

Washington H. Soul Pattinson and Company Limited

ABN 49 000 002 728

Level 14, 151 Clarence Street, Sydney NSW 2000



ASX Appendix 4E & Preliminary final report 31 July 2019

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for Announcement to the Market

Chairman's review

Review of Group Entities

Consolidated income statement

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of changes in equity

Consolidated statement of cash flows

Notes to the consolidated financial statements

Reporting Period

The reporting period for this report is the financial year ended 31 July 2019.

The previous corresponding period is the financial year ended 31 July 2018.

Washington H. Soul Pattinson and Company Limited
Year ended 31 July 2019

Results for Announcement to the Market (1)

		Current period 31 July 2019 \$'000	Restated Prior period 31 July 2018 ^ \$'000	Change \$'000
Revenue from operations	Up 37.6% to	1,615,888	1,174,748	441,140
Profit after tax attributable to members (1)	Down 7.1% to	247,943	266,846	(18,903)
Regular profit after tax * attributable to members (2)	Down 7.2% to	307,262	331,143	(23,881)

Dividends

	Cents per share	Franking %
This period		
1. Final dividend (3)	34.0	100%
2. Interim dividend	24.0	100%
Previous corresponding period		
1. Final dividend	33.0	100%
2. Interim dividend	23.0	100%
Record date for determining entitlement to final dividend:	18 Nov 2019	
Date the final dividend is payable:	9 Dec 2019	

Comments on above results

- (1) Refer to Chairman's Review and Review of Group Entities for further details on the results.
- (2) The regular profit after tax* for the year ended 31 July 2019 was \$307.3 million, 7.2% lower than last year. The result was driven by positive contributions from:
- Brickworks, up by 22.9% due to another strong result from property services;
 - Income from investments (loans and equity portfolios), up by 63.3% due to stronger dividend and interest income;
 - the Property Portfolio, up 28.2% primarily due to increase dividend income.
- These gains were offset by a disappointing result from Round Oak Minerals which contributed a regular after tax loss of \$54.1 million to the Group's result for the year (2018: \$9.7 million). In the current year, the increased regular loss after tax arose principally from:
- start-up expenses for new projects and increase corporate overhead, exacerbated by delays caused by extreme weather events causing flooding; and
 - a reduction in production volumes and increased operating costs at Jaguar to realign the mining sequence. The benefits of this realignment will be realised in future periods.
- Contribution from TPG Telecom was down 12.8% due to continuing margin impact from the NBN rollout.
- (3) Final dividend increased by 3.0% to 34 cents per share fully franked.

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

^ Comparative figures have been restated to present the impact of the discontinued operations (as outlined in note 7) as well as other classifications on the Statement of Comprehensive Income to better reflect the disclosures in the current year.

Earnings per share

	Current period 31 July 2019 \$'000	Restated Prior period 31 July 2018 [^] \$'000
From operations		
Basic Earnings per Share	103.57 cents	111.47 cents
Diluted Earnings per Share [#]	103.57 cents	111.47 cents
From continuing operations		
Basic Earnings per Share	103.48 cents	127.27 cents
Diluted Earnings per Share [#]	103.48 cents	127.27 cents
From regular profit after tax * attributable to members	128.35 cents	138.32 cents

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

[^] Comparative figures have been restated to present the impact of the discontinued operations (as outlined in note 7) as well as other classifications on the Statement of Comprehensive Income to better reflect the disclosures in the current year.

[#] Diluted EPS is equal to the basic earnings per share as any long-term incentive plan rights that vest in future financial years are expected to be satisfied by purchasing shares on market.

Net tangible assets per security

	2019	2018
Net tangible asset backing per ordinary security ** (based on the Consolidated statutory Statement of Financial Position)	\$14.00	\$13.46

*** Refer to the Chairman's Review for the market based Net Asset Value of the Group.*

Explanation of Profit after tax

For a further explanation of the year's operating results, please refer to the Chairman's Review and Review of Group Entities attached.

Review of Operations

For a further explanation of the year's operating results, please refer to the Chairman's Review and Review of Group Entities attached.

