, the Company achieved a return of 15.6% for the 12 months to 30 June 2018.

To keep shareholders fully informed, PMC releases weekly and monthly calculations of its NTA backing per share to the ASX. Platinum publishes monthly investment performance updates and also sends out quarterly investment reports to all shareholders.

Dividends

The Board is pleased to declare a fully-franked final dividend of 6 cents per share, bringing the total dividends declared for the 2018 financial year to 10 cents per share. This represents a dividend yield of 4.8% based on the 30 June 2018 closing share price.

The Board aims to deliver a consistent stream of fully-franked dividends to shareholders over time, whilst maintaining its policy of dividend smoothing, subject to future earnings, cash flows, franking credits and accounting profits. The ability to pay future fully-franked dividends will continue to depend on the Company's ability to generate realised profits and pay tax, and will also be influenced by government policy in this area.

To the extent that any profits are not distributed as dividends, the Board may set aside some or all of the Company's undistributed profits to a separate dividend profit reserve, to facilitate the payment of future fully-franked dividends, subject to the balance of the franking account.

After the payment of the 2018 final dividend, the dividend profit reserve will have a balance of 32.25 cents per share, based on the current number of shares on issue.

The Company's Dividend Reinvestment Plan (DRP) provides shareholders with the option to receive some or all of their future dividends as ordinary shares in the Company instead of cash. The DRP will be operating at a 2.5% discount for this year's final dividend (i.e. the issue price for the new PMC shares allotted under the DRP will be at a 2.5% discount to the relevant market price, being the volume-weighted average price of the Company's shares traded on the ASX over the five business days subsequent to the date on which the Company's shares cease to trade cum-dividend).

I can confirm that for the year ended 30 June 2018, PMC was not affected by any changes in the small company tax rate and PMC will be able to distribute franking credits at a tax rate of 30%. This is due to the fact that PMC's turnover for the financial year exceeded the $25 million threshold.

Proposal to Remove the Refund of Tax Paid on Franking Credits

I note the announcement by the Federal Opposition (Australian Labor Party) to remove the cash refund of franking credits. The Board is of the view that this proposal, if implemented, will result in unfair retirement outcomes, particularly for those shareholders who are members of self-managed superannuation funds in retirement phase or self-funded retirees. Accordingly, the Board does not support this proposal.

Platinum, with the Board's support, wrote to the Leader of the Federal Opposition and the Shadow Treasurer on 9 July 2018, to express its concerns, and further requested that listed investment companies be exempt from the proposal.

Chairperson's Report 2018 – continued

Changes to Portfolio Management Responsibilities

As part of Platinum's long-term succession planning, from 1 July 2018, the portfolio management responsibilities for PMC were reallocated from Kerr Neilson to Andrew Clifford, Platinum's Chief Investment Officer. Andrew also assumed the role of Chief Executive Officer of Platinum from Kerr with effect from this date. Andrew, a founding member of Platinum, is an experienced global equities portfolio manager and has a long-standing relationship with PMC. He was a founding director of PMC in 1994, remaining a director of PMC until 2015. Andrew has managed the Platinum International Technology Fund and Platinum Asia Fund, and has been managing money on behalf of Platinum's flagship fund, Platinum International Fund, for the last seven years.

The Board wishes to acknowledge the long-standing contribution of Kerr Neilson as portfolio manager of the Company since 1994. Kerr Neilson continues to serve as a full-time executive director of Platinum Asset Management Limited and a member of Platinum's investment team, continuing to work on the generation of investment ideas and company research.

Director Renewal and Change of Company Chairperson

On 31 March 2018, Bruce Coleman resigned as a Director and the Chairman of the Company and I replaced Mr Coleman in these roles. Prior to his resignation, Mr Coleman had served as the Chairman of PMC since 2014 and as a Director of PMC since 2004.

The Board would like to extend its thanks to Bruce for his invaluable contribution to the Company.

Capital Management

The Company did not engage in any capital raising activities during the financial year. However, I take this opportunity to re-state the Board's capital management policy below:

The Board regularly and actively reviews the most efficient manner by which the Company manages its capital, in response to changing market conditions and risks, with the sole aim of enhancing shareholder value, through:

- the management of the level of dividends to shareholders;
- the issue of shares by methods such as rights offers, share purchase plans or placements; and/or
- the use of share buy-backs.

Corporate Governance

PMC's assets are managed by Platinum through two key agreements previously approved by shareholders: the Investment Management Agreement and the Administration Agreement.

In the past year, the Board has continued to monitor the performance of the Investment Manager and its adherence to the agreements with the full and transparent co-operation of Platinum and its management team. Accordingly, I am confident in the integrity and reporting of the Company's financial results to shareholders.

Outlook for 2018-2019

As highlighted recently by the Investment Manager, *"there has been some fierce repricing of companies in Asia and the emerging markets in general. Trade disputes are damaging sentiment, but above all, the tightening of credit causes the most damage to valuations. After such a painful re-calibration of prices, we are inclined to believe that the Asian markets have adjusted to this new scenario. All indicators for the underlying economies of Asia are very solid, with scant evidence of slowing. While there is unlikely to be any near term let-up in the liquidity squeeze, we believe that valuations are extremely attractive, with, for example, the Chinese market on a prospective P/E of around 11 times. The portfolio is very attractively set at these levels. We would expect to see some upward price spikes as the fear around the trade disputes dissipate. We are maintaining shorts on the most aggressively priced segments of markets in the belief that if there is no relief to tighter money, these well-owned and extraordinarily highly priced sectors will also succumb to a reappraisal by investors".*

Finally

On behalf of the Board, I wish to express our appreciation of the work done by Andrew Clifford, Kerr Neilson and the broader team at Platinum.

Finally, on behalf of the Board, I would also like to thank shareholders for their support.

Margaret Towers
Chairperson

16 August 2018

Financial Information Summary

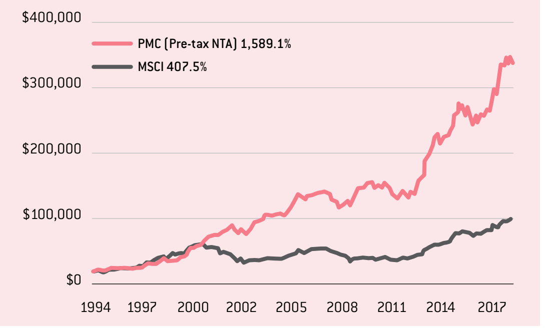
30 June 2018

+15.60%	6cps	4.78%
12 month performance[i] (based on pre-tax NTA)	Final fully-franked dividend	Dividend yield[ii]

Inception Date	29 June 1994
Market capitalisation	$597.57m
Share price	$2.09
Shares on issue	285,921,034
Net Tangible Assets (pre-tax) per share	$1.75
Net Tangible Assets (post-tax) per share	$1.65
Net assets	$471.29m
Dividend profit reserve[iii]	32.25cps
Fully-franked dividend capacity[iv]	4.49cps

The Company's (PMC) pre-tax Net Tangible Assets (NTA) compound return since inception to 30 June 2018 was 12.5% per annum[i].

Cumulative performance since inception to 30 June 2018 on a pre-tax NTA measure is provided in the graph below.



5 year compound per annum pre-tax NTA returns since inception[i]

	PMC	MSCI
Total number of 5 year periods to 30 June 2018[v]	229	229
Periods where return was positive (% of total)	96%	62%
Periods where return was negative (% of total)	4%	38%
Largest 5 year gain (% compound per annum)	27%	23%
Largest 5 year loss (% compound per annum)	(2)%	(8)%
Periods > +8% compound per annum (% of total)	75%	41%
Periods where PMC return was > MSCI (% of total)	74%	NA

i The pre-tax NTA return is calculated after the deduction of fees, expenses, takes into account any capital flows, and assumes the re-investment of dividends.

ii Dividend yield is based on the 2018 interim dividend of 4 cents per share plus the 2018 final dividend of 6 cents per share and the closing share price as at 30 June 2018.

iii Dividend profit reserve includes transfer of the 2018 profit after tax, after providing for the 2018 final dividend of 6 cents per share.

iv This is the maximum fully-franked dividend that can be paid based on the franking credit balance as at 16 August 2018 after providing for the 2018 tax payable and the 2018 final dividend of 6 cents per share.

v Commencing each month since inception to 30 June 2018.

Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). All data where MSCI is referenced is the property of MSCI. No use or distribution of this data is permitted without the written consent of MSCI. This data is provided "as is" without any warranties by MSCI. MSCI assumes no liability for or in connection with this data.

The investment returns shown are historical. You should be aware that historical performance is not a reliable indicator of future performance.

Financial Statements 2018

Platinum Capital Limited

General information

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 16 August 2018. The Directors have the power to amend and reissue the financial statements.

Shareholder Information

The shareholder information set out below was applicable as at 13 August 2018.

Distribution of equity securities

Analysis of number of ordinary shareholders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	1,148
1,001 to 5,000	2,602
5,001 to 10,000	2,631
10,001 to 100,000	5,926
100,001 and over	282
	12,589
Holding less than a marketable parcel (of $500)	581

Substantial holders

Twenty largest shareholders

The names of the twenty largest shareholders of the Company are listed below:

	ORDINARY SHARES NUMBER HELD	% OF TOTAL SHARES ISSUED
Sysha Pty Limited	14,000,000	4.90
Australian Executor Trustees Limited	4,558,915	1.60
Lekk Pty Limited	4,000,000	1.40
HSBC Custody Nominees (Australia) Limited	3,062,100	1.07
Nulis Nominees (Australia) Limited	2,921,916	1.02
Mr William Kerr Neilson	1,977,646	0.69
Jorlyn Pty Limited	1,900,000	0.67
Moya Pty Limited	1,694,406	0.59
Navigator Australia Limited	1,633,405	0.57
IOOF Investment Management Limited	1,295,232	0.45
Netwealth Investments Limited	1,258,223	0.44
BNP Paribas Nominees Pty Limited	1,192,328	0.42
Netwealth Investments Limited	844,604	0.30
Mr Raymond Ireson	727,397	0.25
HSBC Custody Nominees (Australia) Limited – a/c 2	724,905	0.25
Forsyth Barr Custodians Limited	713,050	0.25
Eramu Pty Limited	502,700	0.18
Mr Robert John Webb	500,000	0.17
Custodial Services Limited	450,863	0.16
Fay Fuller Foundation Pty Limited	436,800	0.15
	44,394,490	15.53

There are no substantial holders in the Company.

Shareholder Information – continued

Voting rights

Ordinary shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

Distribution of Annual Report to Shareholders

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

Financial Calendar

Ordinary shares trade ex-dividend	24 August 2018
Record (books close) date for dividend	27 August 2018
Dividend paid	12 September 2018

These dates are indicative and may be changed.

Notice of Annual General Meeting (AGM)

The details of the Annual General Meeting of Platinum Capital Limited are:

10am Thursday 8 November 2018
Museum of Sydney
Corner of Phillip & Bridge Streets
Sydney NSW 2000

Questions for the AGM

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

Investment Structure, Objectives and Methodology

Company Structure

Platinum Capital Limited (the "Company" or "PMC") is a listed investment company, or LIC, quoted on the Australian Securities Exchange ("ASX") and traded in the same way as other listed shares. Being a LIC, the Company:

- is closed-ended, which means that the underlying portfolio can be managed without concern for the possibility of unplanned, fluctuating cashflows;
- is taxed at source and can therefore distribute available profits to shareholders in the form of dividends, usually fully-franked; and
- has established a dividend profit reserve which enables some smoothing of dividends, from year to year, at the discretion of the Board.

Shares in the Company can trade at a premium or discount to their Net Tangible Asset Backing per share ("NTA"), which is calculated and announced to the ASX weekly and monthly. Investors should take this into account when making decisions to purchase or sell shares in the Company.

The Company delegates its investment and administration functions to Platinum Investment Management Limited (trading as Platinum Asset Management) (the "Investment Manager"), which employs a team of experienced investment professionals and administration personnel to perform those services. The Company and the Investment Manager are separate legal entities.

Investment Objectives

The principal activity of the Company during the year was the investment of funds internationally into securities of companies that are perceived by the Investment Manager, Platinum Investment Management Limited, to be undervalued. Its key investment objectives are to:

- deliver attractive returns to shareholders over time, made up of capital growth and fully-franked dividends; and
- contain capital losses by mitigating the impact of market downturns.

In addition, the Company seeks to enhance the consistency of fully-franked dividends by partially reserving profits in years of strong performance to be utilised for distribution to shareholders in periods of lower returns.

While generating attractive returns is the Company's primary objective, the Investment Manager also believes it has a responsibility to manage the risk of capital losses and employs a variety of strategies to achieve this. As a result, the Company may not be 100% invested in the equity markets.

Investment Structure, Objectives and Methodology – continued

At times these objectives will be in conflict as strategies to manage downside risk can have the accompanying effect of reducing potential upside. Also, protective strategies may be implemented in advance of a downturn and sometimes well in advance. Hence, by comparison with a fully-invested long-only approach, the Company is less likely to outperform the index during bull markets and more likely to outperform during bear markets.

Over the longer term, in pursuing these dual objectives, the Investment Manager aims to achieve net returns (i.e. after all fees and expenses) that are close to or exceed the Morgan Stanley Capital International All Country World Net Index (MSCI) in A$ terms, but with reduced impairment of capital following serious downturns.

Investment Methodology

The Investment Manager's index-agnostic investment approach has been well tested over many years. The principles on which it is based have not varied since the Company's inception, although the process has evolved and been refined over time.

The Investment Manager seeks to invest globally in a broad range of companies whose businesses and growth prospects are, in the Investment Manager's view, being inappropriately valued by the market. Just as optimism and pessimism ebb and flow in stock markets, similar sentiments also affect individual companies. This means that transitory events often have a disproportionate effect on the share prices of companies, be they positive or negative, and there is thus a tendency for share prices to deviate significantly from their inherent trend line. The Investment Manager's investment methodology seeks to identify and take advantage of the opportunities created by the divergence between a company's share price and its intrinsic value.

The Investment Manager uses various methodologies to make sense of the universe of stocks around the world, including using both quantitative and qualitative screening to short-list companies for in-depth study. After identifying key themes and preferred industries, with due consideration of the macro environment, the portfolio is then built up through a series of individual stock selections based on detailed fundamental research. Care is taken to understand and monitor the inter-relationship of stocks within the portfolio.

The Investment Manager's investment team is based in Sydney, Australia. Having a single location facilitates the cross pollination of ideas and free flow of information between analysts with different geographic and industry responsibilities. It has the further benefit that distance acts as a filter, enabling a more objective assessment of "noisy" markets. The research process, however, is well supported by extensive visits to companies and key regions.

The wealth of research and detailed analysis that leads to the addition/retention/reduction of a stock in the portfolio takes form in a disciplined reporting process that is subject to the scrutiny of divergent thinking peers. This process serves to challenge and encourage analysts and to "test" investment theses, as well as add accountability to the process.

For a more detailed description of Platinum Investment Management Limited's investment process, we encourage you to visit Platinum's website.

Managing Currency Exposures

International equity investments create an exposure to foreign currency fluctuations, which can change the value of the equity investments measured in the reporting currency of the Company's portfolio, which is the Australian dollar. It is part of the Investment Manager's investment strategy to assess the potential returns and risks created by currency exposures and to seek to position the portfolio with the aim of capturing those returns while minimising those risks. The aim is for the Company's portfolio to be exposed to the greatest extent possible to appreciating currencies and to minimise exposure to depreciating currencies. Accordingly, the level of the Company's hedging back into the Australian dollar will depend on the Investment Manager's expectation of future movements in currency exchange rates. This is consistent with the Company's strategy of investing in securities of companies from a global rather than a currency perspective.

The Investment Manager may manage the currency exposures of the Company's portfolio using foreign currency forward contracts, currency swaps, non-deliverable forwards and currency options, as well as spot foreign exchange trades.

As part of its investment process, the Investment Manager may also assess the indirect impact of currency on the companies that it intends to invest in (e.g. the impact of currency fluctuations on a manufacturing business with significant export sales) and the potential for exchange rate movements to amplify or diminish Australian dollar returns for a holding. The investment of cash holdings may also be undertaken with consideration of the potential impact of currency movements (as well as interest rate and credit risk considerations).

Strategies Aimed at Containing Losses and Delivering Solid Absolute Returns

Strategies aimed at containing capital losses include adjusting cash levels, deploying funds from overvalued to undervalued regional markets, short selling and various derivative strategies.

Timing the implementation of these strategies is always challenging and, though the rewards can be gratifying, patience is often required. The nature of markets means it can take some time for inappropriately valued regional markets, industry sectors or individual stocks to become more widely recognised and to revert to a level close to their inherent value.

The Investment Manager has historically endeavoured to maintain an effective cash level of between 15% and 30% of the portfolio. In the event of a significant downturn, cash positions not only act as a valuable cushion, but also provide much needed "fire power" to take advantage of the outstanding opportunities that inevitably become available. This in turn can greatly facilitate the portfolio to recover lost ground.

As illustrated in the Financial Information Summary (on page 8), the Company has an outstanding record of delivering absolute returns, largely as a consequence of containing losses during market downturns. Over all the rolling five-year periods, commencing each month since inception, the Company has achieved positive returns far more frequently than the MSCI AC World Net Index (A$) and with nearly double the number of periods exceeding a compound return of 8% per annum.

Investment Structure, Objectives and Methodology – continued

Moreover, the Company has recorded considerably fewer negative return periods and much smaller losses when negative returns did occur, compared to the index.

Since inception on 29 June 1994, the Company has achieved a solid return after all fees and charges of 12.5% compound per annum (p.a.), thereby outperforming the MSCI AC World Net Index over that time by 5.5% compound p.a.[1]

1. The investment returns are calculated using PMC's pre-tax Net Tangible Asset Backing per share for the specified period (as released to the ASX). Returns are calculated after the deduction of fees and expenses, take into account any capital flows and assume the reinvestment of dividends. Please note that the results are not calculated from PMC's share price. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited (PMC returns) and FactSet (MSCI returns). The MSCI returns assume the reinvestment of dividends.

Directors' Report

In respect of the year ended 30 June 2018, the Directors of Platinum Capital Limited (the "Company") submit the following report prepared in accordance with a resolution of the Directors.

Directors

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

Margaret Towers – Chairperson and Non-Independent Non-Executive Director (appointed on 31 March 2018)
Richard Morath – Independent Non-Executive Director
Jim Clegg – Independent Non-Executive Director

Bruce Coleman was Chairman and Non-Independent Non-Executive Director until 31 March 2018.

Changes in Portfolio Management Responsibilities

From 1 July 2018, portfolio management responsibilities for the Company changed. Until 30 June 2018, the Company's investment portfolio was managed by Kerr Neilson. From 1 July 2018, portfolio management responsibilities changed to Andrew Clifford. Kerr Neilson will remain as a full-time executive director of Platinum Asset Management Limited and an investment analyst within the investment team.

Principal Activities

The Company is a listed investment company established to provide capital growth over the long-term through investment of funds internationally into securities of companies, which are perceived by the Investment Manager, Platinum Investment Management Limited, to be undervalued.

Operating and Financial Review

The net profit before tax was $71,637,000 (2017: $71,063,000) and net profit after tax was $50,353,000 (2017: $49,927,000). The income tax expense for the year was $21,284,000 (2017: $21,136,000).

The Directors consider that pre-tax Net Tangible Asset Backing per share ("pre-tax NTA"), after fees and expenses, combined with the flow of dividends is a better measure of performance of the Company. This is because pre-tax NTA is the most accurate way to assess the performance of the Investment Manager. For the 12 months to 30 June 2018, the Company's pre-tax NTA increased from $1.63 per share to $1.75 per share. In addition, shareholders received 10 cents per share in dividends during the year ended 30 June 2018.

For the 12 months to 30 June 2018, the Company's net assets on a pre-tax basis, after fees, expenses and taking into account dividends and income taxes increased by 15.6% whereas the Morgan Stanley Capital International All Country World Net Index (MSCI) in A$ terms increased by 15.0%. The Company's 5 year pre-tax compound net assets return was 12.1% per annum (versus the index return of 14.2% per annum). The Company's long-term (since inception) return of 12.5% per annum was approximately 80% greater than the performance of the MSCI over the last 24 years.

Directors' Report – continued

The Investment Manager has reported that the last two months of the financial year had been particularly difficult, as "there has been some fierce repricing of companies in Asia and the emerging markets in general. Trade disputes are damaging sentiment, but above all, the tightening of credit causes the most damage to valuations".

The last two months should not detract from the solid 12 month return of 15.6% generated for our investors, which was achieved with average cash reserves throughout the year of 21%. This strong result validates the Investment Manager's well-tested, value driven and index-agnostic style. The high exposure to Asia may result in some market volatility, but as a long-term investment, the Investment Manager reports that the growth prospects make the region very compelling from an investment point of view.

With regards to outlook, the Investment Manager has noted "After such a painful re-calibration of prices, we are inclined to believe that the Asian markets have adjusted to this new scenario. All indicators for the underlying economies of Asia are very solid, with scant evidence of slowing. While there is unlikely to be any near term let-up in the liquidity squeeze, we believe that valuations are extremely attractive, with, for example, the Chinese market on a prospective P/E of around 11 times. The portfolio is very attractively set at these levels."

The Company continues to have an extremely strong balance sheet with few liabilities.

Dividends

On 16 August 2018, the Directors declared a final 2018 fully-franked dividend of 6 cents per share ($17,155,000), with a record date of 27 August 2018, payable to shareholders on 12 September 2018, out of the dividend profit reserve. After the payment of the 2018 final dividend, the balance in the dividend profit reserve is $92,214,000, which translates to 32.25 cents per share, based on the shares on issue at the date of this report. For the comparative reporting period, a fully-franked dividend of 6 cents per share ($17,025,000) was paid.