Audit

This report is based on accounts which are in the process of being audited.



Washington H. Soul Pattinson and Company Limited

A.B.N. 49 000 002 728

ASX Code: SOL

Year Ended 31 July 2019

Chairman's Review

Dear Shareholders,

I am pleased to present the 2019 Washington H. Soul Pattinson and Company Limited (WHSP, Company) Preliminary Final Report on behalf of the Board of Directors of the Company.

FY19 Key highlights		
Group Regular profit after tax*	\$307.3 million	- 7.2%
Group Profit after tax	\$247.9 million	- 7.1%
WHSP's net asset value (pre-tax)** (tax payable if disposed of on 31 July 2019 \$1,049 million)	\$5.5 billion	+ 0.6%
Net regular cash from operations	\$169.6 million	+ 18.1%
Total Dividends (fully franked)	58 cents	+ 3.6%

WHSP holds a diversified portfolio of uncorrelated investments across listed equities, private equity, property and loans. Its flexible mandate is a key advantage to generating returns by allowing WHSP to make long term investment decisions and adjust the portfolio by changing the mix of investment classes over time.

Our objective is to deliver superior returns to our shareholders by creating capital growth along with steadily increasing dividends. Dividends are paid out of the cash generated from our investments, and pleasingly, the Company increased its net regular cash from operations by 18.1% in FY19.

WHSP has a strong track record of delivering outperformance over the long-term⁺ along with increased dividends. We continue to attract new shareholders and by the end of FY19 the number of shareholders had grown to 20,502 (up 8.9%). During the year, the Company was also admitted to the ASX100 index which reflects the growing size of the Company and increased liquidity of the stock.

We have experienced some volatility amongst the major investments in the portfolio, which can be expected from time to time. However, we believe that over the long term the portfolio is well positioned for growth and continued performance.

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

*** Refer to the table on page 8 for details.*

⁺ Compared to the All Ordinaries Accumulation Index.

Total Shareholder Returns to 31 July 2019

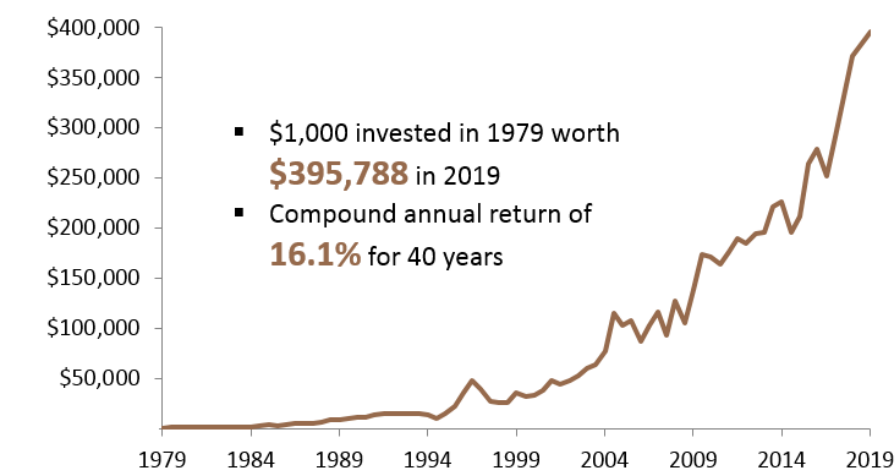
Annual Returns	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	10 Years p.a.	15 Years p.a.
WHSP	6.5%	16.5%	12.4%	11.8%	11.1%	11.6%
All Ordinaries Accumulation Index	12.9%	13.9%	11.4%	8.7%	9.5%	9.0%
Performance	(6.4%)	2.6%	1.0%	3.1%	1.6%	2.6%

WHSP is focused on delivering outperformance over the long-term and over the last 15 years has outperformed the All Ordinaries Accumulation Index by 2.6% per annum. This outperformance over the last 15 years means that an investment in WHSP has grown by 419% while the Index has increased 286%.



Includes the re-investment of dividends.

This performance has been maintained for a long period of time. If a shareholder had invested \$1,000 in 1979 and reinvested all dividends, the shareholding would have appreciated to over \$395,000 as at 31 July 2019. This equates to a compound annual growth rate of 16.1% year on year for 40 years. This growth does not include the value of the franking credits which have been passed on to shareholders by WHSP.



Includes the re-investment of dividends.

Dividends

WHSP has an exceptional history of paying dividends to shareholders. Since 2000, the Company has increased its ordinary dividend every year – one of only two companies in the All Ordinaries Index to do so. The compound annual growth rate of the Company's ordinary dividends over the last 20 years is 10.8%.

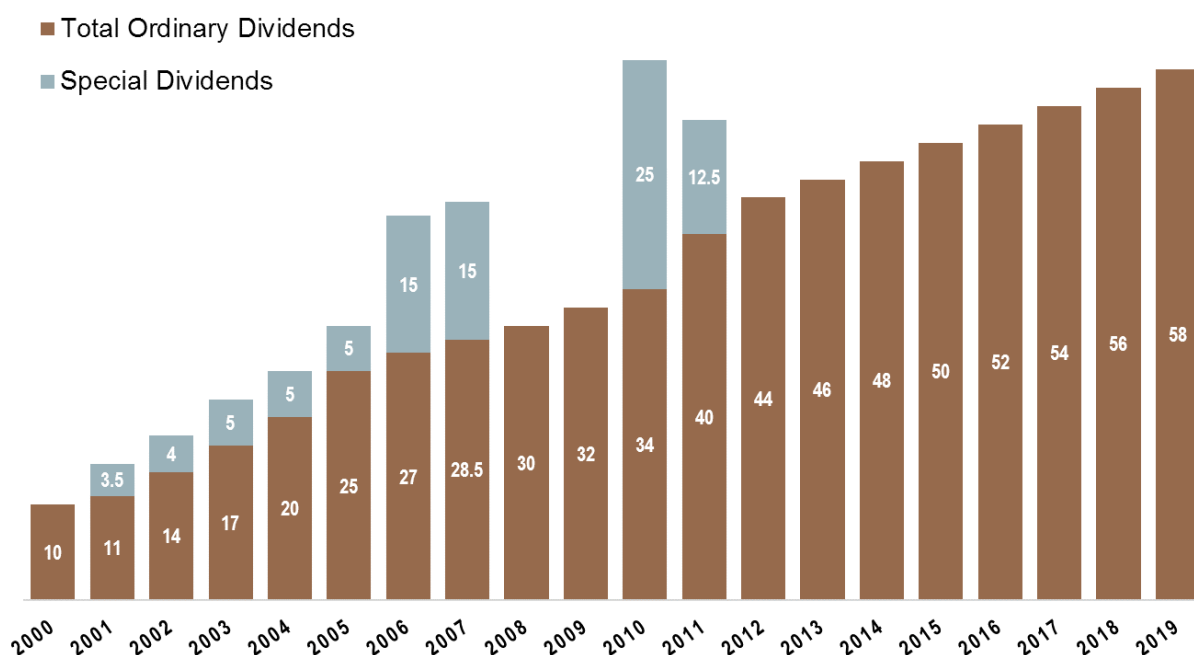
WHSP's diversified portfolio continues to deliver reliable cash returns enabling it to provide increasing fully franked dividends to its shareholders.

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

Net regular cash from operations for the year was \$169.6 million, up 18.1% compared to 2018. This increase was mainly due to higher dividend and interest income.

20 Year Dividend History

Cents per Share



Final Dividend

The Directors have declared a fully franked final dividend of 34 cents per share in respect of the year ended 31 July 2019 (2018: 33 cents fully franked). This brings total dividends for the year to 58 cents fully franked (2018: 56 cents fully franked).

The record date for the final dividend will be 18 November 2019 with payment due on 9 December 2019. The last day to purchase shares and be eligible for the final dividend is 14 November 2019.

This year WHSP will pay out, as dividends, 81.9% of its net regular cash from operations (2018: 93.4%).