The dividend reinvestment plan (DRP) is in operation and a (2.5 per cent) discount to the relevant share price applies.

Capital Management

The Company's capital management policy, as previously advised, is outlined below.

The Board will give active consideration, as appropriate, to enhancing shareholder value through:

– the management of the level of dividends to shareholders,

– the issue of shares by methods such as rights offers, share purchase plans or placements, or

– the use of share buy-backs.

Matters Subsequent to the End of the Financial Year

Apart from the dividend declared, no matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

The Company will continue to pursue its key investment objectives, which are to deliver attractive returns to shareholders over time, made up of capital growth and fully-franked dividends and contain capital losses by mitigating the impact of market downturns. The methods of operating the Company are not expected to change in the foreseeable future.

Environmental Regulation

The Company is not adversely impacted by any particular or significant environmental regulation under Commonwealth, State or Territory law.

Information on Directors

Margaret Towers CA, GAICD
Chairperson and Non-Independent Non-Executive Director and member of the Audit, Risk and Compliance Committee since 31 March 2018.

Ms Towers has over 35 years of experience operating at board and senior management levels, within the wealth management and investment banking sectors of the Australian financial services industry. Ms Towers has also previously been a non-executive director of Platinum Asset Management Limited (ASX code: PTM), chairperson of PTM's Audit, Risk and Compliance Committee and a member of PTM's Nomination and Remuneration Committee. Ms Towers is a non-executive director of IMB Limited and is Chairperson of Platinum Asia Investments Limited.

Richard Morath BA, FIAA, ASIA
Independent, Non-Executive Director since March 2009 and Chairman of the Audit, Risk and Compliance Committee.

Mr Morath has over 44 years of experience in life insurance, funds management, banking and financial planning. Mr Morath is currently non-executive director and chairman of the Advice & Licences Boards of all financial planning companies in National Australia Bank/MLC. Mr Morath is also a director of JANA Investment Advisors Limited, BNZ Life and chairman of BNZ Investments Services Limited, and non-executive director of the ASX listed, Wealth Defender Equities Limited.

Jim Clegg BRURSC (HONS), DIPAGEC
Independent, Non-Executive Director since 5 June 2015 and member of the Audit, Risk and Compliance Committee.

Mr Clegg has over 30 years of experience in the financial services industry. Mr Clegg was the founding managing director of Pembroke Financial Planners and has been a director of Godfrey Pembroke, Berkley Group and Centric Wealth. Mr Clegg is a director of CCube Financial Software Pty Limited.

Directors' Report – continued

Information on Company Secretary

Joanne Jefferies BCOM, LLB
Company Secretary since 17 October 2016.

Ms Jefferies is an English law qualified solicitor with more than 21 years of legal experience in the asset management and securities services sectors, in England and across Asia Pacific.

Ms Jefferies joined Platinum in October 2016 as General Counsel and Group Company Secretary, having spent the previous six years at BNP Paribas Securities Services as Head of Legal Asia Pacific, Company Secretary for all Australian subsidiaries and a member of the Asia Pacific Executive Committee. Ms Jefferies has previously held senior legal positions with Russell Investments, Morley Funds Management (Aviva Investors) and Lord Abbett, and served as the General Counsel for the UK's funds management industry association, the Investment Association. Ms Jefferies is also Company Secretary of Platinum Asia Investments Limited and Platinum Asset Management Limited.

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

	BOARD		AUDIT, RISK AND COMPLIANCE COMMITTEE	
	ATTENDED	HELD	ATTENDED	HELD
Margaret Towers (appointed 31 March 2018)	1	1	–	–
Bruce Coleman (until 31 March 2018)	4	4	4	4
Richard Morath	5	5	4	4
Jim Clegg	5	5	4	4

Indemnity and Insurance of Officers

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

Indemnity and Insurance of Auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company.

Non-Audit Services

Details of the amounts paid or payable to the auditor for audit and other services provided during the financial year by the auditor are outlined in Note 20 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 20 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

– all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

– none of the services undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Rounding of Amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Directors' Report – continued

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 27.

Auditor

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

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Margaret Towers
Chairperson

Richard Morath
Director

16 August 2018
Sydney

Remuneration Report (audited)

Executive Summary

– At any time during the year, the Company had no more than three key management personnel ("KMP").

– The aggregate annual remuneration paid by the Company to the two persons that occupied the position of Chairperson during the year was $65,700 (including superannuation).

– The remuneration paid by the Company to each of the other Non-Executive Directors was $60,225 (including superannuation).

– There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 14 years.

– The Company does not pay bonuses to any of its Directors.

– Mr Coleman did not receive any termination payments.

Introduction

The Directors of Platinum Capital Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2018.

The information provided in this Remuneration Report forms part of the Directors' Report and has been audited by the Company's auditor, PricewaterhouseCoopers, as required by section 308 of the *Corporations Act 2001*.

Key Management Personnel ("KMP")

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

NAME	POSITION
Margaret Towers	Chairperson and Non-Independent Non-Executive Director since 31 March 2018
Bruce Coleman	Chairman and Non-Independent Non-Executive Director until 31 March 2018
Richard Morath	Independent Non-Executive Director
Jim Clegg	Independent Non-Executive Director

Shareholders' Approval of the 2017 Remuneration Report

A 25% or higher "no" vote on the remuneration report at an AGM triggers a reporting obligation on a listed company to explain in its next Annual Report how concerns are being addressed.

At the last AGM, the Company Remuneration Report passed on a show of hands, after validly appointed proxies indicated a "for" vote of 86.09%. Despite this outcome, we have set out to fully explain the basis and structure of the remuneration paid to KMP.

Directors' Report – continued

Principles, Policy and Components of Non-Executive Directors' Remuneration
The Constitution of the Company requires approval by shareholders at a general meeting of a maximum amount of remuneration to be paid to the Non-Executive Directors.

The aggregate amount of remuneration that can be paid to the Non-Executive Directors, which was approved by shareholders at the 2005 Annual General Meeting, was $350,000 per annum (including superannuation). Despite the ability to pay remuneration up to this level, only $186,150 in aggregate was paid to the Directors in 2018 (2017: $186,150).

Remuneration paid to the Non-Executive Directors is designed to ensure that the Company can attract and retain suitably qualified and experienced directors.

It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Non-Executive Directors received a fixed fee and mandatory superannuation. There has only been one increase in base pay for the Company Chairperson and other Non-Executive Directors in the last 14 years. Directors do not receive performance-based or earnings-based remuneration and are not eligible to participate in any equity-based incentive plans.

Remuneration for the Non-Executive Directors is reviewed annually by the Board and set at market rates commensurate with the responsibilities borne by the Non-Executive Directors. Independent professional advice may be sought. No other retirement benefits (other than mandatory superannuation) are provided to the Directors. Mr Coleman did not receive any termination payments.

Remuneration for Directors

The table below presents amounts received by the Directors in the current and prior year.

NAME	CASH SALARY $	SUPER-ANNUATION $	SHORT-TERM INCENTIVES $	LONG-TERM INCENTIVES $	TOTAL $
Margaret Towers					
Period from 1/4/2018 to 30/6/2018	15,000	1,425	–	–	16,425
Bruce Coleman					
Period from 1/7/2017 to 31/3/2018	45,000	4,275	–	–	49,275
FY 2017	60,000	5,700	–	–	65,700
Richard Morath					
FY 2018	55,000	5,225	–	–	60,225
FY 2017	55,000	5,225	–	–	60,225
Jim Clegg					
FY 2018	55,000	5,225	–	–	60,225
FY 2017	55,000	5,225	–	–	60,225
Total remuneration					
FY 2018	170,000	16,150	–	–	186,150
FY 2017	170,000	16,150	–	–	186,150

Employment Arrangements of KMP

The key aspects of the KMP contracts are as follows:

Remuneration and other terms of employment for Directors are formalised in letters of appointment that all Directors signed.

– All contracts with Directors include the components of remuneration that are to be paid to KMP and provide for annual review, but do not prescribe how remuneration levels are to be modified from year to year.

– The tenure of the Directors is subject to approval by shareholders at every third AGM or other general meeting convened for the purposes of election of Directors.

– In the event of termination, all KMP are only entitled to receive their statutory entitlements.

– Directors may resign by written notice to the Chairperson and where circumstances permit, it is desirable that reasonable notice of an intention to resign is given to assist the Board in succession planning.

Directors' Report – continued

Link between the Remuneration of the Directors and Company Performance

	2018	2017	2016	2015	2014
Total net investment income/(loss) ($'000)	**78,807**	77,086	(20,310)	71,098	53,662
Expenses ($'000)	**(7,170)**[(1)]	(6,023)	(6,481)	(7,579)	(6,857)
Profit/(loss) after tax ($'000)	**50,353**	49,927	(18,764)	44,826	32,885
Earnings per share (cents per share)	**17.66**	20.03	(8.00)	19.29	16.22
Dividends (cents per share)	**10.0**	10.0	7.0	11.0	8.0
Net Tangible Asset Backing (pre-tax) (30 June) ($ per share)	**1.75**	1.63	1.44	1.70	1.64
Closing share price (30 June) ($)	**2.09**	1.685	1.62	1.77	1.765
Total fixed remuneration (salary and superannuation) paid ($)	**186,150**	186,150	186,150	169,725	169,338

The remuneration of the Directors is not linked to the performance of the Company.

(1) Expenses were higher in 2018 because of the impact of management fees. This is due to the increased portfolio size, driven by strong performance during the year and the impact of the capital raising in March/April 2017. The average monthly portfolio size for FY18 was $504.8 million (2017: $467.3 million).

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

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	–	50,000	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

Bruce Coleman held 249,972 shares at the start of the year and up until the date of his departure on 31 March 2018.

Auditor's Independence Declaration

pwc

As lead auditor for the audit of Platinum Capital Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

Simon Cuthbert

Partner
PricewaterhouseCoopers

Sydney, 16 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	NOTE	2018 $'000	2017 $'000
Investment income			
Dividends		**8,844**	9,282
Interest		**101**	255
Net gains on equities/derivatives		**68,492**	69,054
Net gains on foreign currency forward contracts		**902**	53
Net foreign exchange gains/(losses) on overseas bank accounts		**468**	(1,558)
Total investment income	2	**78,807**	77,086
Expenses			
Management fees	19	**(5,584)**	(4,253)
Custody		**(297)**	(270)
Share registry		**(177)**	(278)
Continuous reporting disclosure		**(226)**	(199)
Directors' fees	21	**(186)**	(186)
Auditor's remuneration and other services	20	**(104)**	(87)
Brokerage and transaction costs		**(355)**	(449)
Other expenses		**(241)**	(196)
Non-capitalised expenses in relation to the Placement and Share Purchase Plan		**–**	(105)
Total expenses		**(7,170)**	(6,023)
Profit before income tax expense		**71,637**	71,063
Income tax expense	3(a)	**(21,284)**	(21,136)
Profit after income tax expense for the year attributable to the owners of Platinum Capital Limited	8	**50,353**	49,927
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive Income for the year attributable to the owners of Platinum Capital Limited		**50,353**	49,927
Basic earnings per share (cents per share)	12	**17.66**	20.03
Diluted earnings per share (cents per share)	12	**17.66**	20.03

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2018

	NOTE	**2018 $'000**	2017 $'000
Assets			
Cash and cash equivalents	13(a)	**51,254**	51,110
Receivables	6	**5,192**	3,250
Financial assets at fair value through profit or loss	4	**448,907**	415,952
Income tax receivable	3(b)	**–**	1,210
Total assets		**505,353**	471,522
Liabilities			
Payables	7	**1,540**	4,504
Financial liabilities at fair value through profit or loss	5	**2,493**	1,164
Income tax payable	3(b)	**6,091**	–
Deferred tax liability	3(c)	**23,942**	20,278
Total liabilities		**34,066**	25,946
Net assets		**471,287**	445,576
Equity			
Issued capital	11	**380,682**	376,895
Retained earnings	8	**(18,764)**	(18,764)
Dividend profit reserve	9	**109,369**	87,445
Total equity		**471,287**	445,576

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

Statement of Changes in Equity

For the year ended 30 June 2018

	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2016	**304,595**	**(18,764)**	**56,384**	**342,215**
Profit after income tax expense for the year	–	49,927	–	49,927
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	49,927	–	49,927
Transfer of profit after income tax for the year, to the dividend profit reserve (Note 8 and Note 9)	–	(49,927)	49,927	–
Transactions with owners in their capacity as owners:				
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 11)	2,942	–	–	2,942
Issue of shares in relation to the Placement (Note 11)	53,514	–	–	53,514
Issue of shares in relation to the Share Purchase Plan (Note 11)	16,603	–	–	16,603
Transaction costs, on the Placement and Share Purchase Plan, net of tax (Note 11)	(759)	–	–	(759)
Dividends paid (Note 10)	–	–	(18,866)	(18,866)
Balance at 30 June 2017	**376,895**	**(18,764)**	**87,445**	**445,576**

	ISSUED CAPITAL $'000	RETAINED EARNINGS $'000	DIVIDEND PROFIT RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2017	**376,895**	**(18,764)**	**87,445**	**445,576**
Profit after income tax expense for the year	–	50,353	–	50,353
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	50,353	–	50,353
Transfer of profit after income tax for the year, to the dividend profit reserve (Note 8 and Note 9)	–	(50,353)	50,353	–
Transactions with owners in their capacity as owners:				
Issue of shares in relation to the dividend reinvestment plan and reinvestment of unclaimed dividends (Note 11)	3,787	–	–	3,787
Dividends paid (Note 10)	–	–	(28,429)	(28,429)
Balance at 30 June 2018	**380,682**	**(18,764)**	**109,369**	**471,287**

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

Statement of Cash Flows

For the year ended 30 June 2018

	NOTE	**2018 $'000**	2017 $'000
Cash flows from operating activities			
Payments for purchase of financial assets		**(260,083)**	(242,911)
Proceeds from sale of financial assets		**291,742**	194,005
Dividends received		**9,330**	8,344
Interest received		**120**	243
Management fees paid		**(5,550)**	(4,139)
Other expenses paid		**(1,655)**	(1,835)
Income tax received/(paid)		**(9,420)**	435
Net cash from/(used in) operating activities	13(b)	**24,484**	(45,858)
Cash flows from financing activities			
Dividends paid – net of dividend re-investment plan	10	**(24,695)**	(15,972)
Proceeds from issue of shares in relation to unclaimed dividends	11	**90**	48
Net proceeds from issue of shares in relation to Placement and Share Purchase Plan		**–**	69,358
Net cash (used in)/from financing activities		**(24,605)**	53,434
Net (decrease)/increase in cash and cash equivalents		**(121)**	7,576
Cash and cash equivalents at the beginning of the year		**51,110**	45,070
Effects of exchange rate changes on cash and cash equivalents		**265**	(1,536)
Cash and cash equivalents at the end of the year	13(a)	**51,254**	51,110

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

Notes to the Financial Statements
30 June 2018

Note 1. Summary of significant accounting policies
The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities measured at fair value.

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

Critical accounting judgements, estimates and assumptions
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, that management believes to be reasonable under the circumstances.

Fair value measurement hierarchy (refer to Note 17)
The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as Level 3 (if any) is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Notes to the Financial Statements

30 June 2018

Note 1. Summary of significant accounting policies – continued

Basis of preparation – continued

Recovery of deferred tax assets (refer to Note 3)
Deferred tax assets are recognised for deductible temporary differences only if the Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Functional currency (refer to the "foreign currency transactions" policy)
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"), which is the Australian Dollar. Refer to the "foreign currency transactions" policy on page 36 for further information on this.

Financial assets/liabilities at fair value through profit or loss
Under AASB 139: *Financial Instruments: Recognition and Measurement*, investments are classified in the Company's statement of financial position as "financial assets/liabilities at fair value through profit or loss". Derivatives and foreign currency forward contracts are classified as financial instruments "held for trading" and equity securities are designated at fair value through profit or loss upon initial recognition.

The Company has applied AASB 13: *Fair Value Measuremen*t. AASB 13 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". AASB 13 increases transparency about fair value measurements, including the valuations techniques and inputs used to measure fair value.

The standard prescribes that the most representative price within the bid-ask spread should be used for valuation purposes. With respect to the Company, the last-sale or "last" price is the most representative price within the bid-ask spread, because it represents the price that the security last changed hands from seller to buyer.

The Company has applied last-sale pricing as the fair value measurement basis for equities and derivatives it holds.

Generally, derivatives take the form of long or short equity swap contracts. Equity swaps are valued based on the price of the underlying investment, which may be a specific share or a share market index. Daily fluctuations in the value of derivatives were recognised as part of "net gains/(losses) on equities/derivatives" in the statement of profit or loss and other comprehensive income.

Long equity swap contracts allow the Company to gain exposure to price movements of underlying investments without buying the underlying investment. Under the term of each long equity swap contract, the Company makes a profit if the underlying share price was higher on the date that the contract was closed relative to the price when the contract commenced.

With respect to short equity swap contracts, the Company makes a profit if the underlying share price was lower on the date that the contract was closed relative to the price when the contract commenced.

Note 1. Summary of significant accounting policies – continued

Financial assets/liabilities at fair value through profit or loss – continued

Participatory Notes are sometimes used as a convenient means of investing in local securities by a foreign investor. Participatory Notes are generally traded over-the-counter, as they are issued by a counterparty to provide the investor with exposure to an individual equity or a basket or index of equities, in markets where liquidity, custody or other issues make ownership of the local shares sub-optimal. The valuation of Participatory Notes depends on the level of trading. If the Participatory Notes are actively traded, then the market price is used. Counterparties provide a daily valuation that is based on the intrinsic value of the individual security.

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

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets uses quoted market prices at reporting date without any deduction for estimated future selling costs. Financial assets are valued using "last-sale" pricing. Gains and losses arising from changes in the fair value of the financial assets/liabilities are included in the statement of profit or loss and other comprehensive income in the period they arise.

Foreign currency forward contracts are initially recognised at fair value on the date contracts are entered into and are subsequently remeasured at each reporting date. The fair value is the unrealised profit or loss on the foreign currency position (in Australian dollars).

Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques or any other valuation techniques that provides a reliable estimate of prices obtained in actual market transactions. Options are valued with reference to the quoted price of the underlying index or share. If there is no liquid market available, the options are valued based on the option prices provided by an arm's length broker. These valuations are based on option pricing models.

Recognition/derecognition

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

Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Notes to the Financial Statements

30 June 2018

Note 1. Summary of significant accounting policies – continued

Brokerage and transaction costs on financial assets

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

Operating segments

Operating segments are presented using a single operating segment. However AASB 8: *Operating Segments* requires certain entity-wide disclosures. Refer to Note 2 for further information.

Foreign currency transactions

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the country that the Company is regulated, capital is raised and dividends are paid. The Australian dollar is also the Company's presentation currency.

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Investment income

Interest income

Interest income is recognised in the statement of profit or loss and other comprehensive income based on actual interest rates available on the bank accounts held at various locations.

Dividend income

Dividend income is brought to account on the applicable ex-dividend date for equities and the payment date for Participatory Notes.

Directors' entitlements

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

Income tax

The income tax expense or benefit for the period is the tax payable or receivable on that period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Withholding tax expense on foreign dividends has been included as part of income tax expense.

Note 1. Summary of significant accounting policies – continued

Income tax – continued

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Receivables

All receivables are recognised when a right to receive payment is established. Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for bad debts. Debts that are known to be uncollectible are written off.

Cash and cash equivalents

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

Margin accounts comprise cash held as collateral for derivative transactions.

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

Due from/due to brokers for unsettled trades

Amounts due from/due to brokers represent receivables for proceeds from sale of financial assets (as disclosed in Note 6) and payables on purchase of financial assets/liabilities (as disclosed in Note 7) that have been traded, but not yet settled at reporting date. Proceeds from sale of financial assets are usually received between two and five days after trade date. Payables on purchase of financial assets/liabilities are usually paid between two and five days after trade date.

Trade and other payables

These amounts represent liabilities for services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the Financial Statements
30 June 2018

Note 1. Summary of significant accounting policies – continued

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

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

Dividend profit reserve

To the extent that any current year or prior period profits are not distributed as dividends, the Company may set aside some or all of the undistributed profits to a separate dividend profit reserve, to facilitate the payment of future franked dividends, rather than maintaining these profits within retained earnings.

Expenses

All expenses, including management fees and performance fees (if any), are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the profit attributable to the owners of Platinum Capital Limited, by the weighted average number of ordinary shares outstanding during the financial year.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in these financial statements have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 1. Summary of significant accounting policies – continued

Accounting Standards and Interpretations not yet mandatory or early adopted

The following Australian Accounting Standards and Interpretations have been issued or amended but are not yet mandatory, and have not been early adopted by the Company for the year ended 30 June 2018. The Company's assessment of the impact of these Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 15: *Revenue from contracts with customers and amendments to AASB 15*
The main objective of this standard is to provide a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The standard is applicable for reporting periods beginning on or after 1 January 2018.

The Company's main source of income is gains on equities and derivatives, foreign currency forward contracts and overseas bank accounts, as well as interest and dividend income. All of these income types are outside the scope of the standard. The standard was assessed as not having a material impact on the Company's results in the current or future reporting periods. The Company expects to adopt this standard for annual reporting periods commencing on 1 July 2018.

AASB 9: *Financial Instruments (and applicable amendments)*
AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It includes revised rules around classification, hedge accounting and impairment. The standard is applicable for annual reporting periods beginning on or after 1 January 2018.