Consolidated Financial Performance

Regular profit after tax

The regular profit after tax* for the year ended 31 July 2019 was \$307.3 million, 7.2% lower than last year. The result was driven by positive contributions from:

- Brickworks, up by 22.9% due to another strong result from property activities;
- Income from investments (loans and equity portfolios), up by 63.3% due to stronger dividend and interest income;
- the Property Portfolio, up by 157.1% following the completion and sale of projects; and
- the Financial Services Portfolio, up 28.2% primarily due to increased dividend income.

These gains were offset by a disappointing result from Round Oak Minerals which contributed a regular after tax loss of \$54.1 million to the Group's result for the year (2018: \$9.7 million). In the current year, the increased regular loss after tax arose principally from:

- start-up expenses for new projects and increased corporate overhead, exacerbated by delays caused by extreme weather events causing flooding; and
- a reduction in production volumes and increased operating costs at Jaguar to realign the mining sequence. This realignment is expected to benefit future production.

The contribution from TPG Telecom was down 12.8% due to continuing margin impact from the NBN rollout.

Net profit after tax (including non-regular items)

The profit after tax attributable to shareholders (including non-regular items) for the year ended 31 July 2019 was \$247.9 million, 7.1% lower than last year. Profit after tax was impacted by impairments in TPG Telecom and Round Oak Minerals and other non-regular expenses which were partly offset by the Parent Company's gain on the sale of the head office building at 160 Pitt Street.

Comparisons with the prior year are as follows:-

	2019 \$'000	2018 \$'000	% Change
Regular profit after tax* attributable to shareholders	307,262	331,143	- 7.2%
Statutory Profit after tax attributable to shareholders	247,943	266,846	- 7.1%
Interim Dividend (paid in May each year)	24 cents	23 cents	+ 4.3%
Final Dividend (payable 9 December 2019)	34 cents	33 cents	+ 3.0%
Total Dividends	58 cents	56 cents	+ 3.6%

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

Net Assets of the Parent Company - WHSP

As at 31 July 2019	WHSP's Holding	Value of WHSP's Holding	12 month Movement	
	%	\$m	\$m	%
TPG Telecom ¹	25.3%	1,636	286	21.2%
Brickworks ¹	43.8%	1,100	77	7.5%
New Hope Corporation ¹	50.0%	1,043	(283)	(21.3%)
Financial Services Portfolio ^{1 & 2}	-	353	(61)	(14.7%)
Pharmaceutical Portfolio ¹	-	265	-	-
Round Oak Minerals ²	100%	188	34	21.9%
Property Portfolio ²		89	(93)	(51.1%)
Other Listed Investments Portfolio ¹		564	48	9.3%
Other Unlisted Investments Portfolio ²		135	43	46.0%
Cash and other net assets (net of liabilities)		96	(20)	(17.3%)
Net asset value (pre-tax)^{3&4}		5,469	31	0.6%

¹ At market value.

² At cost or Directors' valuations.

³ The tax payable if all of these assets had been disposed of on 31 July 2019 would have been approximately \$1,049 million.

⁴ Net asset value (pre-tax) is the value of all of WHSP's assets less all of its liabilities (other than the tax payable upon the sale of its assets). Assets are valued at market value or Directors' valuation as shown.

The assets of WHSP are summarised in this table. The pre-tax value as at 31 July 2019 was \$5.5 billion, up \$31 million compared to 31 July 2018.

This net increase was mainly attributable to:

- Strong share price performances by TPG Telecom and Brickworks which were largely offset by New Hope Corporation which lost some of its substantial increase from last year.
- The Financial Services Portfolio investment in Ironbark Asset management was increased to 25.6% and part of the holding in Milton Corporation was realised during the year.
- Further investment was injected into Round Oak Minerals to facilitate the development of its various projects, partly offset by the write down of some development assets.
- The carrying value of the Property Portfolio (net of borrowings) reduced by \$93 million during the year. The head office building at 160 Pitt Street, the subdivided Kingsgrove property and the warehouse at Prestons were sold. These sales were partly offset by the repayment of bank debt on the office building at Pennant Hills.