More specifically AASB 9 replaces the classification and measurement model in AASB 139: *Financial Instruments: recognition and measurement* with a new model that classifies financial assets based on a) the business model within which the assets are managed, and b) whether contractual cash flows under the instrument solely represent the payment of principal and interest. Management has assessed the classification and measurement aspects of AASB 9 on the financial statements. Given the Company manages and reports its investments on a fair value basis, management expects, on adoption, that all financial assets will remain classified at fair value through profit or loss resulting in no impact to the financial performance or position of the Company.

The hedging and impairment aspects of the new standard have also been assessed as having no impact as the Company does not enter into hedging arrangements and is not impacted by write-downs because the financial assets and liabilities are carried at fair value through profit or loss.

The Company expects to adopt this standard for annual reporting periods commencing on 1 July 2018.

There are no other standards that are not yet effective that are expected to be relevant to the Company in the current or future reporting periods and on foreseeable future transactions.

Notes to the Financial Statements

30 June 2018

Note 2. Operating segments

Identification of reportable operating segments

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

	2018 $'000	2017 $'000
(a) Investment income by investment type		
Equity securities	**84,996**	84,838
Derivatives	**(7,660)**	(6,502)
Foreign currency forward contracts	**902**	53
Bank accounts	**569**	(1,303)
Total	**78,807**	77,086
(b) Investment income by geographical area		
Japan	**8,500**	10,618
Asia ex Japan	**27,715**	39,921
Australia	**2,659**	(364)
Europe – Euro	**9,595**	18,336
Europe – Other	**7,569**	36
North America	**21,989**	5,962
South America	**(268)**	4
Africa	**146**	2,520
Unallocated investment income – Net gains on foreign currency forward contracts	**902**	53
Total	**78,807**	77,086

	2018 $'000	2017 $'000
Note 3. Income tax		
(a) Income tax expense		
The income tax expense attributable to the operating profit comprises:		
Current income tax provision	**(16,721)**	(2,249)
Movement in deferred tax liability	**(3,664)**	(17,928)
Withholding tax on foreign dividends	**(899)**	(657)
Placement and Share Purchase Plan offer costs transferred to equity	**–**	(325)
Over provision of prior period tax	**–**	23
Income tax expense	**(21,284)**	(21,136)
The income tax expense attributable to the financial year differs from the prima facie amount payable on the operating profit. The difference is reconciled as follows:		
Profit before income tax expense	**71,637**	71,063
Prima facie income tax at a tax rate of 30%	**(21,491)**	(21,319)
Reduce tax payable:		
Foreign tax credits	**207**	129
Placement and Share Purchase Plan offer fees expensed	**–**	31
Over provision of prior period tax	**–**	23
Income tax expense	**(21,284)**	(21,136)
(b) Income tax (payable)/receivable		
The income tax (payable)/receivable as disclosed in the statement of financial position is comprised of:		
Current income tax provision	**(16,721)**	(2,249)
Income tax instalments paid	**10,630**	3,459
Income tax (payable)/receivable	**(6,091)**	1,210

Notes to the Financial Statements

30 June 2018

Note 3. Income tax – continued

(c) Deferred tax liability

In line with our existing accounting policy, the Company has exercised judgement in determining the extent of recognition of deferred tax balances.

The deferred tax liability figure in the statement of financial position is comprised of:

	2018 $'000	2017 $'000
Deferred tax liability on dividends accrued	**(311)**	(470)
Deferred tax liability on investments	**(23,914)**	(20,233)
Deferred tax asset on expense accruals	**69**	66
Deferred tax asset of capital raising and legal costs (deductible over 5 years)	**214**	359
Deferred tax liability	**(23,942)**	(20,278)

At 30 June 2018, the Company is in a deferred tax liability position and this is predominantly because the Company has net unrealised gains on investments of $79,713,000 (2017: $67,443,000). The tax impact on these unrealised gains of $23,914,000 (2017: $20,233,000) formed a major part of the overall net deferred tax liability.

The realised tax balance will depend on the actual gains or losses generated as and when the investments are sold.

	2018 $'000	2017 $'000
Note 4. Financial assets at fair value through profit or loss		
Equity securities	**444,444**	412,839
Derivatives	**2,553**	370
Foreign currency forward contracts	**1,910**	2,451
Corporate bonds	**–**	292
	448,907	415,952
Note 5. Financial liabilities at fair value through profit or loss		
Derivatives	**239**	6
Foreign currency forward contracts	**2,254**	1,158
	2,493	1,164

	2018 $'000	2017 $'000
Note 6. Receivables		
Proceeds from sale of financial assets	**3,955**	1,574
Capital Gains Tax receivable	**48**	49
Dividends receivable	**1,046**	1,532
Interest receivable	**33**	53
Goods and Services Tax receivable	**51**	42
Prepayments	**59**	–
	5,192	3,250
Note 7. Payables		
Payables on purchase of financial assets	**737**	3,770
Trade creditors (unsecured)	**721**	689
Unclaimed dividends payable to shareholders	**79**	42
PAYG Tax payable	**3**	3
	1,540	4,504

Information relating to the Company's exposure of payables to liquidity risk is shown in Note 16.

	2018 $'000	2017 $'000
Note 8. Retained earnings		
Opening balance	**(18,764)**	(18,764)
Profit after income tax expense for the year	**50,353**	49,927
Transfer to dividend profit reserve (see Note 9)*	**(50,353)**	(49,927)
Closing balance	**(18,764)**	(18,764)

* The Directors passed a resolution that transferred the profit after income tax to the dividend profit reserve. Prior year losses were not transferred to the dividend profit reserve.

Notes to the Financial Statements
30 June 2018

Note 9. Dividend profit reserve

The Company may set aside some or all of the undistributed profits to a separate dividend profit reserve, to facilitate the payment of future franked dividends, rather than maintaining these profits within retained earnings. Operating losses are not transferred to the dividend profit reserve. A summary of the movement in this account is shown below.

	2018 $'000	2017 $'000
Opening balance 1 July 2017 (2016)	**87,445**	56,384
Transfer of operating profit after tax from retained earnings for the year ended 2018 (2017)*	**50,353**	49,927
Dividends paid (see Note 10)	**(28,429)**	(18,866)
Closing balance	**109,369**	87,445

* Dividends are no longer paid out of retained earnings and are now paid out of the dividend profit reserve. Subsequent to 30 June 2018, the 2018 final fully-franked dividend was declared out of this reserve. The balance in the dividend profit reserve after the declaration of the 2018 final dividend is $92,214,000 (32.25 cents per share, based on the current shares on issue).

Note 10. Dividends

Dividends paid

Dividends paid during the financial year were as follows:

Final dividend paid for the 2017 financial year (6 cents per share)	**17,025**	–
Interim dividend paid for 2018 financial year (4 cents per share)	**11,404**	–
Final dividend paid for the 2016 financial year (4 cents per share)	**–**	9,413
Interim dividend paid for 2017 financial year (4 cents per share)	**–**	9,453
	28,429	18,866

The "dividends paid – net of dividend re-investment plan" figure shown in the statement of cash flows is determined as follows:		
Gross dividends (paid) (from above)	**(28,429)**	(18,866)
Less increase in unclaimed dividends payable (Note 7)	**37**	–
Less dividend reinvestment plan allotment (Note 11)	**3,697**	2,894
Dividends (paid) – net of dividend re-investment plan	**(24,695)**	(15,972)

Note 10. Dividends – continued

	2018 $'000	2017 $'000
Franking credits		
Franking credits available at the balance date based on a tax rate of 30%	**6,767**	9,531
Franking credit/(debits) that will arise from the tax payable/(receivable) at balance date based on a tax rate of 30%	**6,091**	(1,210)
Franking credits available for future franked dividends based on a tax rate of 30%	**12,858**	8,321
Franking debits that will arise from the payment of dividends declared subsequent to the balance date based on a tax rate of 30%	**(7,352)**	(7,297)
Net franking credits available based on a tax rate of 30%	**5,506**	1,024

Dividends not recognised at year-end

On 16 August 2018, the Directors declared the payment of the 2018 final fully-franked dividend of 6 cents per share. The aggregate amount of the dividend expected to be paid on 12 September 2018, but not recognised as a liability at year-end is $17,155,000. The dividend will be paid out of the divided profit reserve. The maximum fully-franked dividend that can be paid after allowing for the 2018 final fully-franked dividend is 4.49 cents per share.

	2018 SHARES	2017 SHARES	2018 $'000	2017 $'000
Note 11. Issued capital				
Ordinary shares – fully paid	**285,921,034**	283,753,289	**380,682**	376,895

DETAILS FOR YEAR ENDED 30-JUN-17	DATE	SHARES	$'000
Balance	30-Jun-16	235,332,383	304,595
Reinvestment of unclaimed dividends[b]	7-Sep-16	11,842	18
Dividend reinvestment plan[a]	13-Sep-16	986,943	1,471
Shares issued under the Placement	13-Mar-17	35,440,000	53,514
Shares issued under the Share Purchase Plan (SPP)	21-Apr-17	11,038,308	16,603
less transaction costs, net of tax in relation to the Placement and SPP)		–	(759)
Dividend reinvestment plan[a]	13-Mar-17	924,100	1,423
Reinvestment of unclaimed dividends[b]	20-Mar-17	19,713	30
Balance	30-Jun-17	283,753,289	376,895

Notes to the Financial Statements
30 June 2018

Note 11. Issued capital – continued

DETAILS FOR YEAR ENDED 30-JUN-18	DATE	SHARES	$'000
Opening balance	30-Jun-17	283,753,289	376,895
Dividend reinvestment plan[a]	11-Sep-17	1,348,172	2,211
Reinvestment of unclaimed dividends[b]	19-Sep-17	17,550	30
Dividend reinvestment plan[a]	13-Mar-18	771,452	1,486
Reinvestment of unclaimed dividends[b]	19-Mar-18	30,571	60
Closing balance	30-Jun-18	285,921,034	380,682

(a) Shares were issued under the dividend reinvestment plan at a 2.5% discount to the volume-weighted price of the Company's shares traded on the Australian Securities Exchange (ASX), over the five business days subsequent to the date on which the Company shares ceased to trade cum-dividend.

(b) Dividends that remain unclaimed after 6 months from payment date are automatically reinvested into additional shares in the Company.

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Rights issue or share buy-back
There is no current rights issue or share buy-back in place.

	2018 $'000	2017 $'000
Note 12. Earnings per share		
Profit after income tax attributable to the owners of Platinum Capital Limited	**50,353**	49,927
	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**285,090,427**	249,240,654
	CENTS	CENTS
Basic earnings per share	**17.66**	20.03
Diluted earnings per share	**17.66**	20.03

Earnings per share decreased even though profit after tax increased. This is due to the impact on the weighted average number of ordinary shares figure, of the Placement and Share Purchase Plan shares issued in the prior year.

There have been no conversions to, calls of, or subscriptions for ordinary shares during the current period other than those issued under the dividend reinvestment plan and reinvestment of unclaimed dividends. Therefore, diluted earnings per share equals basic earnings per share.

	2018 $'000	2017 $'000
Note 13. Notes to the statement of cash flows		
(a) Components of cash and cash equivalents		
Cash at bank*	**62**	51
Cash on deposit held within the portfolio**	**51,192**	51,059
	51,254	51,110

* Cash at bank includes $76,000 (2017: $41,000) held in respect of unclaimed dividends on behalf of shareholders.

** Cash on deposit includes $12,404,000 (2017: $8,800,000) on deposit to 'cash cover' derivative contracts' deposits and margin calls.

These amounts are held by the relevant derivative exchanges and counterparties as security. If losses are realised, the cash balances are set off against those losses. If profits are realised on the close out of derivative contracts, the money is returned to the Company.

The Company maintains bank accounts at various locations throughout the world to enable the settlement of purchases and sales of investments and to conduct other normal banking transactions. All accounts are at call and the majority bear floating interest rates in the range of –0.60% to 0.35% (2017: –1.50% to 1.40%).

Notes to the Financial Statements

30 June 2018

	2018 $'000	2017 $'000
Note 13. Notes to the statement of cash flows – continued		
(b) Reconciliation of profit after income tax to net cash from/(used in) operating activities		
Profit after income tax expense for the year	**50,353**	49,927
Adjustments for non-operating and non-cash items:		
Foreign exchange differences	**(265)**	1,536
(Increase) in investment securities and foreign currency forward contracts	**(31,626)**	(116,937)
Change in operating assets and liabilities:		
Decrease/(increase) in deferred tax asset	**142**	(273)
(Increase) in settlements receivable	**(2,381)**	(1,161)
(Decrease)/increase in settlement payable	**(3,033)**	1,128
Decrease/(increase) in interest receivable	**20**	(33)
Decrease/(increase) in dividends receivable	**486**	(938)
(Increase) in prepayments	**(59)**	–
Decrease/(increase) in Capital Gains Tax receivable	**1**	(19)
Increase in trade and other payables	**32**	51
Increase in deferred tax liability	**3,522**	18,201
(Increase) in Goods and Services Tax receivable	**(9)**	(3)
(Increase) in income tax payable	**6,091**	–
Decrease in income tax receivable	**1,210**	2,663
Net cash from/(used in) operating activities	**24,484**	(45,858)

	2018 $'000	2017 $'000
Note 14. Statement of Net Tangible Asset Backing (NTA)		
Reconciling Net Tangible Asset Backing (post-tax) in accordance with Australian Accounting Standards to that reported to the ASX		
Post-tax Net Tangible Asset Backing per statement of financial position	**471,287**	445,576
Realisation costs and accruals*	**(1,102)**	(1,063)
Deferred income tax asset on realisation costs	**368**	392
Post-tax Net Tangible Asset Backing as reported to the ASX	**470,553**	444,905

The post-tax Net Tangible Asset Backing per share at 30 June 2018 was $1.6457 per share (30 June 2017: $1.5679).

* The difference between the ASX and financial accounts reporting is mainly caused by the ASX requirement that realisation costs need to be deducted for ASX reporting of NTA.

Note 15. Investment Portfolio

All Investments below are ordinary shares, unless stated otherwise.

	QUANTITY	2018 $'000
Japan		
Asahi	94,755	6,558
Nexon	538,154	10,566
Sumitomo Metal Mining	133,183	6,888
Lixil	368,463	9,964
Toyota Industries	84,833	6,428
Ebara	131,799	5,541
Murata Manufacturing	48,511	11,022
NOK	47,419	1,241
Nintendo	11,410	5,040
Itochu	290,011	7,104
Suruga Bank	305,300	3,692
SBI Holdings	81,332	2,833
Total Japan		**76,877**
Asia ex Japan		
China		
Jiangsu Yanghe Brewery – ordinary share	7,876	212
Jiangsu Yanghe Brewery – Participatory Notes	355,971	9,559
Weichai Power – Participatory Notes	1,342,000	2,395
Ping An A Share – Participatory Notes	450,062	5,380
MMG	2,653,587	2,509
Anta Sports Products	1,107,384	7,925
Ping An Insurance – H shares	302,952	3,767
Weichai Power	1,058,210	1,972
Eco Green	14,609,839	4,252
China Everbright International	2,566,363	4,482
China Pacific Insurance	1,619,549	8,466
China International Capital	1,504,270	3,622
Beijing Enterprise	681,156	4,481
China Overseas Land & Investment	1,914,750	8,525

Notes to the Financial Statements

30 June 2018

	QUANTITY	2018 $'000
Note 15. Investment Portfolio – continued		
Asia ex Japan – continued		
China – continued		
Tencent	107,222	7,272
Alibaba – American Depository Receipt	37,100	9,301
Bitauto – American Depository Receipt	34,100	1,096
Sina	86,379	9,885
Sohu.com – American Depository Receipt	43,946	2,108
ZTO Express – American Depository Receipt	167,598	4,529
Weichai Power – long equity swap	640,840	(43)
Jiangsu Yanghe Brewery – long equity swap	50,400	(164)
		101,531
Hong Kong		
Summit Ascent	3,597,233	465
ENN Energy	387,240	5,145
		5,610
India		
Axis Bank	374,695	3,777
Bharti Airtel	1,118,057	8,428
ICICI Bank	764,846	4,157
IDFC	155,573	142
IDFC Bank	2,209,431	1,694
PTC India	896,528	1,340
		19,538
Thailand		
Kasikornbank – Non Voting Depository Receipt	636,300	5,049
		5,049

	QUANTITY	2018 $'000
Note 15. Investment Portfolio – continued		
Asia ex Japan – continued		
South Korea		
Samsung Electronics	287,600	15,217
LG Chem	18,734	7,574
KB Financial	117,340	7,511
		30,302
Malaysia		
Genting Bhd	1,961,767	5,520
		5,520
Total Asia ex Japan		**167,550**
Australia		
Western Areas	1,321,829	4,706
Total Australia		**4,706**
Europe – Euro		
France		
Sanofi	76,479	8,285
		8,285
Germany		
Daimler	23,800	2,071
Hornbach	4,988	486
Hornbach Baumarkt	61,668	2,574
Qiagen – American Depository Receipt	53,283	2,603
Qiagen	74,157	3,651
Siemens	85,299	15,240
		26,625
Total Europe – Euro		**34,910**

Notes to the Financial Statements

30 June 2018

Note 15. Investment Portfolio – continued

	QUANTITY	2018 $'000
Europe – Other		
Denmark		
Pandora	32,459	3,065
		3,065
Norway		
Schibsted – A share	110,958	4,557
Schibsted – B share	104,768	3,997
Yara International	57,521	3,225
		11,779
Switzerland		
Glencore	1,899,589	12,262
Roche	19,300	5,806
		18,068
United Kingdom		
AstraZeneca	95,541	8,949
Technip FMC	53,386	2,304
Gemfields	214,323	9,192
Royal Dutch Shell	267,278	12,543
		32,988
Total Europe – Other		**65,900**

	QUANTITY	2018 $'000
Note 15. Investment Portfolio – continued		
North America		
Canada		
Constellation Software	1,357	1,422
First Quantum Minerals	95,832	1,908
Great Basin Gold	192,636	–
Seven Generations Energy	350,533	5,221
		8,551
United States		
Ally Financial	70,177	2,491
Peabody Energy	64,298	3,951
CF Industries	68,077	4,084
Equifax	17,772	3,004
Facebook	42,959	11,280
Gilead Sciences	82,400	7,888
Alphabet (Google)	10,266	15,528
Intel	198,964	13,365
Microchip Technology	29,500	3,625
Paypal	45,768	5,150
Transocean	288,493	5,239
Schlumberger	30,550	2,767
Smurfit Stone	225,000	–
Skyworks Solutions	17,820	2,327
Conagra Brands – short equity swap	(93,300)	349
Estee Lauder – short equity swap	(7,300)	128
S&P 500E – Sept 18 – index futures	(253)	983
Kimberley Clark – short equity swap	(9,701)	(32)
Nvidia – short equity swap	(13,500)	517
Russell Sep 2018 – index future	(179)	260
Tesla Motors – short equity swap	(7,504)	195
SPDR S&P Biotech ETF – index	(50,100)	121
		83,220
Total North America		**91,771**

Notes to the Financial Statements

30 June 2018

	QUANTITY	2018 $'000
Note 15. Investment Portfolio – continued		
South America		
Peru		
Peru Holding De Turismo	1,667,523	–
		–
Total South America		**–**
Africa		
South Africa		
Pallinghurst Resources	4,537,739	1,117
		1,117
Zimbabwe		
Axia Corp	1,391,123	202
Econet Wireless	3,033,910	1,840
Innscor Africa	1,545,692	1,119
Masimba	6,879,563	350
Simbisa Brands	1,391,123	416
		3,927
Total Africa		**5,044**
Total equities and derivatives (Note 4 and Note 5)*		**446,758**

* From Note 4 (financial assets), the total of equity securities was $444,444,000 and the total of derivatives was $2,553,000 less from Note 5 (financial liabilities), the total of derivatives of $239,000. This results in a total of $446,758,000.

Add	
Receivable from the proceeds from sale of financial assets (Note 6)	3,955
Payables on purchase of financial assets (Note 7)	(737)
Dividends receivable (Note 6)	1,046
Cash on deposit held within the portfolio (Note 13)	51,192
Foreign currency forward contracts (Note 4 and Note 5)	(344)
Total Investment Portfolio (reconciles to Note 16: Foreign exchange risk on page 57)	501,870

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

Number of transactions – 1,585

Total brokerage paid – $1,333,000 ($355,000 on purchases and $978,000 on sales)

Note 16. Financial risk management

Financial risk management objectives

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

The Investment Manager, Platinum Investment Management Limited's investment style:

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

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

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

(iv) actively manages currency.

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

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

The table below summarises the Company's investments at fair value and derivative effective exposure.

2018	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
Japan	**76,877**	–	–	**76,877**
Asia ex Japan*	**167,755**	**2,498**	–	**170,253**
Australia	**4,706**	–	–	**4,706**
Europe – Euro	**34,911**	–	–	**34,911**
Europe – Other	**65,900**	–	–	**65,900**
North America	**89,251**	–	**(87,980)**	**1,271**
Africa	**5,044**	–	–	**5,044**
	444,444	**2,498**	**(87,980)**	**358,962**

Notes to the Financial Statements

30 June 2018

Note 16. Financial risk management – continued

Financial risk management objectives – continued

2017	PHYSICAL $'000	LONG DERIVATIVES CONTRACTS $'000	SHORT DERIVATIVES CONTRACTS $'000	NET EXPOSURE $'000
Japan	72,653	–	–	72,653
Asia ex Japan	170,251	1,650	–	171,901
Europe – Euro	58,091	–	–	58,091
Europe – Other	35,156	–	–	35,156
North America	70,812	–	(52,232)	18,580
South America	1,823	–	–	1,823
Africa	4,345	–	–	4,345
	413,131	1,650	(52,232)	362,549

The "Physical" column represents the location of the Company's investments. The Investments shown on the "Physical" column (totalling $444,444,000 for 2018 on page 55) reconciles to the fair value of equity securities disclosed in Note 4, being $444,444,000 for equity securities.