Review of Group Entities – as at 31 July 2019

TPG Telecom Limited

Associated entity: **25.3% held**
 Dividends paid to WHSP: **\$9.4 million**
 Total market capitalisation: **\$6.48 billion**
 Value of WHSP's holding: **\$1.64 billion**
 ASX code: **TPM**



TPG reported the following results for the year ended 31 July 2019 (FY19):

- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) before impairment of \$809.4 million;
- Business as usual EBITDA of \$823.8 million
- Net profit after tax attributable to shareholders of \$173.8 million; and
- Earnings per share of 18.7 cents.

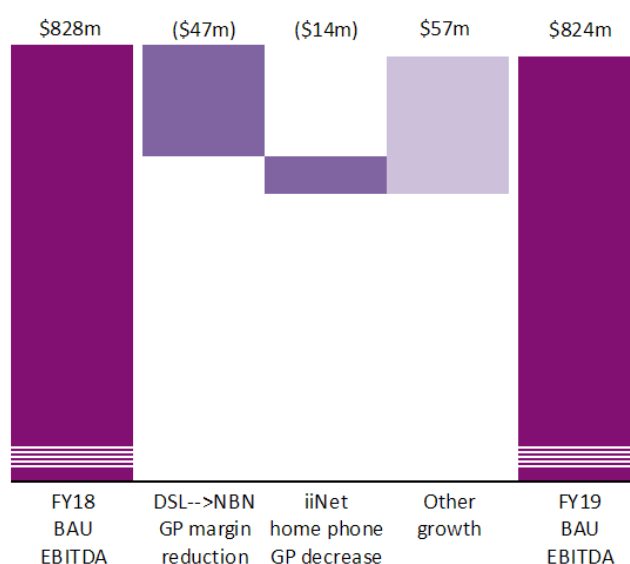
Underlying Results

The FY19 results were heavily impacted by TPG's decision to cease the rollout of its Australian mobile network in January 2019. This gave rise to an impairment expense of \$236.8 million and a significant increase in amortisation and interest expense relating to its Australian spectrum licences.

The FY19 results also include \$9.0 million of one-off transaction costs relating to TPG's planned merger with Vodafone Hutchison Australia. Excluding the impairment and merger transaction costs, the underlying EBITDA for the year was \$818.4 million, a 1% decrease on FY18.

As shown in the chart below, business as usual EBITDA continued to be adversely impacted by the loss of margin as DSL and home phone customers migrate to low margin NBN services.

Bridge between FY18 and FY19 business as usual EBITDA



The \$57 million of other EBITDA growth was driven by the Corporate Division.

Segment Results

The Consumer Segment's EBITDA for FY19 was \$457.3 million compared to \$499.1 million for FY18.

The Corporate Segment achieved EBITDA of \$367.1 million for FY19 compared to \$329.7 million for FY18.

Cash Flow, Capital Expenditure and Gearing

TPG's net operating cash flows before tax were again strong, exceeding EBITDA at \$836.3 million.

Total capital expenditure for the year of \$717.3 million included: a \$352.4 million instalment for the 2x10MHz of 700MHz spectrum acquired at auction in 2017; \$86.1 million invested in the (now ceased) Australian mobile network build; and \$80.1 million in the Singapore mobile network build. The remaining 'business as usual' capital expenditure of \$198.7 million was \$59.3 million lower than FY18 and within the guidance range of \$180 to \$220 million provided at the start of FY19.

At the end of FY19 TPG had net debt (including remaining spectrum liabilities payable in early 2020) of \$1.94 billion which represents a leverage ratio of approximately 2.4 times underlying FY19 EBITDA.

Singapore Update

TPG continues to densify its mobile network in Singapore with additional sites to increase capacity and deepen indoor coverage. Outdoor service coverage was measured at 99.69% in July 2019. TPG is on track to meet and exceed the indoor service coverage milestone and metro and road tunnel coverage is progressing.

Update on Planned Merger with Vodafone Hutchison Australia

On 30 August 2018, TPG and Vodafone Hutchison Australia (VHA) entered into a Scheme Implementation Deed under which the companies agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.