* The three largest contributors to the "Asia ex Japan" category at 30 June 2018 were as follows:

	PHYSICAL EXPOSURE $'000	NET EXPOSURE $'000
Chinese investments (including Chinese investments listed on the Hong Kong stock exchange)	101,737	104,235
Korea	30,302	30,302
India	19,538	19,538

The "Long/Short Derivatives Contracts" columns include the effective exposure of long/short equity swaps and futures. The "Net Exposure" column represents an approximation of the Investment Portfolio's exposure to movements in markets. This is calculated by making an adjustment to the "Physical" position, by adding any long (bought) derivative positions in shares or share index futures and subtracting the amount of any short (sold) positions. For example, if 5% of the Portfolio was invested in Japan, but there was a 2% short position in Nikkei futures, then the net exposure column would show 3%. Conceivably, the figure could show a negative exposure, which would indicate that the Portfolio was net short the Japanese market. Except for equity swaps and futures, the maximum capital risk resulting from financial instruments is determined by the fair value of financial instruments. Potential losses from short equity swaps and futures are limited to available capital.

Note 16. Financial risk management – continued

Market risk

Foreign exchange risk

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

Currency hedging is an integral part of the management of currency risk. Platinum Investment Management Limited may position the Company's Portfolio in what it believes will be a stronger currency(ies). The big change has been the shift in perception about the US dollar. At 30 June 2018, the Company's exposure to the US dollar decreased to 30% (30 June 2017: 36%). At 30 June 2018, the Company also decreased its Euro exposure to 12% (30 June 2017: 16%).

The Company increased its Hong Kong dollar and Japanese yen exposure(s) compared to a year ago. Hong Kong dollar exposure increased to 13% (30 June 2017: 10%) and Japanese yen exposure increased to 12% (30 June 2017: 8%).

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

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

The table below summarises the Company's investment exposure at fair value to foreign exchange risk. The total "Physical" column and "Net Exposure" column reconciles to the total investment portfolio in Note 15.

2018	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	**90,542**	**–**	**(30,045)**	**60,497**
Asia ex Japan*	**143,423**	**11,017**	**–**	**154,440**
Australia	**6,683**	**340**	**(2,050)**	**4,973**
Europe – Euro	**53,644**	**15,802**	**(8,889)**	**60,557**
Europe – Other	**48,708**	**17,999**	**(10,198)**	**56,509**
North America	**157,753**	**51,633**	**(45,609)**	**163,777**
Africa	**1,117**	**–**	**–**	**1,117**
	501,870	**96,791**	**(96,791)**	**501,870**

Notes to the Financial Statements

30 June 2018

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk – continued

2017	PHYSICAL $'000	BOUGHT $'000	SOLD $'000	NET EXPOSURE $'000
Japan	73,904	4,529	(39,838)	38,595
Asia ex Japan	141,099	–	(29,994)	111,105
Australia	7,902	14,852	(12,500)	10,254
Europe – Euro	68,196	19,454	(7,667)	79,983
Europe – Other	24,735	26,464	–	51,199
North America	147,040	63,291	(38,591)	171,740
South America	1,833	–	–	1,833
Africa	474	–	–	474
	465,183	128,590	(128,590)	465,183

* The largest contributors to the "Asia ex Japan" category at 30 June 2018 were as follows:

	NET EXPOSURE $'000	CURRENCY EXPOSURE %
Hong Kong dollar	65,201	13.0
Korean won	30,301	6.0
Indian rupee	19,973	4.0
Chinese yuan	17,339	3.5
Other Asian currencies	21,626	4.3
	154,440	30.8

Foreign currency forward contracts are adjusted against the "Physical" column to arrive at a "Net Exposure" for each currency grouping. The Company generally utilises short dated (90 day maturity) currency agreements with high-credit rated counterparties. The existing foreign currency forward contract positions' maturity date is 81 days from the balance sheet date.

Foreign exchange risk sensitivity analysis

The table on the following page summarises the sensitivities of the Company's profit to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar strengthened by 10% against the United States dollar and Euro (shown in the +10% column) and weakened by 10% against the United States dollar and Euro (shown in the –10% column). These two currencies are the material foreign currencies to which the Company was exposed at 30 June 2018.

A sensitivity of 10% has been selected as this is considered reasonably possible given current exchange rates and the volatility observed both on a historic basis and after factoring in possible future movements. The sensitivity has been undertaken on a combined basis for both monetary assets and liabilities and financial assets and liabilities measured at fair value through profit and loss, as the Company believes this accurately portrays the Company's exposure to foreign exchange risk.

Note 16. Financial risk management – continued

Market risk – continued

Foreign exchange risk sensitivity analysis – continued

2018	**INCREASE % CHANGE**	**AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000**	**DECREASE % CHANGE**	**AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000**
United States dollar	**10%**	**(14,041)**	**(10%)**	**17,161**
Euro	**10%**	**(5,505)**	**(10%)**	**6,729**
Other currencies	**10%**	**(25,231)**	**(10%)**	**30,838**
		(44,777)		**54,728**

2017	INCREASE % CHANGE	AUD STRENGTHENED EFFECT ON PROFIT BEFORE TAX $'000	DECREASE % CHANGE	AUD WEAKENED EFFECT ON PROFIT BEFORE TAX $'000
United States dollar	10%	(15,150)	(10%)	18,517
Hong Kong dollar	10%	(6,969)	(10%)	8,518
Other currencies	10%	(21,980)	(10%)	26,865
		(44,099)		53,900

The weakening of the AUD will increase the operating profit. A strengthening of the AUD will decrease the operating profit.

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

Interest Rate Risk

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

The majority of the Company's financial assets and liabilities are non-interest bearing as the Company has a policy of not borrowing, other than for settlement of trades. Cash holdings are directly affected by interest rate movements, but at balance date, interest rates on these cash accounts are very low (and range from –0.6% to 0.35%).

Interest rate risk indirectly affects the Company as interest rate movements will affect forward points used in determining gains or losses on forward contracts. The impact of interest rate movements on our investments is not capable of precise estimation. At 30 June 2018 and 2017, if interest rates had changed by +/–100 basis points with all other variables held constant, the direct impact on interest income would not be significant for the Company.

Notes to the Financial Statements

30 June 2018

Note 16. Financial risk management – continued

Price risk

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

As an additional risk management tool, the Company may enter into short equity swaps and futures to protect against market movements. At 30 June 2018, the Company maintained short positions against market indices and company-specific stocks. The use of index derivatives provides protection against general adverse market price movements, whilst allowing upside in individual stock movements. At 30 June 2018, the Company has a blend of both index and stock specific short positions.

Price risk sensitivity analysis

Price risk exposure arises from the Company's investment portfolio, which comprises investments in securities and derivatives. The below analysis is based on net positions and includes the impact of hedging. At 30 June 2018, the two markets that the Company had the biggest investment exposure to are China (including Chinese investments listed on the foreign stock exchanges) and Japan. The effect on profit due to a possible change in market prices, as represented by a –/+10% movement in these markets with all other variables held constant, is illustrated in the table below:

2018	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)
China (including Chinese investments listed on the Hong Kong stock exchange)	**10%**	**10,423**	**(10%)**	**(10,423)**
Japan	**10%**	**7,688**	**(10%)**	**(7,688)**
All other markets	**10%**	**23,904**	**(10%)**	**(23,904)**
		42,015		**(42,015)**

Note 16. Financial risk management – continued

Price risk – continued

Price risk sensitivity analysis – continued

2017	INCREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)	DECREASE % CHANGE	EFFECT ON PROFIT BEFORE TAX ($'000)
China (including Chinese investments listed on the Hong Kong stock exchange)	10%	8,110	(10%)	(8,110)
Japan	10%	7,265	(10%)	(7,265)
All other markets	10%	25,337	(10%)	(25,337)
		40,712		(40,712)

Credit risk

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

The exposure to credit risk for cash and cash equivalents, futures, equity swaps, and foreign currency forward contracts is any unrealised profit, margins and collateral paid on the positions (the money the Company would lose if the counterparty defaulted) at reporting date. The table below shows the Company's counterparty credit risk exposure by credit rating.

RATINGS	**2018 $'000**	2017 $'000
A	**38,757**	41,220
A–	**16,622**	10,973
BBB+	**16,122**	12,310
BBB	**–**	436
Total	**71,501**	64,939

Platinum Investment Management Limited regularly monitors the Company's credit risk exposure to counterparties and seeks to manage the risk by spreading exposure over a number of counterparties by signing standard ISDA (International Swaps and Derivatives Association) master agreements and net settlement contracts, employing two-way symmetrical margining of unrealised profits and losses and by controlling the duration of contracts to be short-term. Transactions in listed securities and investments are entered into with approved brokers. Payment is only made once a broker has received securities and delivery of securities sold only occurs once the broker receives payment.

Notes to the Financial Statements
30 June 2018

Note 16. Financial risk management – continued

Analysis of receivables
The Company's ageing analysis of receivables (disclosed in Note 6 and the statement of financial position) as at 30 June 2018 is as follows:

	2018 $'000	2017 $'000
0-30 days	**4,417**	2,006
31-60 days	**432**	1,180
61-90 days	**198**	–
90+ days	**145**	1,274
Total	**5,192**	**4,460**

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

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

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

Remaining contractual maturities
The following table details the Company's remaining contractual maturity for its financial and non-financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial and non-financial liabilities based on the earliest date on which the financial and non-financial liabilities are required to be paid.

2018	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Non-financial			
Payables (Note 7)	**1,509**	**31**	**1,540**
Income tax payable (Note 3)	**–**	**6,091**	**6,091**
Total non-financial	**1,509**	**6,122**	**7,631**
Financial			
Derivative contractual outflows (Note 5)	**239**	**–**	**239**
Foreign currency forward contractual outflows (Note 5)	**2,254**	**–**	**2,254**
Total financial	**2,493**	**–**	**2,493**

Note 16. Financial risk management – continued

Liquidity risk – continued

Remaining contractual maturities – continued

2017	WITHIN 3 MONTHS $'000	BETWEEN 3 AND 12 MONTHS $'000	TOTAL $'000
Non-financial			
Payables (Note 7)	4,445	59	4,504
Total non-financial	4,445	59	4,504
Financial			
Derivative contractual outflows (Note 5)	6	–	6
Foreign currency forward contractual outflows (Note 5)	1,158	–	1,158
Total financial	1,164	–	1,164

At 30 June 2018, there are no other contractual amounts payable after 12 months.

The Company has sufficient funds to meet these liabilities as the value of total net assets realisable in one year or less, excluding brokerage costs, is $481,411,000 (2017: $451,144,000). Assets that are realisable in one year or less include equities, derivatives, cash and cash equivalents.

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

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

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

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

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Capital risk management

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

Notes to the Financial Statements
30 June 2018

Note 16. Financial risk management – continued

Capital risk management – continued

The Company's key objectives are to deliver attractive returns to shareholders over time, made up of capital growth and fully-franked dividends and contain capital losses by mitigating the impact of market downturns.

The Board will give active consideration, as appropriate, to enhancing shareholder value through the:

– management of the level of dividends to shareholders;

– issue of shares by methods such as rights offers, share purchase plans or placements; or

– use of share buy-backs.

The Company is an ASX-listed investment company and is subject to various ASX Listing Rules requirements. For example, the Company must report its Net Tangible Asset Backing per share (NTA) to the ASX on a monthly basis. The Company complies with all externally-imposed capital requirements.

Note 17. Fair value measurement

Fair value hierarchy

AASB 13: *Fair Value Measurement* requires the Company to classify its assets and liabilities held at fair value using the following fair value hierarchy model:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

(i) Equity securities, long equity swaps and long futures;

(ii) Corporate bonds;

(iii) Short equity swaps and short futures; and

(iv) Foreign currency forward contracts.

The table on the following page details the Company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy model.

Note 17. Fair value measurement – continued

Fair value hierarchy – continued

2018	**LEVEL 1 $'000**	**LEVEL 2 $'000**	**LEVEL 3 $'000**	**TOTAL $'000**
Assets				
Equity securities	**423,183**	**17,334**	**3,927**	**444,444**
Derivatives	**1,364**	**1,189**	**–**	**2,553**
Foreign currency forward contracts	**–**	**1,910**	**–**	**1,910**
Total assets	**424,547**	**20,433**	**3,927**	**448,907**
Liabilities				
Derivatives	**–**	**239**	**–**	**239**
Foreign currency forward contracts	**–**	**2,254**	**–**	**2,254**
Total liabilities	**–**	**2,493**	**–**	**2,493**

2017	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Equity securities	400,213	12,626	–	412,839
Corporate bonds	–	292	–	292
Derivatives	94	276	–	370
Foreign currency forward contracts	–	2,451	–	2,451
Total assets	400,307	15,645	–	415,952
Liabilities				
Derivatives	–	6	–	6
Foreign currency forward contracts	–	1,158	–	1,158
Total liabilities	–	1,164	–	1,164

The figures presented above can be reconciled to Note 4 or Note 5 and the statement of financial position.

Fair value measurement of assets that are not based on observable market data (Level 3)
The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. During the year, all of the Zimbabwe securities held by the Company were transferred from Level 1 to Level 3. At 30 June 2018, the quantum of Level 3 investments as a proportion of total fair value of investments was less than 1%.

In light of the failure by the Zimbabwe Government to implement plausible reforms around fund repatriation from that country, the Investment Manager reviewed the Zimbabwean securities held by the Company and have taken the view that the lack of liquidity available to repatriate funds, means that there should be a downward adjustment made to the fair value of the Company's Zimbabwean security holdings.

Notes to the Financial Statements

30 June 2018

Note 17. Fair value measurement – continued

Fair value measurement of assets that are not based on observable market data (Level 3) – continued

From 15 September 2017, the Investment Manager has applied a 33% discount for this lack of liquidity and has booked a fair value adjustment against the Company's Zimbabwean security positions. The fair value used to value the Zimbabwean securities in these accounts is the lowest quoted closing market price between 12 September 2017 and 30 June 2018 less a 33% foreign currency repatriation discount.

September 2017 was the month that sufficient information was received by the Investment Manager with respect to the difficulty in repatriating proceeds on the disposal of these securities. We have classified the fair value attributable to the Zimbabwean securities as Level 3 securities, because the fair value applied, particularly when considering the 33% discount that has been applied, is not based on observable market data.

As at 30 June 2018, the Company held approximately A$3,926,980 in Zimbabwean securities (based on the adjusted value applied by the Investment Manager and ratified by the Board), which constituted approximately 0.88% of the Company's total fair value of investments at 30 June 2018. A summary of the Level 3 fair value applied in these accounts relative to the "Level 1" equivalent fair value is disclosed in the table below.

NAME OF ZIMBABWEAN SECURITY	FAIR VALUE USED TO VALUE THE SECURITY IN THE ACCOUNTS (A$) (LEVEL 3 VALUE USED)	FAIR VALUE BASED ON THE QUOTED CLOSING MARKET PRICE AT 30 JUNE 2018 (A$) (EQUIVALENT LEVEL 1 VALUE)	% DISCOUNT
Axia Corp	201,511	413,549	51%
Econet Wireless Holdings	1,840,311	4,222,589	56%
Innscor Africa	1,119,507	2,464,586	55%
Masimba Holdings	350,034	576,357	39%
Simbisa Brands	415,617	883,491	53%
Total	3,926,980	8,560,572	54%

The % discount exceeded 33% because the discount was applied against the lowest quoted market price for the period from 12 September 2017 to 30 June 2018, rather than applying this discount against the 30 June 2018 market price.

The total of the Level 3 values disclosed above reconcile to the "30 June 2018" Level 3 value disclosed on the previous page 65.

The above table shows that the value of the investments recorded in the statement of financial position was $4,633,592 lower than the value that would have applied if the 30 June 2018 quoted closing market price for these securities had been used when preparing the Company's statement of financial position.

Note 17. Fair value measurement – continued

Fair value measurement of assets that are not based on observable market data (Level 3) – continued

	$
Opening balance as at 30 June 2017	–
Transfers to Level 3	3,926,980
Closing balance	3,926,980

Valuation process
The Investment Manager, via its portfolio accounting team, performs daily valuations of each of its investments. The valuation of any Level 3 and Level 2 securities are assessed and reviewed for appropriateness and a discussion of the valuation basis is held with management and an adjustment to the price is made if it is considered that the market price is not reasonable. This discussion occurs between the Finance Director, portfolio accounting team and the Chief Compliance Officer. A separate register is also maintained documenting the valuation used and the basis for the valuation. A re-assessment of each of these valuations re-occurs each month and at each reporting date when the financial report is prepared.

Valuation inputs and relationship to fair value for Level 3 securities
The following table summarises the quantitative information about the unobservable inputs used in the Level 3 fair value measurements.

	BEST ESTIMATE OF FAIR VALUE AT 30 JUNE 2018	UNOBSERVABLE INPUTS	DOWNSIDE/UPSIDE
Zimbabwean securities	$3,926,980	A two-step process was applied to obtain the 30 June 2018 fair value, taking the lowest quoted closing market price between 12 September 2017 and 30 June 2018 and applying a 33% discount to that lowest closing quoted market price during the year.	Downside: forced redemption and loss of $3,926,980 of sale proceeds (before brokerage). Upside: redemption and repatriation of securities at quoted closing market price.

Rationale for classification of assets and liabilities as Level 1

As at 30 June 2018, 95% of the equity securities and derivatives held by the Company are valued using unadjusted quoted prices in active markets and are classified as Level 1 in the fair-value hierarchy model.

Notes to the Financial Statements

30 June 2018

Note 17. Fair value measurement – continued

Rationale for classification of assets and liabilities as Level 2

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

(i) foreign currency forward contracts are classified as Level 2 even though forward points are quoted in an active and liquid market. The forward themselves are based on interest rate differentials;

(ii) Participatory Notes are classified as Level 2 because they are generally traded Over-The-Counter (OTC) and are often priced in a different currency to the underlying security;

(iii) Over-The-Counter (OTC) equity swap contracts are classified as Level 2 because the swap contract itself is not listed and therefore there is no directly observable market price; or the price is sourced from the relevant counterparty, even though the price (and in the case of options, the relevant delta) can be verified directly from Bloomberg or verified using option pricing models. However, the underlying securities referred to in this swap contract do have a directly observable price in an active market; and

(iv) certain index derivatives are classified as Level 2 because the Company may agree with the counterparty to include or exclude one or more securities that make up the "basket" of securities that comprise the index derivative. Hence, the quoted price of the index derivative would be very similar, but not identical to the index derivative that the Company held.

Note 18. Offsetting of financial assets and financial liabilities

Offsetting and master netting agreements

The Company enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other, if:

I. there is a legally enforceable right to set-off the financial asset and financial liability; and

II. the Company intends to settle the financial asset and financial liability on a net basis, or realise the financial asset and settle the financial liability simultaneously.

Note 18. Offsetting of financial assets and financial liabilities – continued

Offsetting and master netting agreements – continued

The gross and net positions of financial asset and liabilities that have been offset in the Statement of Financial Position are disclosed in the first three columns of the following table:

	AMOUNTS OFFSET IN THE STATEMENT OF FINANCIAL POSITION			RELATED AMOUNTS NOT SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		
2018	GROSS AMOUNTS $'000	GROSS AMOUNTS SET-OFF IN THE STATEMENT OF FINANCIAL POSITION $'000	NET AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION $'000	FINANCIAL INSTRUMENTS[1] $'000	CASH COLLATERAL $'000	NET AMOUNT $'000
Financial assets						
Derivatives	**2,553**	**–**	**2,553**	**(196)**	**–**	**2,357**
Foreign currency forward contracts	**2,378**	**(468)**	**1,910**	**(667)**	**–**	**1,243**
2017						
Derivatives	370	–	370	(6)	–	364
Foreign currency forward contracts	2,924	(473)	2,451	(849)	–	1,602
Financial liabilities						
2018						
Derivatives	**239**	**–**	**239**	**(196)**	**(43)**	**–**
Foreign currency forward contracts	**2,722**	**(468)**	**2,254**	**(667)**	**(1,587)**	**–**
2017						
Derivatives	6	–	6	(6)	–	–
Foreign currency forward contracts	1,631	(473)	1,158	(849)	(309)	–

1. Shows the impact of arrangements between the Company and the relevant counterparty on financial instruments that provide a right to set-off that becomes enforceable and affects settlement of individual financial assets and liabilities only following a specified event of default or in other circumstances not expected to arise in the normal course of business. These arrangements are not set-off in the Statement of Financial Position, as they are not currently enforceable.

Notes to the Financial Statements

30 June 2018

Note 19. Investment Manager

The Investment Manager, Platinum Investment Management Limited receives a monthly management fee for investment management services provided in accordance with the Investment Management Agreement. This Agreement provides for a management fee payable monthly and calculated at 1.1% (2017: 1.1%) per annum of the adjusted portfolio value (which includes cash and deposits).

The Agreement also provides a performance fee at 15%, at 30 June, of the amount which the portfolio's annual performance exceeds the return achieved by the Morgan Stanley Capital International All Country World Net Index (MSCI). Where the portfolio's annual return is less than the MSCI, the amount of the underperformance is aggregated, carried forward and deducted from the annual performance in the subsequent year before calculating any performance fee for that year. The aggregate of underperformance is carried forward until a performance fee becomes payable.

The 12 months pre-tax performance of the portfolio up to 30 June 2018, was 15.25%[1] and the corresponding MSCI return was 14.95%. This represents an outperformance of 0.30% against the MSCI. However, once the prior period aggregate underperformance of 10.25% is also included, a performance fee has not been accrued. The total aggregate underperformance of 9.95% will need to be made up before a performance fee will be paid. The management fees paid and payable are shown in the table below.

	2018 $	2017 $
Management fees paid	**5,123,547**	3,826,434
Management fees payable	**460,537**	426,700
Total	**5,584,084**	4,253,134

In the event of termination, Platinum Investment Management Limited will be paid a 1.1% per annum lump sum termination fee payable by the Company equal to the management fee rate of 1.1% per annum in respect of the period from the first business day of the month in which termination is effective to the date which is the first anniversary of that date. Additionally, a performance fee may be payable for the period from the last calculation of the performance fee (as described above) to the date of termination.

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

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

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

1. This figure represents the 12 month return of the "Portfolio Value" (as defined in of the Investment Management Agreement), which is defined as the aggregate value of each asset or investment of the Company's portfolio. This differs from the Company's 12 month pre-tax NTA return of 15.6% referred to in the Directors' Report, which also includes non-portfolio and non-investment related assets and liabilities.

Note 19. Investment Manager – continued

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

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

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

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

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

(ii) goes into liquidation;

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

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

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

Note 20. Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the Company:

	2018 $	2017 $
Audit services – PricewaterhouseCoopers		
Audit and review of the financial statements	**85,490**	83,000
Other services – PricewaterhouseCoopers		
Taxation services	**18,378**	4,402
	103,868	87,402

Notes to the Financial Statements
30 June 2018

Note 21. Key management personnel disclosures
Key Management Personnel
Details of remuneration paid to the Non-Executive Directors are outlined in the statement of profit or loss and other comprehensive income and in aggregate terms was $186,150 (2017: $186,150), with $170,000 (2017: $170,000) paid as cash salary and $16,150 (2017: $16,150) paid as superannuation. Refer to the Remuneration Report for further details.

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

	OPENING BALANCE	ACQUISITIONS	DISPOSALS	CLOSING BALANCE
Margaret Towers	–	50,000	–	50,000
Richard Morath	42,372	–	–	42,372
Jim Clegg	59,972	–	–	59,972

Bruce Coleman held 249,972 shares at the start of the year and up until the date of his departure on 31 March 2018.

Note 22. Related party transactions
Management Fees
Disclosures relating to management fees paid and payable to the related party, Platinum Investment Management Limited are set out in Note 19.

Administration fees
Under the Administrative Services Agreement, Platinum Investment Management Limited provides various administrative services to the Company. These include accountancy, secretarial, performance analytics, taxation, compliance and risk monitoring services. The services provided extend to liaison with the share registry to ensure that accurate share records are maintained and services are provided to shareholders in a timely and efficient manner. In consideration for providing these services, Platinum Investment Management Limited received a payment of $1 from the Company.

Key management personnel
Disclosures relating to key management personnel are set out in Note 21 and the Remuneration Report.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 23. Contingent Assets, Liabilities and Commitments to Capital Expenditure
No contingent assets or liabilities exist at 30 June 2018 and 30 June 2017. The Company has no commitments for uncalled share capital on investments.

Note 24. Events after the reporting period

Apart from the dividend declared as disclosed in Note 10, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 25. The Company

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

Level 8, 7 Macquarie Place
Sydney NSW 2000

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

Directors' Declaration

30 June 2018

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Margaret Towers
Chairperson

Richard Morath
Director

16 August 2018
Sydney

Independent Auditor's Report

to the members of Platinum Capital Limited

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

– the statement of financial position as at 30 June 2018

– the statement of profit or loss and other comprehensive income for the year then ended

– the statement of changes in equity for the year then ended

– the statement of cash flows for the year then ended

– the notes to the financial statements, which include a summary of significant accounting policies

– the Directors' declaration.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO Box 2650, Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Independent Auditor's Report

to the members of Platinum Capital Limited

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of 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.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Company, its accounting processes and controls and the industry in which it operates.

Platinum Capital Limited is a listed investment company on the ASX. The Company primarily makes investments in international equities.

MATERIALITY	AUDIT SCOPE	KEY AUDIT MATTERS
– For the purpose of our audit we used overall materiality of $2,356,000, which represents approximately 0.5% of the Company's net assets. – We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. – We chose net assets as this is a generally accepted benchmark for listed investment companies. – We utilised a 0.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	– Our audit focused on where the Company made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. – Our audit approach reflects the nature of the investments held by the Company and the consideration of the work undertaken by third party service providers. The key service providers manage the Company's investments, maintain the accounting records of the Company and provide custodian services.	– Amongst other relevant topics, we communicated the following key audit matters to the Audit, Risk & Compliance Committee: • Investment valuation and existence – This is further described in the *Key audit matters* section of our report.

Independent Auditor's Report

to the members of Platinum Capital Limited

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 for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Investment valuation and existence *Refer to Note 1 (Summary of significant accounting policies) and Note 4 and 5 (Financial assets at fair value through profit or loss and Financial liabilities at fair value through profit or loss)* At 30 June 2018, investments in financial assets and financial liabilities of $448,907,000 and $2,493,000 were comprised primarily of investments in equity securities, fixed interest securities, options, futures contracts, OTC derivatives and foreign currency contracts. The existence and valuation of financial assets was a key audit matter because financial assets and financial liabilities represent the principal elements of the Statement of financial position, accounting for 94.7% of net assets. A discrepancy in the valuation or existence of investments could cause the net assets attributable to unitholders to be materially misstated which could also impact the Company's performance as the valuation of financial assets and financial liabilities is the main driver of movements in its profit. Some investments are traded in inactive or unquoted markets, meaning the Company needs to make judgements to estimate their fair value as outlined in note 17 to the financial statements. Changes to the estimates, assumptions and or/judgements can result in a material change to the valuation.	Our audit procedures on investment valuation included, amongst others: – For a sample of participatory notes, we obtained price data from a third party price vendor for the underlying equity security of the participatory note in local currency. We translated the price into Australian dollars and compared it to the participatory note price used to value the investments by the Company. – For a sample of OTC derivatives we recalculated the valuation for a sample of OTC derivatives held by the fund with assistance from PwC valuation experts. – For a sample of all other investments, we obtained price data from third party price vendors and compared it to the prices used by the Company. – For those investments held in illiquid markets, where external information supporting valuations was limited, we sought other information which, while not always directly comparable, might be indicative of appropriate valuation.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
	Our audit procedures over investment existence included, amongst others: – We obtained the System and Organization Controls ("SOC 1") Report issued within 3 months of the Company's year end and evaluated the controls mentioned in the report over investment existence at the custodian including consideration of exceptions identified in the SOC 1 Report. This report and assurance opinion is comparable to the Australian equivalent, ASAE 3402 issued by the Auditing and Assurance Standards Board. – We obtained confirmations from the custodian of the investment holdings as at 30 June 2018 and sample tested the largest reconciling items by obtaining supporting evidence for the differences. – We assessed the adequacy of the disclosures in Note 1, Note 4, Note 5 and Note 17 to the financial report in light of the requirements of Australian Accounting Standards.

Independent Auditor's Report

to the members of Platinum Capital Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Corporate directory, Shareholder information, Investment Structure, Objectives and Methodology and Directors' Report. We expect the remaining other information to be made available to us after the date of this auditor's report, including Chairman's Report, Financial Information Summary and market research article(s).

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 Company 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 the 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 23 to 26 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Platinum Capital Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

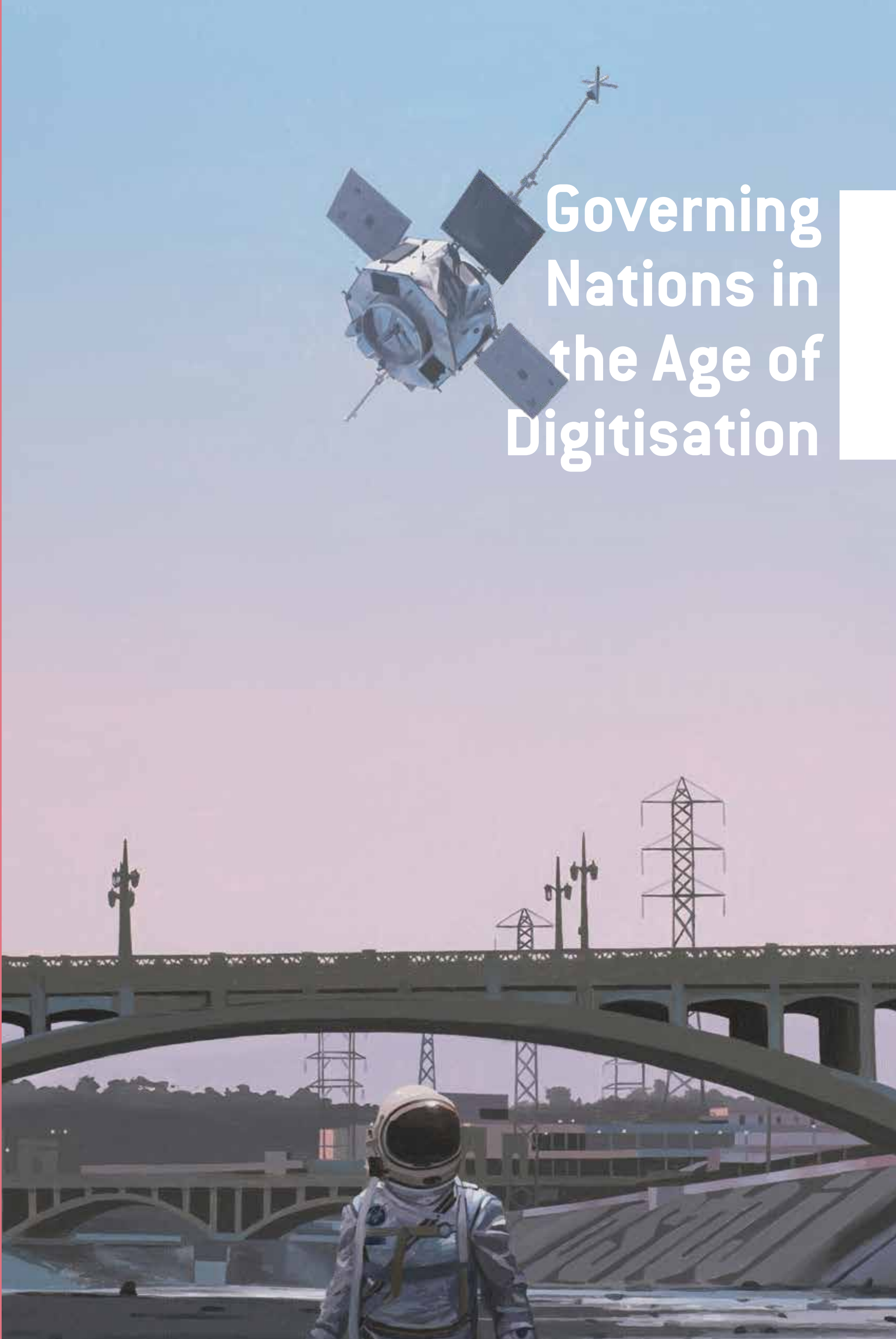
The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Simon Cuthbert
Partner

Sydney, 16 August 2018

Governing Nations in the Age of Digitisation



Designed and produced by

3C Creative Agency, 3c.com.au

Articles

The Digital Republic
By Nathan Heller

Originally published in the print edition of the
December 18 & 25, 2017 issue of The New Yorker.

Big Data Meets Big Brother
By Rachel Botsman

Extracted from WHO CAN YOU TRUST by Rachel Botsman,
published by Portfolio Penguin @ £14.99.

Artwork by

Scott Listfield
astronautdinosaur.com

“Simple people suffer in the hands of heavy bureaucracies We must go for inclusiveness, not high end. And we must go for reliability, not complex.”

Kersti Kaljulaid,
President of Estonia

Preface

Times are challenging for governments around the globe. Populist movements across various countries are pushing for a new political order at home while their heads of state jostle each other to find their place on the world stage. There are trade wars to fight, geopolitical tensions to sooth, and humanitarian crises to diffuse.

And then there is the day-to-day business of running a country: how to tackle unemployment, what infrastructure to build, how to improve health care and education without breaking the budget and while handing out tax cuts... In a world where change is accelerating and growth has become a new creed, citizens are demanding more from their governments, democratically elected or otherwise.

Turning on the news channel on any night of the week, one would without fail feel a sense of tedium and hopelessness at the bickering politicians and a ballooning, yet systematically ineffectual, bureaucracy. This is true not only of our own nation, but also the other traditional beacons of the representative system of government, like the US and the UK. That's why the story of Estonia's digitisation, as vividly told by Nathan Heller from *The New Yorker,* reads like a breath of fresh air.

With a population of just 1.3 million and few big corporates and entrenched interest groups, when Estonia gained independence from the former Soviet Union in 1991 it had a historical opportunity to start afresh as a new nation and build modern institutions almost from scratch. Today, the small Baltic republic is hailed as "the most advanced digital society in the world"[1], a shining exemplar of a forward-thinking government leading a nation in and with information technology. From voting to policing, from health records to tax filings, 99% of public services are now online and linked across a robust digital platform, which also allows the private sector, from banks to pharmacies, to connect their own databases to it.

With the 2007 Russian cyberattack still fresh in memory and being no stranger to the European Union's privacy-focused culture, the Estonians have been both innovative and thoughtful in the design of their digital architecture, carefully balancing privacy and transparency, security and accessibility. X-Road, the data platform that forms the backbone of e-Estonia, employs open-source and distributed systems to minimise the risk of centralised attacks as well as ensuring the traceability of every digital footprint (blockchain technology has been in operational use in various registries since 2012).

1 https://www.wired.co.uk/article/estonia-e-resident
2 https://e-estonia.com/
3 https://theconversation.com/what-australia-can-learn-about-e-government-from-estonia-35091

Creative governance principles and concepts have been equally important to the integrity of e-Estonia: it backs up the entire national database in "data embassies" that are located on foreign soil but are afforded the same protection status as a diplomatic mission; individuals own all the personal information recorded about themselves; and a "once-only" rule that discourages agencies from asking citizens for the same information more than once.

X-Road is said to save more than 800 years of working time annually for the Estonian state and its citizens[2], and going paperless reportedly saves 2% of GDP a year[3]. But the significant efficiency gains and cost savings in both public and private services are not the only benefits of digitisation. Greater transparency and openness can improve the accountability of government.

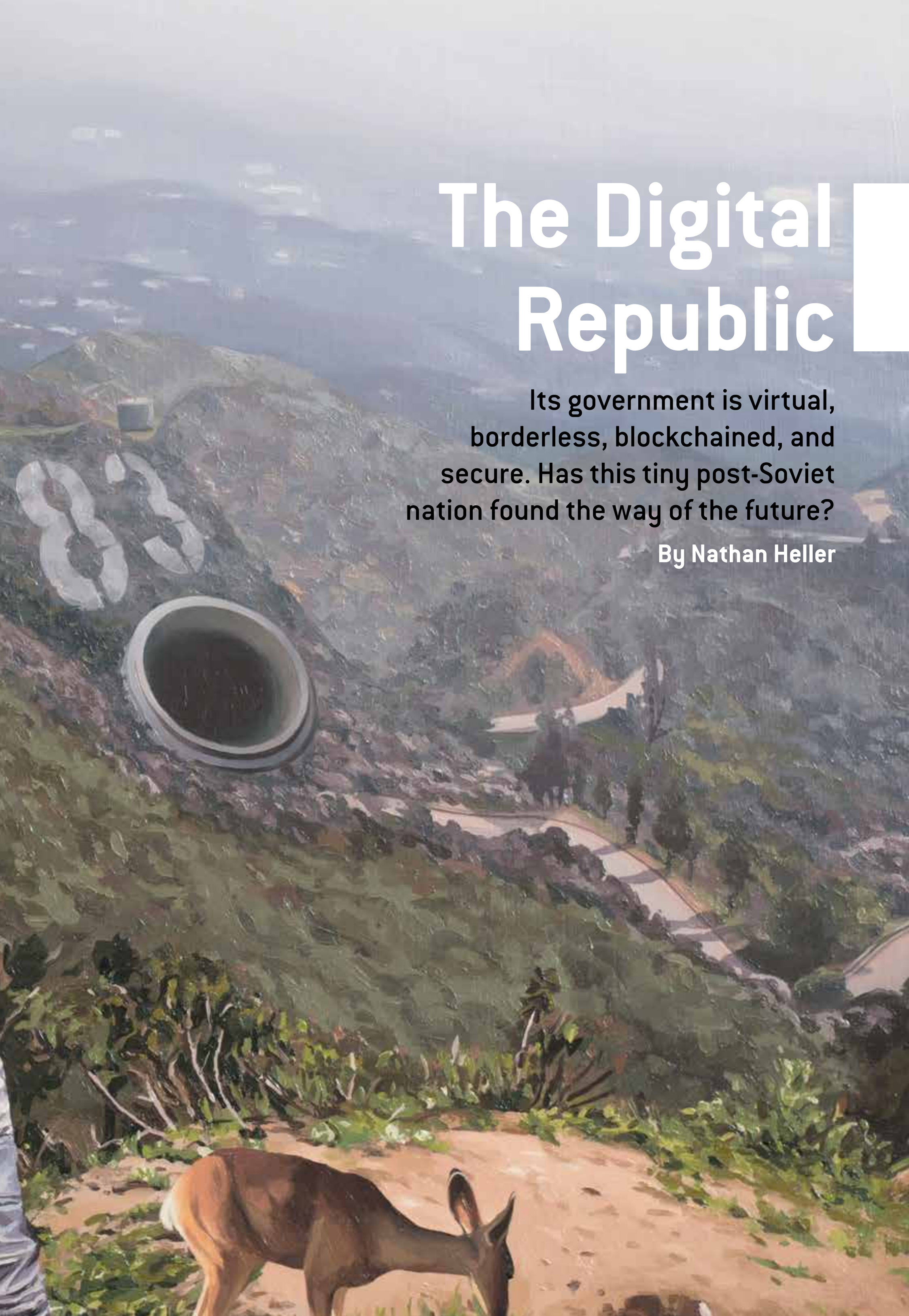
There are also the broader economic benefits – Estonia's investments in technological infrastructure have created a vibrant digital ecosystem that has done a superb job attracting entrepreneurs and fostering innovative start-ups. Skype, Taxify, Transferwise… The success stories are plentiful, and the Estonian government is intent on seeing more entrepreneurialism flourish on its virtual soil through e-Residency, a "transnational digital identity" program. Foreign nationals wishing to take advantage of Estonia's e-services, like opening a European bank account or incorporating a company with EU status, can apply online for a digital ID for the cost of 100 euros without ever setting foot in the country itself.

A remarkable aspect of e-Estonia, as you will sense from Nathan Heller's article, is that there seems to be a virtual cycle of trust underlying its success: the trust that its citizens placed in the Estonian government allowed it to embark on such an audacious and creative undertaking, while the benefits it has delivered reinforced its citizens' trust. The government does not seek to control its citizens with their data; it makes it easier for its people to get on with their lives. It does not coerce businesses to serve the state; but tries to be facilitative and minimise obstruction.

The contrast with China is stark, as you will see from the second feature – an extract from Rachel Botsman's recent book, *Who Can You Trust?.* There, the government is also seeking to harness the power of digital connectivity and big data, and such a "social credit" system will have far-reaching impacts on the trust between the government and its citizens as well as between businesses and citizens. We have over the last year seen numerous reports on the use of facial recognition and other advanced AI technologies by the Chinese government in surveillance and law enforcement – the upsides and the potential Orwellian threats seem equally striking.

One thing is clear – technology is a powerful tool for governments. But as Marten Kaevats, Estonia's national digital adviser, pointed out, it's not about the technology, "It's about the mind-set. It's about the culture. It's about the human relations – what it enables us to do."

Kerr Neilson,
Founder and Director,
Platinum Asset Management
August 2018



The Digital Republic

Its government is virtual, borderless, blockchained, and secure. Has this tiny post-Soviet nation found the way of the future?

By Nathan Heller

Up the Estonian coast, a five-lane highway bends with the path of the sea, then breaks inland, leaving cars to follow a thin road toward the houses at the water's edge. There is a gated community here, but it is not the usual kind. The gate is low – a picket fence – as if to prevent the dunes from riding up into the street. The entrance is blocked by a railroad-crossing arm, not so much to keep out strangers as to make sure they come with intent.

Beyond the gate, there is a schoolhouse, and a few homes line a narrow drive. From Tallinn, Estonia's capital, you arrive dazed: trees trace the highway, and the cars go fast, as if to get in front of something that no one can see.

Within this gated community lives a man, his family, and one vision of the future. Taavi Kotka, who spent four years as Estonia's chief information officer, is one of the leading public faces of a project known as e-Estonia: a coördinated governmental effort to transform the country from a state into a digital society.

E-Estonia is the most ambitious project in technological statecraft today, for it includes all members of the government, and alters citizens' daily lives.

The normal services that government is involved with – legislation, voting, education, justice, health care, banking, taxes, policing, and so on – have been digitally linked across one platform, wiring up the nation. A lawn outside Kotka's large house was being trimmed by a small robot, wheeling itself forward and nibbling the grass.

"Everything here is robots," Kotka said. "Robots here, robots there." He sometimes felt that the lawnmower had a soul. "At parties, it gets *close* to people," he explained.

A curious wind was sucking in a thick fog from the water, and Kotka led me inside. His study was cluttered, with a long table bearing a chessboard and a bowl of foil-wrapped wafer chocolates (a mark of hospitality at Estonian meetings). A four-masted model ship was perched near the window; in the corner was a pile of robot toys.

"We had to set a goal that resonates, large enough for the society to believe in," Kotka went on.

He is tall with thin blond hair that, kept shaggy, almost conceals its recession. He has the liberated confidence, tinged with irony, of a cardplayer who has won a lot of hands and can afford to lose some chips.

It was during Kotka's tenure that the e-Estonian goal reached its fruition. Today, citizens can vote from their laptops and challenge parking tickets from home.

They do so through the "once only" policy, which dictates that no single piece of information should be entered twice.

Instead of having to "prepare" a loan application, applicants have their data – income, debt, savings – pulled from elsewhere in the system. There's nothing to fill out in doctors' waiting rooms, because physicians can access their patients' medical histories.

Estonia's system is keyed to a chip-I.D. card that reduces typically onerous, integrative processes – such as doing taxes – to quick work. "If a couple in love would like to marry, they still have to visit the government location and express their will," Andrus Kaarelson, a director at the Estonian Information Systems Authority, says. But, apart from transfers of physical property, such as buying a house, all bureaucratic processes can be done online.

Estonia is a Baltic country of 1.3 million people and four million hectares, half of which is forest.

Its government presents this digitization as a cost-saving efficiency and an equalizing force.

Digitizing processes reportedly saves the state two per cent of its G.D.P. a year in salaries and expenses.

Since that's the same amount it pays to meet the NATO threshold for protection (Estonia – which has a notably vexed relationship with Russia – has a comparatively small military), its former President Toomas Hendrik Ilves liked to joke that the country got its national security for free.

Other benefits have followed. "If everything is digital, and location-independent, you can run a borderless country," Kotka said.

In 2014, the government launched a digital "residency" program, which allows logged-in foreigners to partake of some Estonian services, such as banking, as if they were living in the country.

Other measures encourage international startups to put down virtual roots; Estonia has the lowest business-tax rates in the European Union, and has become known for liberal regulations around tech research. It is legal to test Level 3 driverless cars (in which a human driver can take control) on all Estonian roads, and the country is planning ahead for Level 5 (cars that take off on their own).

"We believe that innovation happens anyway," Viljar Lubi, Estonia's deputy secretary for economic development, says. "If we close ourselves off, the innovation happens somewhere else."

"It makes it so that, if one country is not performing as well as another country, people are going to the one that is performing better – competitive governance is what I'm calling it," Tim Draper, a venture capitalist at the Silicon Valley firm Draper Fisher Jurvetson and one of Estonia's leading tech boosters, says.

"We're about to go into a very interesting time where a lot of governments can become virtual."

Previously, Estonia's best-known industry was logging, but Skype was built there using mostly local engineers, and countless other startups have sprung from its soil. "It's not an offshore paradise, but you can capitalize a lot of money," Thomas Padovani, a Frenchman who co-founded the digital-ad startup Adcash in Estonia, explains.

"And the administration is light, all the way." A light touch does not mean a restricted one, however, and the guiding influence of government is everywhere.

As an engineer, Kotka said, he found the challenge of helping to construct a digital nation too much to resist. "Imagine that it's your task to build the Golden Gate Bridge," he said excitedly. "You have to change the whole way of thinking about society." So far, Estonia is past halfway there.

One afternoon, I met a woman named Anna Piperal at the e-Estonia Showroom. Piperal is the "e-Estonia ambassador"; the showroom is a permanent exhibit on the glories of digitized Estonia, from Skype to Timbeter, an app designed to count big piles of logs. (Its founder told me that she'd struggled to win over the wary titans of Big Log, who preferred to count the inefficient way.) Piperal has blond hair and an air of brisk, Northern European professionalism. She pulled out her I.D. card; slid it into her laptop, which, like the walls of the room, was faced with blond wood; and typed in her secret code, one of two that went with her I.D. The other code issues her digital signature – a seal that, Estonians point out, is much harder to forge than a scribble.

"This PIN code just starts the whole decryption process," Piperal explained. "I'll start with my personal data from the population registry." She gestured toward a box on the screen. "It has my document numbers, my phone number, my e-mail account. Then there's real estate, the land registry." Elsewhere, a box included all of her employment information; another contained her traffic records and her car insurance. She pointed at the tax box. "I have no tax debts; otherwise, that would be there. And I'm finishing a master's at the Tallinn University of Technology, so here" – she pointed to the education box – "I have my student information. If I buy a ticket, the system can verify, automatically, that I'm a student." She clicked into the education box, and a detailed view came up, listing her previous degrees.

"My cat is in the pet registry," Piperal said proudly, pointing again. "We are done with the vaccines."

Data aren't centrally held, thus reducing the chance of Equifax-level breaches. Instead, the government's data platform, X-Road, links individual servers through end-to-end encrypted pathways, letting information live locally.

Your dentist's practice holds its own data; so does your high school and your bank. When a user requests a piece of information, it is delivered like a boat crossing a canal via locks.

Although X-Road is a government platform, it has become, owing to its ubiquity, the network that many major private firms build on, too. Finland, Estonia's neighbor to the north, recently began using X-Road, which means that certain data – for instance, prescriptions that you're able to pick up at a local pharmacy – can be linked between the nations. It is easy to imagine a novel internationalism taking shape in this form.

Toomas Ilves, Estonia's former President and a longtime driver of its digitization efforts, is currently a distinguished visiting fellow at Stanford, and says he was shocked at how retrograde U.S. bureaucracy seems even in the heart of Silicon Valley. "It's like the nineteen-fifties – I had to provide an electrical bill to prove I live here!" he exclaimed. "You can get an iPhone X, but, if you have to register your car, forget it."

X-Road is appealing due to its rigorous filtering: Piperal's teachers can enter her grades, but they can't access her financial history, and even a file that's accessible to medical specialists can be sealed off from other doctors if Piperal doesn't want it seen.

"I'll show you a digital health record," she said, to explain. "A doctor from here" – a file from one clinic – "can see the research that this doctor" – she pointed to another – "does." She'd locked a third record, from a female-medicine practice, so that no other doctor would be able to see it.

A tenet of the Estonian system is that an individual owns all information recorded about him or her. Every time a doctor (or a border guard, a police officer, a banker, or a minister) glances at any of Piperal's secure data online, that look is recorded and reported.

> Peeping at another person's secure data for no reason is a criminal offense. "In Estonia, we don't have Big Brother; we have Little Brother," a local told me. "You can tell him what to do and maybe also beat him up."

Business and land-registry information is considered public, so Piperal used the system to access the profile of an Estonian politician. "Let's see his land registry," she said, pulling up a list of properties. "You can see there are three land plots he has, and this one is located" – she clicked, and a satellite photograph of a sprawling beach house appeared – "on the sea."

The openness is startling. Finding the business interests of the rich and powerful – a hefty field of journalism in the United States – takes a moment's research, because every business connection or investment captured in any record in Estonia becomes searchable public information. (An online tool even lets citizens map webs of connection, follow-the-money style.) Traffic stops are illegal in the absence of a moving violation, because officers acquire records from a license-plate scan.

Polling-place intimidation is a non-issue if people can vote – and then change their votes, up to the deadline – at home, online. And heat is taken off immigration because, in a borderless society, a resident need not even have visited Estonia in order to work and pay taxes under its dominion.

Soon after becoming the C.I.O., in 2013, Taavi Kotka was charged with an unlikely project: expanding Estonia's population. The motive was predominantly economic. "Countries are like enterprises," he said. "They want to increase the wealth of their own people."

Tallinn, a harbor city with a population just over four hundred thousand, does not seem to be on a path toward outsized growth. Not far from the cobbled streets of the hilly Old Town is a business center, where boxy Soviet structures have been supplanted by stylish buildings of a Scandinavian cast. Otherwise, the capital seems pleasantly preserved in time.

The coastal daylight is bright and thick, and, when a breeze comes off the Baltic, silver-birch leaves shimmer like chimes. “I came home to a great autumn / to a luminous landscape,” the Estonian poet Jaan Kaplinski wrote decades ago. This much has not changed.

Kotka, however, thought that it was possible to increase the population just by changing how you thought of what a population was. Consider music, he said. Twenty years ago, you bought a CD and played the album through. Now you listen track by track, on demand.

“If countries are competing not only on physical talent moving to their country but also on how to get the best virtual talent *connected* to their country, it becomes a disruption like the one we have seen in the music industry,” he said. “And it’s basically a zero-cost project, because we already have this infrastructure for our own people.”

The program that resulted is called e-residency, and it permits citizens of another country to become residents of Estonia without ever visiting the place. An e-resident has no leg up at the customs desk, but the program allows individuals to tap into Estonia’s digital services from afar.

I applied for Estonian e-residency one recent morning at my apartment, and it took about ten minutes. The application cost a hundred euros, and the hardest part was finding a passport photograph to upload, for my card. After approval, I would pick up my credentials in person, like a passport, at the Estonian Consulate in New York.

This physical task proved to be the main stumbling block, Ott Vatter, the deputy director of e-residency, explained, because consulates were reluctant to expand their workload to include a new document. Mild xenophobia made some Estonians at home wary, too. “Inside Estonia, the mentality is kind of ‘What is the gain, and where is the money?’ ” he said.

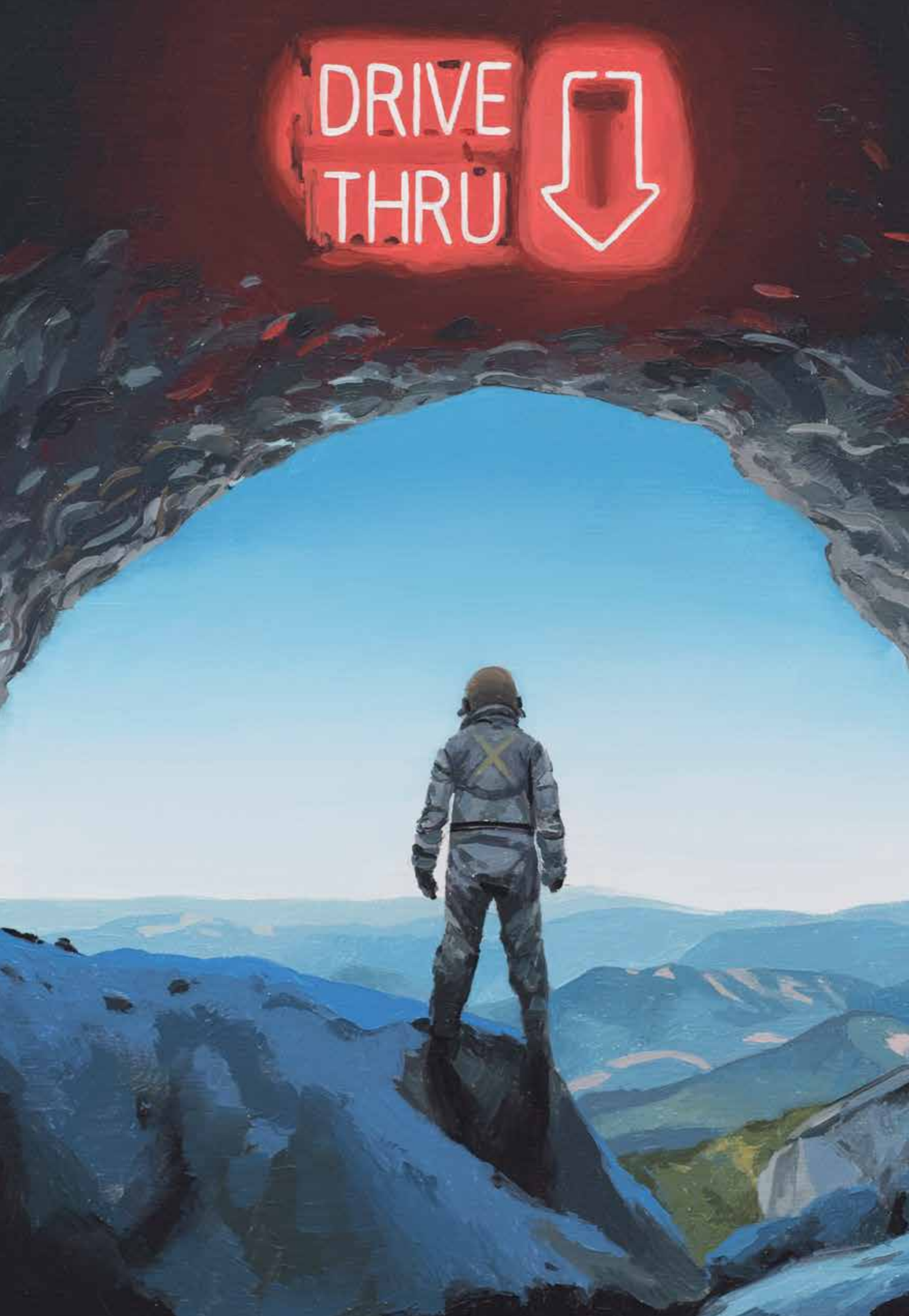
The physical factor still imposes limitations – only thirty-eight consulates have agreed to issue documents, and they are distributed unevenly. (Estonia has only one embassy in all of Africa.) But the office has made special accommodations for several popular locations. Since there’s no Estonian consulate in San Francisco, the New York consulate flies personnel to California every three months to batch-process Silicon Valley applicants.

“I had a deal that I did with Funderbeam, in Estonia,” Tim Draper, who became Estonia’s second e-resident, told me. “We decided to use a ‘smart contract’ – the first ever in a venture deal!”

Smart contracts are encoded on a digital ledger and, notably, don’t require an outside administrative authority. It was an appealing prospect, and Draper, with his market investor’s gaze, recognized a new market for élite tech brainpower and capital.

“I thought, Wow! Governments are going to have to compete with each other for us,” he said.

So far, twenty-eight thousand people have applied for e-residency, mostly from neighboring countries: Finland and Russia. But Italy and Ukraine follow, and U.K. applications spiked during Brexit.


DRIVE
THRU

(Many applicants are footloose entrepreneurs or solo venders who want to be based in the E.U.)

Because eighty-eight per cent of applicants are men, the United Nations has begun seeking applications for female entrepreneurs in India.

"There are so many companies in the world for whom working across borders is a big hassle and a source of expense," Siim Sikkut, Estonia's current C.I.O., says.

Today, in Estonia, the weekly e-residency application rate exceeds the birth rate. "We tried to make more babies, but it's not that easy," he explained.

With so many businesses abroad, Estonia's startup-ism hardly leaves an urban trace. I went to visit one of the places it does show: a co-working space, Lift99, in a complex called the Telliskivi Creative City. The Creative City, a former industrial park, is draped with trees and framed by buildings whose peeling exteriors have turned the yellows of a worn-out sponge. There are murals, outdoor sculptures, and bills for coming shows; the space is shaped by communalism and by the spirit of creative unrule. One art work consists of stacked logs labelled with Tallinn startups: Insly, LeapIN, Photry, and something called 3D Creationist.

The office manager, Elina Kaarneem, greeted me near the entrance. "Please remove your shoes," she said. Lift99, which houses thirty-two companies and five freelancers, had industrial windows, with a two-floor open-plan workspace. Both levels also included smaller rooms named for techies who had done business with Estonia. There was a Zennström Room, after Niklas Zennström, the Swedish entrepreneur who co-founded Skype, in Tallinn. There was a Horowitz Room, for the venture capitalist Ben Horowitz, who has invested in Estonian tech. There was also a Tchaikovsky Room, because the composer had a summer house in Estonia and once said something nice about the place.

"This is not the usual co-working space, because we choose every human," Ragnar Sass, who founded Lift99, exclaimed in the Hemingway Room. Hemingway, too, once said something about Estonia; a version of his pronouncement – "No well-run yacht basin is complete without at least two Estonians" – had been spray-stencilled on the wall, along with his face.

The room was extremely small, with two cushioned benches facing each other. Sass took one; I took the other. "Many times, a miracle can happen if you put talented people in one room," he said as I tried to keep my knees inside my space. Not far from the Hemingway Room, Barack Obama's face was also on a wall.

Obama Rooms are booths for making cell-phone calls, following something he once said about Estonia. ("I should have called the Estonians when we were setting up our health-care Web site.") That had been stencilled on the wall as well.

Some of the companies at Lift99 are local startups, but others are international firms seeking an Estonian foothold. In something called the Draper Room, for Tim Draper, I met an Estonian engineer, Margus Maantoa, who was launching the Tallinn branch of the German motion-control company Trinamic. Maantoa shares the room with other companies, and, to avoid disturbing them, we went to the Iceland Room. (Iceland was the first country to recognize Estonian independence.) The seats around the table in the Iceland Room were swings.

I took a swing, and Maantoa took another. He said, "I studied engineering and physics in Sweden, and then, seven years ago, I moved back to Estonia because so much is going on." He asked whether I wanted to talk with his boss, Michael Randt, at the Trinamic headquarters, in Hamburg, and I said that I did, so he opened his laptop and set up a conference call on Skype. Randt was sitting at a table, peering down at us as if we were a mug of coffee. Tallinn had a great talent pool, he said: "Software companies are absorbing a lot of this labor, but, when it comes to hardware, there are only a few companies around." He was an e-resident, so opening a Tallinn office was fast.

Maantoa took me upstairs, where he had a laboratory space that looked like a janitor's closet. Between a water heater and two large air ducts, he had set up a desk with a 3-D printer and a robotic motion-control platform. I walked him back to Draper and looked up another startup, an Estonian company called Ööd, which makes one-room, two-hundred-square-foot huts that you can order prefab.

The rooms have floor-to-ceiling windows of one-way glass, climate control, furniture, and lovely wood floors. They come in a truck and are dropped into the countryside.

"Sometimes you want something small, but you don't want to be in a tent," Kaspar Kägu, the head of Ööd sales, explained. "You want a shower in the morning and your coffee and a beautiful landscape. Fifty-two per cent of Estonia is covered by forestland, and we're rather introverted people, so we want to be – uh, *not* near everybody else." People of a more sociable disposition could scatter these box homes on their property, he explained, and rent them out on services like Airbnb.

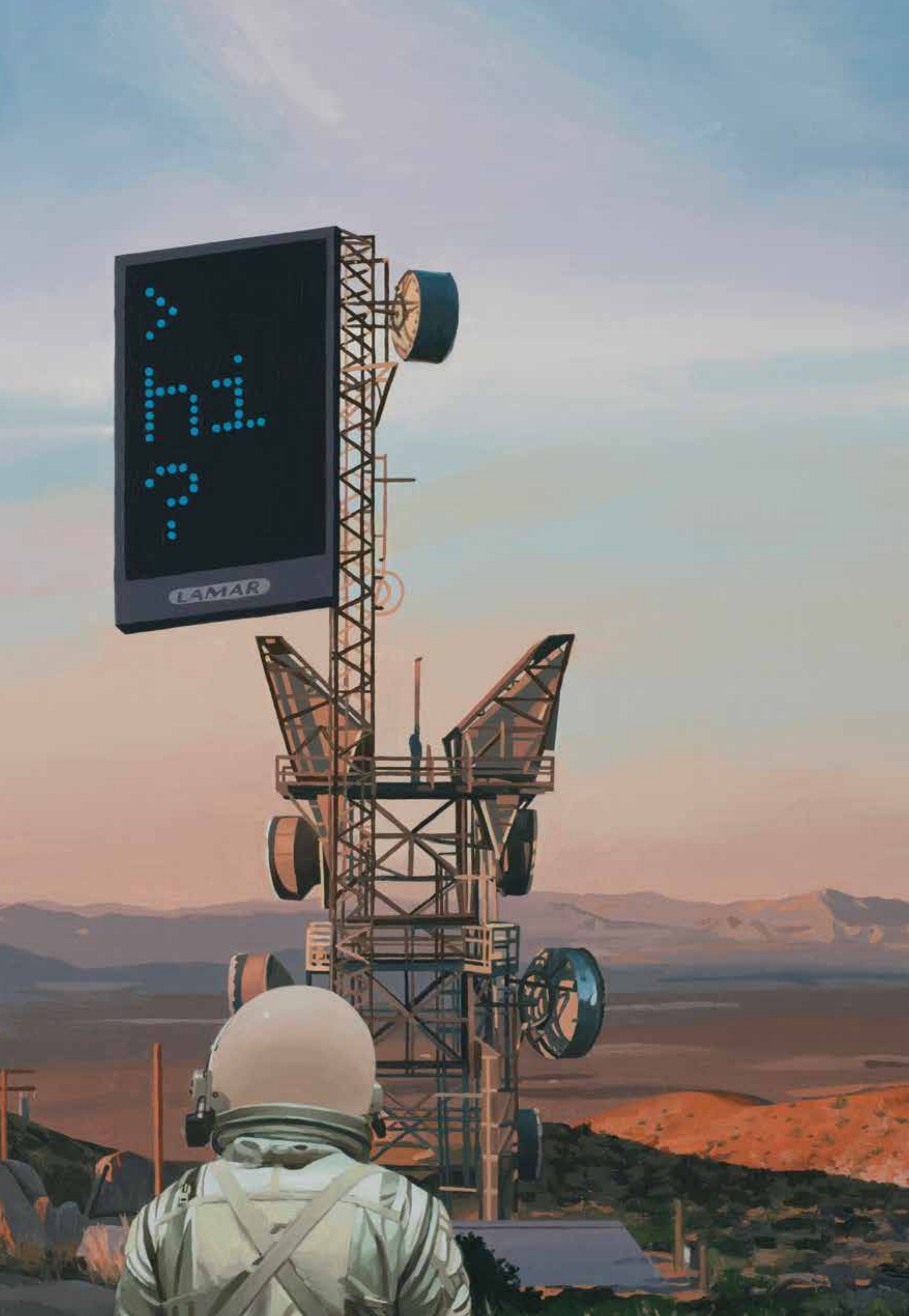
"We like to go to nature – but comfortably," Andreas Tiik, who founded Ööd with his carpenter brother, Jaak, told me. The company had queued preorders from people in Silicon Valley, who also liked the idea, and was tweaking the design for local markets. "We're building a sauna in it," Kägu said.

In the U.S., it is generally assumed that private industry leads innovation. Many ambitious techies I met in Tallinn, though, were leaving industry to go work for the state.

"If someone had asked me, three years ago, if I could imagine myself working for the government, I would have said, 'F--- no,' " Ott Vatter, who had sold his own business, told me. "But I decided that I could go to the U.S. at any point, and work in an average job at a private company. This is so much bigger."

The bigness is partly inherent in the government's appetite for large problems. In Tallinn's courtrooms, judges' benches are fitted with two monitors, for consulting information during the proceedings, and case files are assembled according to the once-only principle. The police make reports directly into the system; forensic specialists at the scene or in the lab do likewise.

Lawyers log on – as do judges, prison wardens, plaintiffs, and defendants, each through his or her portal. The Estonian courts used to be notoriously backlogged, but that is no longer the case.


>hi
?
LAMAR

"No one was able to say whether we should increase the number of courts or increase the number of judges," Timo Mitt, a manager at Netgroup, which the government hired to build the architecture, told me.

Digitizing both streamlined the process and helped identify points of delay. Instead of setting up prisoner transport to trial – fraught with security risks – Estonian courts can teleconference defendants into the courtroom from prison.

For doctors, a remote model has been of even greater use. One afternoon, I stopped at the North Estonia Medical Center, a hospital in the southwest of Tallinn, and met a doctor named Arkadi Popov in an alleyway where ambulances waited in line.

"Welcome to our world," Popov, who leads emergency medical care, said grandly, gesturing with pride toward the chariots of the sick and maimed. "Intensive care!"

In a garage where unused ambulances were parked, he took an iPad Mini from the pocket of his white coat, and opened an "e-ambulance" app, which Estonian paramedics began using in 2015. "This system had some childhood diseases," Popov said, tapping his screen. "But now I can say that it works well."

E-ambulance is keyed onto X-Road, and allows paramedics to access patients' medical records, meaning that the team that arrives for your chest pains will have access to your latest cardiology report and E.C.G.

Since 2011, the hospital has also run a telemedicine system – doctoring at a distance – originally for three islands off its coast. There were few medical experts on the islands, so the E.M.S. accepted volunteer paramedics. "Some of them are hotel administrators, some of them are teachers," Popov said. At a command center at the hospital in Tallinn, a doctor reads data remotely.

"On the screen, she or he can see all the data regarding the patient – physiological parameters, E.C.G.s," he said. "Pulse, blood pressure, temperature. In case of C.P.R., our doctor can see how deep the compression of the chest is, and can give feedback."

The e-ambulance software also allows paramedics to pre-register a patient en route to the hospital, so that tests, treatments, and surgeries can be prepared for the patient's arrival.

To see what that process looks like, I changed into scrubs and a hairnet and visited the hospital's surgery ward. Rita Beljuskina, a nurse anesthetist, led me through a wide hallway lined with steel doors leading to the eighteen operating theatres. Screens above us showed eighteen columns, each marked out with twenty-four hours. Surgeons book their patients into the queue, Beljuskina explained, along with urgency levels and any machinery or personnel they might need. An on-call anesthesiologist schedules them in order to optimize the theatres and the equipment.

"Let me show you how," Beljuskina said, and led me into a room filled with medical equipment and a computer in the corner. She logged on with her own I.D. If she were to glance at any patient's data, she explained, the access would be tagged to her name, and she would get a call inquiring why it was necessary.

The system also scans for drug interactions, so if your otolaryngologist prescribes something that clashes with the pills your cardiologist told you to take, the computer will put up a red flag.

The putative grandfather of Estonia's digital platform is Tarvi Martens, an enigmatic systems architect who today oversees the country's digital-voting program from a stone building in the center of Tallinn's Old Town.

I went to visit him one morning, and was shown into a stateroom with a long conference table and French windows that looked out on the trees. Martens was standing at one window, with his back to me, commander style. For a few moments, he stayed that way; then he whirled around and addressed a timid greeting to the buttons of my shirt.

Martens was wearing a red flannel button-down, baggy jeans, black socks, and the sort of sandals that are sold at drugstores. He had gray stubble, and his hair was stuck down on his forehead in a manner that was somehow both rumpled and flat. This was the busiest time of the year, he said, with the fall election looming. He appeared to run largely on caffeine and nicotine; when he put down a mug of hot coffee, his fingers shook.

For decades, he pointed out, digital technology has been one of Estonia's first recourses for public ailments. A state project in 1970 used computerized data matching to help singles find soul mates, "for the good of the people's economy." In 1997, the government began looking into newer forms of digital documents as a supplement.

"They were talking about chip-equipped bar codes or something," Martens told me, breaking into a nerdy snicker-giggle. "Totally ridiculous." He had been doing work in cybernetics and security as a private-sector contractor, and had an idea. When the cards were released, in 2002, Martens became convinced that they should be both mandatory and cheap.

"Finland started two years earlier with an I.D. card, but it's still a sad story," he said. "Nobody uses it, because they put a hefty price tag on the card, and it's a voluntary document. We sold it for ten euros at first, and what happened? Banks and application providers would say, 'Why should I support this card? Nobody has it.' It was a dead end."

In what may have been the seminal insight of twenty-first-century Estonia, Martens realized that whoever offered the most ubiquitous and secure platform would run the country's digital future – and that it should be an elected leadership, not profit-seeking Big Tech.

"The only thing was to push this card to the people, without them knowing what to do with it, and then say, 'Now people have a card. Let's start some applications,' " he said.

The first "killer application" for the I.D.-card-based system was the one that Martens still works on: i-voting, or casting a secure ballot from your computer. Before the first i-voting period, in 2005, only five thousand people had used their card for anything. More than nine thousand cast an i-vote in that election, however – only two per cent of voters, but proof that online voting was attracting users – and the numbers rose from there. As of 2014, a third of all votes have been cast online.

That year, seven Western researchers published a study of the i-voting system which concluded that it had "serious architectural limitations and procedural gaps." Using an open-source edition of the voting software, the researchers approximated a version of the i-voting setup in their lab and found that it was possible to introduce malware. They were not convinced that the servers were entirely secure, either.

Martens insisted that the study was "ridiculous." The researchers, he said, gathered data with "a lot of assumptions," and misunderstood the safeguards in Estonia's system. You needed both the passwords and the hardware (the chip in your I.D. card or, in the newer "mobile I.D." system, the SIM card in your phone) to log in, blocking most paths of sabotage.

Estonian trust was its own safeguard, too, he told me.

Earlier this fall, when a Czech research team found a vulnerability in the physical chips used in many I.D. cards, Siim Sikkut, the Estonian C.I.O., e-mailed me the finding. His office announced the vulnerability, and the cards were locked for a time. When Sikkut held a small press conference, reporters peppered him with questions: What did the government gain from disclosing the vulnerability? How disastrous *was* it?

Sikkut looked bemused. Many upgrades to phones and computers resolve vulnerabilities that have never even been publicly acknowledged, he said – and think how much data we entrust to those devices.

("There is no government that knows more about you than Google or Facebook," Taavi Kotka says dryly.)

In any case, the transparency seemed to yield a return; a poll conducted after the chip flaw was announced found that trust in the system had fallen by just three per cent.

From time to time, Russian military jets patrolling Estonia's western border switch off their G.P.S. transponders and drift into the country's airspace. What follows is as practiced as a pas de deux at the Bolshoi. NATO troops on the ground scramble an escort. Estonia calls up the Russian Ambassador to complain; Russia cites an obscure error. The dance lets both parties show that they're alert, and have not forgotten the history of place.

Since the eleventh century, Estonian land has been conquered by Russia five times. Yet the country has always been an awkward child of empire, partly owing to its proximity to other powers (and their airwaves) and partly because the Estonian language, which belongs to the same distinct Uralic family as Hungarian and Finnish, is incomprehensible to everyone else. Plus, the greatest threat, these days, may not be physical at all.

In 2007, a Russian cyberattack on Estonia sent everything from the banks to the media into chaos. Estonians today see it as the defining event of their recent history.

The chief outgrowth of the attack is the NATO Coöperative Cyber Defense Center of Excellence, a think tank and training facility. It's on a military base that once housed the Soviet Army. You enter through a gatehouse with gray walls and a pane of mirrored one-way glass.

"Document, please!" the mirror boomed at me when I arrived one morning. I slid my passport through on a tray. The mirror was silent for two full minutes, and I backed into a plastic chair. "You have to wait here!" the mirror boomed back.

Some minutes later, a friendly staffer appeared at the inner doorway and escorted me across a quadrangle trimmed with NATO-member flags and birch trees just fading to gold. Inside a gray stone building, another mirror instructed me to stow my goods and to don a badge. Upstairs, the center's director, Merle Maigre, formerly the national-security adviser to the Estonian President, said that the center's goal was to guide other NATO nations toward vigilance.

"This country is located – just where it is," she said, when I asked about Russia. Since starting, in 2008, the center has done research on digital forensics, cyber-defense strategy, and similar topics. (It publishes the "Tallinn Manual 2.0 on the International Law Applicable to Cyber Operations" and organizes a yearly research conference.)

But it is best known for its training simulations: an eight-hundred-person cyber "live-fire" exercise called Locked Shields was run this year alongside CYBRID, an exercise for defense ministers of the E.U. "This included aspects such as fake news and social media," Maigre said.

Not all of Estonia's digital leadership in the region is as openly rehearsed. Its experts have consulted on Georgia's efforts to set up its own digital registry. Estonia is also building data partnerships with Finland, and trying to export its methods elsewhere across the E.U. "The vision is that I will go to Greece, to a doctor, and be able to get everything," Toomas Ilves explains.

Sandra Roosna, a member of Estonia's E-Governance Academy and the author of the book "eGovernance in Practice," says, "I think we need to give the European Union two years to do cross-border transactions and to recognize each other digitally." Even now, though, the Estonian platform has been adopted by nations as disparate as Moldova and Panama. "It's very popular in countries that want – and not all do – transparency against corruption," Ilves says.

Beyond X-Road, the backbone of Estonia's digital security is a blockchain technology called K.S.I.

A blockchain is like the digital version of a scarf knitted by your grandmother. She uses one ball of yarn, and the result is continuous. Each stitch depends on the one just before it. It's impossible to remove part of the fabric, or to substitute a swatch, without leaving some trace: a few telling knots, or a change in the knit.

In a blockchain system, too, every line is contingent on what came before it. Any breach of the weave leaves a trace, and trying to cover your tracks leaves a trace, too. "Our No. 1 marketing pitch is Mr. Snowden," Martin Ruubel, the president of Guardtime, the Estonian company that developed K.S.I., told me. (The company's biggest customer group is now the U.S. military.)

Popular anxiety tends to focus on data security – who can see my information? – but bits of personal information are rarely truly compromising. The larger threat is data integrity: whether what looks secure has been changed. (It doesn't really matter who knows what your blood type is, but if someone switches it in a confidential record your next trip to the emergency room could be lethal.)

The average time until discovery of a data breach is two hundred and five days, which is a huge problem if there's no stable point of reference.

"In the Estonian system, you don't have paper originals," Ruubel said. "The question is: Do I know about this problem, and how quickly can I react?"

The blockchain makes every footprint immediately noticeable, regardless of the source. (Ruubel says that there is no possibility of a back door.) To guard secrets, K.S.I. is also able to protect information without "seeing" the information itself. But, to deal with a full-scale cyberattack, other safeguards now exist. Earlier this year, the Estonian government created a server closet in Luxembourg, with a backup of its systems.

A "data embassy" like this one is built on the same body of international law as a physical embassy, so that the servers and their data are Estonian "soil." If Tallinn is compromised, whether digitally or physically, Estonia's locus of control will shift to such mirror sites abroad.

"*If* Russia comes – not when – and if our systems shut down, we will have copies," Piret Hirv, a ministerial adviser, told me. In the event of a sudden invasion, Estonia's elected leaders might scatter as necessary. Then, from cars leaving the capital, from hotel rooms, from seat 3A at thirty thousand feet, they will open their laptops, log into Luxembourg, and – with digital signatures to execute orders and a suite of tamper-resistant services linking global citizens to their government – continue running their country, with no interruption, from the cloud.

The history of nationhood is a history of boundaries marked on land. When, in the fourteenth century, peace arrived after bloodshed among the peoples of Mexico's eastern altiplano, the first task of the Tlaxcaltecs was to set the borders of their territory. In 1813, Ernst Moritz Arndt, a German nationalist poet before there was a Germany to be nationalistic about, embraced the idea of a "Vaterland" of shared history: "Which is the German's fatherland? / So tell me now at last the land! – / As far's the German's accent rings / And hymns to God in heaven sings."

Today, the old fatuities of the nation-state are showing signs of crisis. Formerly imperialist powers have withered into nationalism (as in Brexit) and separatism (Scotland, Catalonia). New powers, such as the Islamic State, have redefined nationhood by ideological acculturation.

It is possible to imagine a future in which nationality is determined not so much by where you live as by what you log on to.

Estonia currently holds the presidency of the European Union Council – a bureaucratic role that mostly entails chairing meetings. (The presidency rotates every six months; in January, it will go to Bulgaria.) This meant that the autumn's E.U. Digital Summit was held in Tallinn, a convergence of audience and expertise not lost on Estonia's leaders. One September morning, a car pulled up in front of the Tallinn Creative Hub, a former power station, and Kersti Kaljulaid, the

President of Estonia, stepped out. She is the country's first female President, and its youngest. Tall and lanky, with chestnut hair in a pixie cut, she wore an asymmetrical dress of Estonian blue and machine gray. Kaljulaid took office last fall, after Estonia's Presidential election yielded no majority winner; parliamentary representatives of all parties plucked her out of deep government as a consensus candidate whom they could all support. She had previously been an E.U. auditor.

"I am President to a digital society," she declared in her address. The leaders of Europe were arrayed in folding chairs, with Angela Merkel, in front, slumped wearily in a red leather jacket. "Simple people suffer in the hands of heavy bureaucracies," Kaljulaid told them. "We must go for inclusiveness, not high end. And we must go for reliability, not complex."

Kaljulaid urged the leaders to consider a transient population. Theresa May had told her people, after Brexit, "If you believe you're a citizen of the world, you're a citizen of nowhere." With May in the audience, Kaljulaid staked out the opposite view. "Our citizens will be global soon," she said. "We have to fly like bees from flower to flower to gather those taxes from citizens working in the morning in France, in the evening in the U.K., living half a year in Estonia and then going to Australia."

Citizens had to remain connected, she said, as the French President, Emmanuel Macron, began nodding vigorously and whispering to an associate. When Kaljulaid finished, Merkel came up to the podium.

"You're so much further than we are," she said. Later, the E.U. member states announced an agreement to work toward digital government and, as the Estonian Prime Minister put it in a statement, "rethink our entire labor market."

Before leaving Tallinn, I booked a meeting with Marten Kaevats, Estonia's national digital adviser. We arranged to meet at a café near the water, but it was closed for a private event. Kaevats looked unperturbed. "Let's go somewhere beautiful!" he said. He led me to an enormous terraced concrete platform blotched with graffiti and weeds.

We climbed a staircase to the second level, as if to a Mayan plateau. Kaevats, who is in his thirties, wore black basketball sneakers, navy trousers, a pin-striped jacket from a different suit, and a white shirt, untucked. The fancy dress was for the digital summit. "I have to introduce the President of Estonia," he said merrily, crabbing a hand through his strawberry-blond hair, which stuck out in several directions. "I don't know what to say!" He fished a box of Marlboro Reds out of his pocket and tented into himself, twitching a lighter.

It was a cloudless morning. Rounded bits of gravel in the concrete caught a glare. The structure was bare and weather-beaten, and we sat on a ledge above a drop facing the harbor. The Soviets built this "Linnahall," originally as a multipurpose venue for sailing-related sports of the Moscow Summer Olympics. It has fallen into disrepair, but there are plans for renovation soon.

For the past year, Kaevats's main pursuit has been self-driving cars. "It basically embeds all the difficult questions of the digital age: privacy, data, safety – everything," he said. It's also an idea accessible to the man and woman (literally) in the street, whose involvement in regulatory standards he wants to encourage.


TRUMP

"What's difficult is the ethical and emotional side," he said. "It's about values. What do we want? Where are the borders? Where are the red lines? These cannot be decisions made only by specialists."

To support that future, he has plumbed the past. Estonian folklore includes a creature known as the *kratt:* an assembly of random objects that the Devil will bring to life for you, in exchange for a drop of blood offered at the conjunction of five roads. The Devil gives the *kratt* a soul, making it the slave of its creator.

"Each and every Estonian, even children, understands this character," Kaevats said. His office now speaks of *kratt* instead of robots and algorithms, and has been using the word to define a new, important nuance in Estonian law.

"Basically, a *kratt* is a robot with representative rights," he explained. "The idea that an algorithm can buy and sell services *on your behalf* is a conceptual upgrade."

In the U.S., where we lack such a distinction, it's a matter of dispute whether, for instance, Facebook is responsible for algorithmic sales to Russian forces of misinformation.

#KrattLaw – Estonia's digital shorthand for a new category of legal entity comprising A.I., algorithms, and robots – will make it possible to hold accountable whoever gave a drop of blood.

"In the U.S. recently, smart toasters and Teddy bears were used to attack Web sites," Kaevats said. "Toasters should not be making attacks!" He squatted and emptied a pocket onto the ledge: cigarettes, lighter, a phone. "Wherever there's a smart device, around it there are other smart devices," he said, arranging the items on the concrete. "This smart street light" – he stood his lighter up – "asks the self-driving car" – he scooted his phone past it – " 'Are you O.K.? Is everything O.K. with you?' " The Marlboro box became a building whose appliances made checks of their own, scanning one another for physical and blockchain breaches. Such checks, device to device, have a distributed effect. To commandeer a self-driving car on a street, a saboteur would, in theory, also have to hack every street lamp and smart toaster that it passed. This "mesh network" of devices, Kaevats said, will roll out starting in 2018.

Is everything O.K. with you? It's hard to hear about Estonians' vision for the robots without thinking of the people they're blood-sworn to serve. I stayed with Kaevats on the Linnahall for more than an hour. He lit several cigarettes, and talked excitedly of "building a digital society."

It struck me then how long it had been since anyone in America had spoken of society-building of any kind. It was as if, in the nineties, Estonia and the U.S. had approached a fork in the road to a digital future, and the U.S. had taken one path – personalization, anonymity, information privatization, and competitive efficiency – while Estonia had taken the other. Two decades on, these roads have led to distinct places, not just in digital culture but in public life as well.

Kaevats admitted that he didn't start out as a techie for the state. He used to be a protester, advocating cycling rights. It had been dispiriting work. "I felt as if I was constantly beating my head against a big concrete wall," he said. After eight years, he began to resent the person he'd become: angry, distrustful, and negative, with few victories to show.

"My friends and I made a conscious decision then to say 'Yes' and not 'No' – to be proactive rather than destructive," he explained. He started community organizing ("analog, not digital") and went to school for architecture, with an eye to structural change through urban planning. "I did that for ten years," Kaevats said. Then he found architecture, too, frustrating and slow. The more he learned of Estonia's digital endeavors, the more excited he became. And so he did what seemed the only thing to do: he joined his old foe, the government of Estonia.

Kaevats told me it irked him that so many Westerners saw his country as a tech haven. He thought they were missing the point. "This enthusiasm and optimism around technology is like a value of its own," he complained.

"This gadgetry that I've been ranting about? This is not *important*." He threw up his hands, scattering ash. "It's about the mind-set. It's about the culture. It's about the human relations – what it enables us to *do*."

Seagulls riding the surf breeze screeched. I asked Kaevats what he saw when he looked at the U.S. Two things, he said. First, a technical mess. Data architecture was too centralized. Citizens didn't control their own data; it was sold, instead, by brokers.

Basic security was lax. "For example, I can tell you my I.D. number – I don't care," he said. "You have a Social Security number, which is, like, a big secret." He laughed. "This does not work!"

The U.S. had backward notions of protection, he said, and the result was a bigger problem: a systemic loss of community and trust.

"Snowden things and whatnot have done a lot of damage. But they have also proved that these fears are justified.

"To regain this trust takes quite a lot of time," he went on. "There also needs to be a vision from the political side. It needs to be there always – a policy, not politics. But the politicians need to live it, because, in today's world, everything will be public at some point."

We gazed out across the blinding sea. It was nearly midday, and the morning shadows were shrinking to islands at our feet. Kaevats studied his basketball sneakers for a moment, narrowed his eyes under his crown of spiky hair, and lifted his burning cigarette with a smile. "You need to constantly be who you are," he said.

This article was first published in the print edition of the December 18 & 25, 2017 issue of The New Yorker, with the headline "The Digital Republic."

Big Data Meets Big Brother

The Chinese government plans to launch its Social Credit System in 2020. The aim? To judge the trustworthiness – or otherwise – of its 1.3 billion residents.

By Rachel Botsman

On June 14, 2014, the State Council of China published an ominous-sounding document called "Planning Outline for the Construction of a Social Credit System". In the way of Chinese policy documents, it was a lengthy and rather dry affair, but it contained a radical idea. What if there was a national trust score that rated the kind of citizen you were?

Imagine a world where many of your daily activities were constantly monitored and evaluated: what you buy at the shops and online; where you are at any given time; who your friends are and how you interact with them; how many hours you spend watching content or playing video games; and what bills and taxes you pay (or not).

It's not hard to picture, because most of that already happens, thanks to all those data-collecting behemoths like Google, Facebook and Instagram or health-tracking apps such as Fitbit.

But now imagine a system where all these behaviours are rated as either positive or negative and distilled into a single number, according to rules set by the government. That would create your Citizen Score and it would tell everyone whether or not you were trustworthy. Plus, your rating would be publicly ranked against that of the entire population and used to determine your eligibility for a mortgage or a job, where your children can go to school – or even just your chances of getting a date.

A futuristic vision of Big Brother out of control? No, it's already getting underway in China, where the government is developing the Social Credit System (SCS) to rate the trustworthiness of its 1.3 billion citizens.

The Chinese government is pitching the system as a desirable way to measure and enhance "trust" nationwide and to build a culture of "sincerity".

As the policy states, "It will forge a public opinion environment where keeping trust is glorious. It will strengthen sincerity in government affairs, commercial sincerity, social sincerity and the construction of judicial credibility."

Others are less sanguine about its wider purpose. "It is very ambitious in both depth and scope, including scrutinising individual behaviour and what books people are reading. It's Amazon's consumer tracking with an Orwellian political twist," is how Johan Lagerkvist, a Chinese internet specialist at the Swedish Institute of International Affairs, described the social credit system. Rogier Creemers, a post-doctoral scholar specialising in Chinese law and governance at the Van Vollenhoven Institute at Leiden University, who published a comprehensive translation of the plan, compared it to "Yelp reviews with the nanny state watching over your shoulder".

For now, technically, participating in China's Citizen Scores is voluntary. But by 2020 it will be mandatory. The behaviour of every single citizen and legal person (which includes every company or other entity) in China will be rated and ranked, whether they like it or not.

Prior to its national roll-out in 2020, the Chinese government is taking a watch-and-learn approach.

In this marriage between communist oversight and capitalist can-do, the government has given a licence to eight private companies to come up with systems and algorithms for social credit scores. Predictably, data giants currently run two of the best-known projects.

The first is with China Rapid Finance, a partner of the social-network behemoth Tencent and developer of the messaging app *WeChat* with more than 850 million active users. The other, Sesame Credit, is run by the Ant Financial Services Group (AFSG), an affiliate company of Alibaba. Ant Financial sells insurance products and provides loans to small- to medium-sized businesses. However, the real star of Ant is AliPay, its payments arm that people use not only to buy things online, but also for restaurants, taxis, school fees, cinema tickets and even to transfer money to each other.

Sesame Credit has also teamed up with other data-generating platforms, such as Didi Chuxing, the ride-hailing company that was Uber's main competitor in China before it acquired the American company's Chinese operations in 2016, and Baihe, the country's largest online matchmaking service. It's not hard to see how that all adds up to gargantuan amounts of big data that Sesame Credit can tap into to assess how people behave and rate them accordingly.

So just how are people rated? Individuals on Sesame Credit are measured by a score ranging between 350 and 950 points. Alibaba does not divulge the "complex algorithm" it uses to calculate the number but they do reveal the five factors taken into account. The first is credit history. For example, does the citizen pay their electricity or phone bill on time? Next is fulfilment capacity, which it defines in its guidelines as "a user's ability to fulfil his/her contract obligations". The third factor is personal characteristics, verifying personal information such as someone's mobile phone number and address. But the fourth category, behaviour and preference, is where it gets interesting.

Under this system, something as innocuous as a person's shopping habits become a measure of character. Alibaba admits it judges people by the types of products they buy.

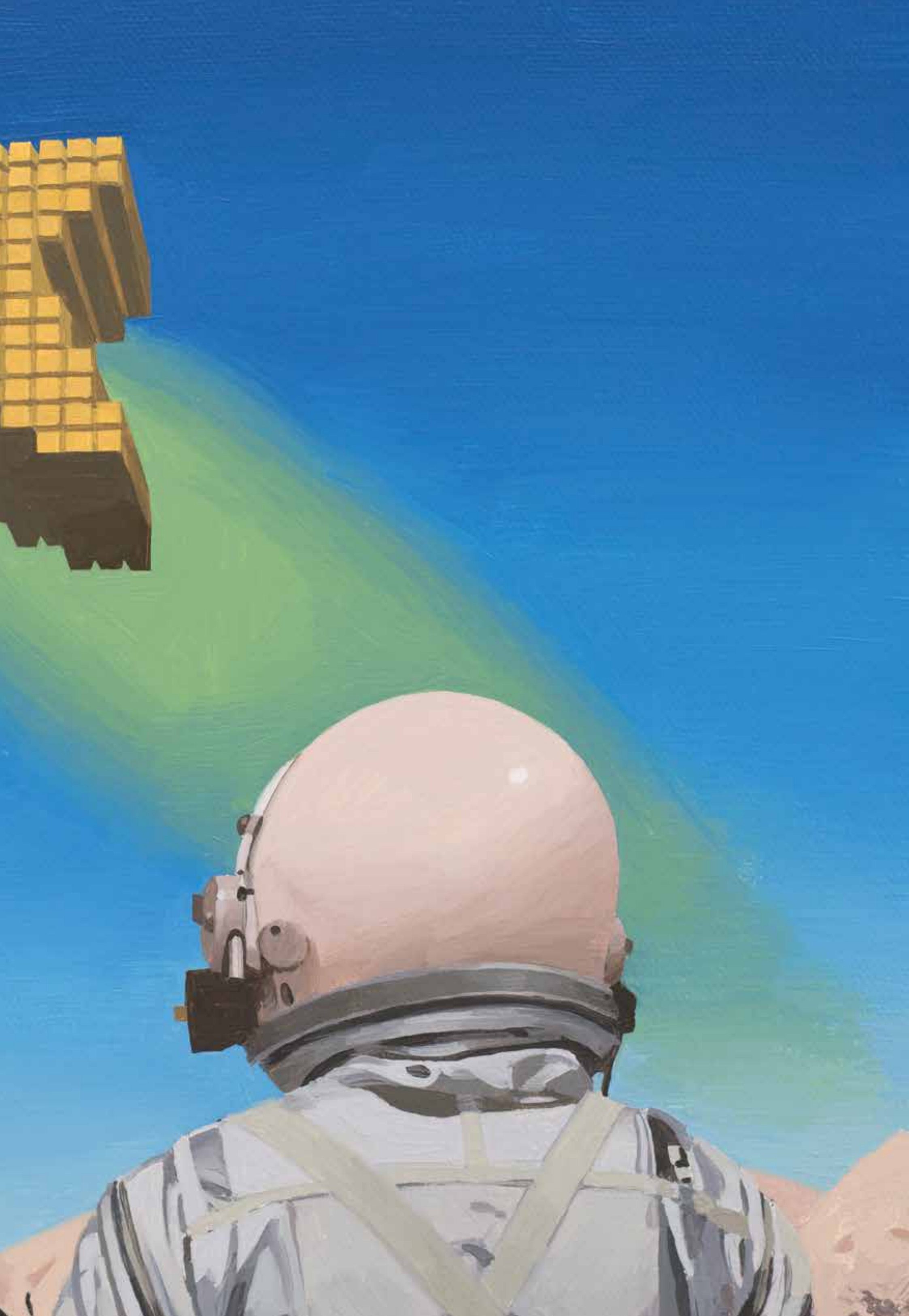
"Someone who plays video games for ten hours a day, for example, would be considered an idle person," says Li Yingyun, Sesame's Technology Director. "Someone who frequently buys diapers would be considered as probably a parent, who on balance is more likely to have a sense of responsibility."

> So the system not only investigates behaviour – it shapes it. It "nudges" citizens away from purchases and behaviours the government does not like.

Friends matter, too. The fifth category is interpersonal relationships. What does their choice of online friends and their interactions say about the person being assessed? Sharing what Sesame Credit refers to as "positive energy" online, nice messages about the government or how well the country's economy is doing, will make your score go up.

Alibaba is adamant that, currently, anything negative posted on social media does not affect scores (we don't know if this is true or not because the algorithm is secret). But you can see how this might play out when the government's own citizen score system officially launches in 2020. Even though there is no suggestion yet that any of the eight private companies involved in the ongoing pilot scheme will be ultimately responsible for running the government's own system, it's hard to believe that the government will not want to extract the maximum amount of data for its SCS, from the pilots. If that happens, and continues as the new normal under the government's own SCS it will result in private platforms acting essentially as spy agencies for the government. They may have no choice.

Posting dissenting political opinions or links mentioning Tiananmen Square has never been wise in China, but now it could directly hurt a citizen's rating.



But here's the real kicker: a person's own score will also be affected by what their online friends say and do, beyond their own contact with them. If someone they are connected to online posts a negative comment, their own score will also be dragged down.

So why have millions of people already signed up to what amounts to a trial run for a publicly endorsed government surveillance system? There may be darker, unstated reasons – fear of reprisals, for instance, for those who don't put their hand up – but there is also a lure, in the form of rewards and "special privileges" for those citizens who prove themselves to be "trustworthy" on Sesame Credit.

If their score reaches 600, they can take out a Just Spend loan of up to 5,000 yuan (around £565) to use to shop online, as long as it's on an Alibaba site. Reach 650 points, they may rent a car without leaving a deposit. They are also entitled to faster check-in at hotels and use of the VIP check-in at Beijing Capital International Airport. Those with more than 666 points can get a cash loan of up to 50,000 yuan (£5,700), obviously from Ant Financial Services. Get above 700 and they can apply for Singapore travel without supporting documents such as an employee letter. And at 750, they get fast-tracked application to a coveted pan-European Schengen visa. "I think the best way to understand the system is as a sort of bastard love child of a loyalty scheme," says Creemers.

Higher scores have already become a status symbol, with almost 100,000 people bragging about their scores on Weibo (the Chinese equivalent of Twitter) within months of launch.

A citizen's score can even affect their odds of getting a date, or a marriage partner, because the higher their Sesame rating, the more prominent their dating profile is on Baihe.

Sesame Credit already offers tips to help individuals improve their ranking, including warning about the downsides of friending someone who has a low score. This might lead to the rise of score advisers, who will share tips on how to gain points, or reputation consultants willing to offer expert advice on how to strategically improve a ranking or get off the trust-breaking blacklist.

Indeed, the government's Social Credit System is basically a big data gamified version of the Communist Party's surveillance methods; the disquieting *dang'an*.

The regime kept a dossier on every individual that tracked political and personal transgressions. A citizen's *dang'an* followed them for life, from schools to jobs. People started reporting on friends and even family members, raising suspicion and lowering social trust in China. The same thing will happen with digital dossiers. People will have an incentive to say to their friends and family, "Don't post that. I don't want you to hurt your score but I also don't want you to hurt mine."

We're also bound to see the birth of reputation black markets selling under-the-counter ways to boost trustworthiness. In the same way that Facebook Likes and Twitter followers can be bought, individuals will pay to manipulate their score. What about keeping the system secure? Hackers (some even state-backed) could change or steal the digitally stored information.

The new system reflects a cunning paradigm shift. As we've noted, instead of trying to enforce stability or conformity with a big stick and a good dose of top-down fear, the government is attempting to make obedience feel like gaming. It is a method of social control dressed up in some points-reward system. It's gamified obedience.

In a trendy neighbourhood in downtown Beijing, the BBC news services hit the streets in October 2015 to ask people about their Sesame Credit ratings. Most spoke about the upsides. But then, who would publicly criticise the system? Ding, your score might go down.

Alarmingly, few people understood that a bad score could hurt them in the future. Even more concerning was how many people had no idea that they were being rated.

Currently, Sesame Credit does not directly penalise people for being "untrustworthy" – it's more effective to lock people in with treats for good behaviour. But Hu Tao, Sesame Credit's chief manager, warns people that the system is designed so that "untrustworthy people can't rent a car, can't borrow money or even can't find a job". She has even disclosed that Sesame Credit has approached China's Education Bureau about sharing a list of its students who cheated on national examinations, in order to make them pay into the future for their dishonesty.

Penalties are set to change dramatically when the government system becomes mandatory in 2020. Indeed, on September 25, 2016, the State Council General Office updated its policy entitled "Warning and Punishment Mechanisms for Persons Subject to Enforcement for Trust-Breaking".

The overriding principle is simple: "If trust is broken in one place, restrictions are imposed everywhere," the policy document states.

For instance, people with low ratings will have slower internet speeds; restricted access to restaurants, nightclubs or golf courses; and the removal of the right to travel freely abroad with, I quote, "restrictive control on consumption within holiday areas or travel businesses".

Scores will influence a person's rental applications, their ability to get insurance or a loan and even social-security benefits. Citizens with low scores will not be hired by certain employers and will be forbidden from obtaining some jobs, including in the civil service, journalism and legal fields, where of course you must be deemed trustworthy.

Low-rating citizens will also be restricted when it comes to enrolling themselves or their children in high-paying private schools. I am not fabricating this list of punishments. It's the reality Chinese citizens will face.

As the government document states, the social credit system will "allow the trustworthy to roam everywhere under heaven while making it hard for the discredited to take a single step".

According to Luciano Floridi, a professor of philosophy and ethics of information at the University of Oxford and the director of research at the Oxford Internet Institute, there have been three critical "de-centering shifts" that have altered our view in self-understanding: Copernicus's model of the Earth orbiting the Sun; Darwin's theory of natural selection; and Freud's claim that our daily actions are controlled by the unconscious mind.

Floridi believes we are now entering the fourth shift, as what we do online and offline merge into an onlife. He asserts that, as our society increasingly becomes an infosphere, a mixture of physical and virtual experiences, we are acquiring an onlife personality – different from who we innately are in the "real world" alone.

We see this writ large on Facebook, where people present an edited or idealised portrait of their lives.

Think about your Uber experiences. Are you just a little bit nicer to the driver because you know you will be rated? But Uber ratings are nothing compared to Peeple, an app launched in March 2016, which is like a Yelp for humans. It allows you to assign ratings and reviews to everyone you know – your spouse, neighbour, boss and even your ex.

A profile displays a "Peeple Number", a score based on all the feedback and recommendations you receive. Worryingly, once your name is in the Peeple system, it's there for good. You can't opt out.

Peeple has forbidden certain bad behaviours including mentioning private health conditions, making profanities or being sexist (however you objectively assess that). But there are few rules on how people are graded or standards about transparency.

China's trust system might be voluntary as yet, but it's already having consequences.

In February 2017, the country's Supreme People's Court announced that 6.15 million of its citizens had been banned from taking flights over the past four years for social misdeeds.

The ban is being pointed to as a step toward blacklisting in the SCS. "We have signed a memorandum… [with over] 44 government departments in order to limit 'discredited' people on multiple levels," says Meng Xiang, head of the executive department of the Supreme Court. Another 1.65 million blacklisted people cannot take trains.

Where these systems really descend into nightmarish territory is that the trust algorithms used are unfairly reductive. They don't take into account context.

For instance, one person might miss paying a bill or a fine because they were in hospital; another may simply be a freeloader. And therein lies the challenge facing all of us in the digital world, and not just the Chinese.

If life-determining algorithms are here to stay, we need to figure out how they can embrace the nuances, inconsistencies and contradictions inherent in human beings and how they can reflect real life.

You could see China's so-called trust plan as Orwell's *1984* meets Pavlov's dogs. Act like a good citizen, be rewarded and be made to think you're having fun. It's worth remembering, however, that personal scoring systems have been present in the west for decades.

More than 70 years ago, two men called Bill Fair and Earl Isaac invented credit scores. Today, companies use FICO scores to determine many financial decisions, including the interest rate on our mortgage or whether we should be given a loan.

For the majority of Chinese people, they have never had credit scores and so they can't get credit. "Many people don't own houses, cars or credit cards in China, so that kind of information isn't available to measure," explains Wen Quan, an influential blogger who writes about technology and finance. "The central bank has the financial data from 800 million people, but only 320 million have a traditional credit history." According to the Chinese Ministry of Commerce, the annual economic loss caused by lack of credit information is more than 600 billion yuan (£68bn).

China's lack of a national credit system is why the government is adamant that Citizen Scores are long overdue and badly needed to fix what they refer to as a "trust deficit".

In a poorly regulated market, the sale of counterfeit and substandard products is a massive problem. According to the Organization for Economic Co-operation and Development (OECD), 63 per cent of all fake goods, from watches to handbags to baby food, originate from China.

"The level of micro corruption is enormous," Creemers says. "So if this particular scheme results in more effective oversight and accountability, it will likely be warmly welcomed."

The government also argues that the system is a way to bring in those people left out of traditional credit systems, such as students and low-income households. Professor Wang Shuqin from the Office of Philosophy and Social Science at Capital Normal University in China recently won the bid to help the government develop the system that she refers to as "China's Social Faithful System". Without such a mechanism, doing business in China is risky, she stresses, as about half of the signed contracts are not kept. "Given the speed of the digital economy it's crucial that people can quickly verify each other's credit worthiness," she says.

"The behaviour of the majority is determined by their world of thoughts. A person who believes in socialist core values is behaving more decently." She regards the "moral standards" the system assesses, as well as financial data, as a bonus.

Indeed, the State Council's aim is to raise the "honest mentality and credit levels of the entire society" in order to improve "the overall competitiveness of the country". Is it possible that the SCS is in fact a more desirably transparent approach to surveillance in a country that has a long history of watching its citizens?

"As a Chinese person, knowing that everything I do online is being tracked, would I rather be aware of the details of what is being monitored and use this information to teach myself how to abide by the rules?" says Rasul Majid, a Chinese blogger based in Shanghai who writes about behavioural design and gaming psychology. "Or would I rather live in ignorance and hope/wish/dream that personal privacy still exists and that our ruling bodies respect us enough not to take advantage?"

Put simply, Majid thinks the system gives him a tiny bit more control over his data.

When I tell westerners about the Social Credit System in China, their responses are fervent and visceral. Yet we already rate restaurants, movies, books and even doctors. Facebook, meanwhile, is now capable of identifying you in pictures without seeing your face; it only needs your clothes, hair and body type to tag you in an image with 83 per cent accuracy.

In 2015, the OECD published a study revealing that in the US there are at least 24.9 connected devices per 100 inhabitants. All kinds of companies scrutinise the "big data" emitted from these devices to understand our lives and desires, and to predict our actions in ways that we couldn't even predict ourselves.

Governments around the world are already in the business of monitoring and rating. In the US, the National Security Agency (NSA) is not the only official digital eye following the movements of its citizens. In 2015, the US Transportation Security Administration proposed the idea of expanding the PreCheck background checks to include social-media records, location data and purchase history. The idea was scrapped after heavy criticism, but that doesn't mean it's dead.

> We already live in a world of predictive algorithms that determine if we are a threat, a risk, a good citizen and even if we are trustworthy. We're getting closer to the Chinese system – the expansion of credit scoring into life scoring – even if we don't know we are.
>
> So are we heading for a future where we will all be branded online and data-mined?

It's certainly trending that way. Barring some kind of mass citizen revolt to wrench back privacy, we are entering an age where an individual's actions will be judged by standards they can't control and where that judgement can't be erased.

The consequences are not only troubling; they're permanent. Forget the right to delete or to be forgotten, to be young and foolish.

While it might be too late to stop this new era, we do have choices and rights we can exert now. For one thing, we need to be able rate the raters.

In his book *The Inevitable*, Kevin Kelly describes a future where the watchers and the watched will transparently track each other. "Our central choice now is whether this surveillance is a secret, one-way panopticon – or a mutual, transparent kind of 'coveillance' that involves watching the watchers," he writes.

Our trust should start with individuals within government (or whoever is controlling the system). We need trustworthy mechanisms to make sure ratings and data are used responsibly and with our permission. To trust the system, we need to reduce the unknowns. That means taking steps to reduce the opacity of the algorithms. The argument against mandatory disclosures is that if you know what happens under the hood, the system could become rigged or hacked.

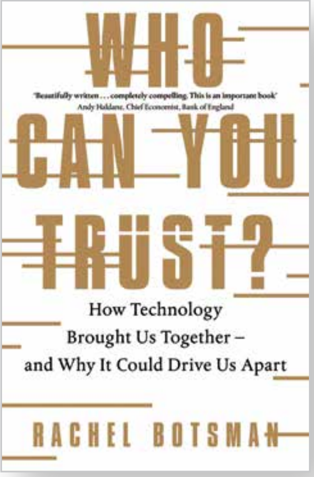
But if humans are being reduced to a rating that could significantly impact their lives, there must be transparency in how the scoring works.

In China, certain citizens, such as government officials, will likely be deemed above the system. What will be the public reaction when their unfavourable actions don't affect their score? We could see a Panama Papers 3.0 for reputation fraud.

It is still too early to know how a culture of constant monitoring plus rating will turn out. What will happen when these systems, charting the social, moral and financial history of an entire population, come into full force? How much further will privacy and freedom of speech (long under siege in China) be eroded? Who will decide which way the system goes? These are questions we all need to consider, and soon. Today China, tomorrow a place near you.

The real questions about the future of trust are not technological or economic; they are ethical.

If we are not vigilant, distributed trust could become networked shame. Life will become an endless popularity contest, with us all vying for the highest rating that only a few can attain.



Extracted from WHO CAN YOU TRUST by Rachel Botsman, published by Portfolio Penguin @ £14.99.

Since this piece was written, The People's Bank of China delayed the licences to the eight companies conducting social credit pilots. The government's plans to launch the Social Credit System in 2020 remain unchanged.