If the merger proceeds:

- It will be implemented via a TPG Scheme of Arrangement, with the new merged group listed on the Australian Securities Exchange and renamed TPG Telecom Limited in conjunction with implementation of the scheme; and
- TPG shareholders will own 49.9% of the equity of the merged group, with VHA shareholders owning the remaining 50.1%.

The merger is subject to a number of conditions including shareholder and regulatory approvals.

- On 8 May 2019, the ACCC announced it had decided to oppose the proposed merger.
- On 24 May 2019 proceedings were lodged with the Federal Court of Australia by the merger parties seeking orders that the proposed merger will not have the effect, or likely have the effect, of substantially lessening competition.
- The Federal Court hearing commenced on 10 September 2019.

Dividend

TPG has declared a final dividend of 2 cents per share fully franked, unchanged from 2018. This brings total dividends for the year to 4 cents per share also unchanged from 2018.

Contribution to WHSP

TPG contributed \$95.0 million to the Group's regular profit after tax for the year (2018: \$109.0 million).

Outlook

TPG expects FY20 to be the year in which it experiences the greatest financial impact from customer migration to the NBN. The combined headwinds from residential DSL and home phone customers moving to the NBN is expected to be around \$85 million. In addition, the annualised impact on profitability of existing NBN customers is forecast to create a further NBN headwind for FY20 of approximately \$25 million. By the end of FY20 TPG expects to have less than 15% of its residential broadband customer base remaining on ADSL.

TPG expects operating cost efficiency programs to continue to deliver savings and another year of growth is forecast for the Corporate Division. However, given the peak NBN headwinds expected, organic growth for FY20 is not expected to be sufficient to offset the headwinds. TPG expects Business As Usual EBITDA to be in the range of \$735 million to \$750 million.

Brickworks Limited

Associated entity: **43.8% held**
Dividends paid to WHSP: **\$36.1 million**
Total market capitalisation: **\$2.51 billion**
Value of WHSP's holding: **\$1.10 billion**
ASX code: **BKW**



Brickworks posted a record underlying Net Profit After Tax (NPAT) from continuing operations of \$234 million, up 4% on the prior year.

After including discontinued operations and the impact of significant items, statutory NPAT was down 12% to \$155 million. This includes \$19 million in costs related to WHSP significant items in the second half.

Brickworks has declared a fully franked final dividend of 38 cents per share for the year ended 31 July 2019, up 6% from 36 cents. Together with the interim dividend of 19 cents per share, this brings the total dividends for the year to 57 cents per share, up 3 cents or 6% on the prior year.

Building Products Australia

Building Products Australia's Earnings Before Interest and Tax (EBIT) was \$57 million, down 27% on the previous corresponding period. Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) was \$88 million, down 18%. The decline in earnings was primarily due to the impact of increasing energy prices and a downturn in construction activity across the country.

Austral Bricks earnings declined 17% for the year, with sales revenue down 4% to \$428 million.

Austral Masonry earnings were lower, despite a slight increase in sales revenue to \$119 million for the year.

Bristle Roofing earnings, including the Fyshwick roof batten mill, were marginally lower for the year, with a 10% decrease in sales revenue to \$131 million.

Austral Precast earnings were higher, supported by a 6% increase in revenue to \$77 million for the year.

Building Products North America

Building Products North America contributed an EBIT of \$6 million and an EBITDA of \$12 million for the period since the acquisition of Glen-Gery on 23 November 2018. Business performance has exceeded expectations.

Property

Property delivered an EBIT before significant items of \$158 million for the year ended 31 July 2019, a record contribution, and up 68% from the prior year. The improved result was due to higher earnings from the Property Trust.

The record result was also supported by a \$35 million profit from land sales, primarily due to the sale of the Punchbowl site in the first half.

The total value of assets held within the Property Trust at 31 July 2019 was \$1.756 billion. This includes a 21% increase in the value of leased assets, to \$1.411 billion. The Property Trust also holds a further \$345

million in land to be developed.

Borrowings of \$490 million are held within the Property Trust, giving a total net asset value of \$1.266 billion. Brickworks' 50% share of net asset value was \$633 million, up \$95 million from \$538 million at 31 July 2018.

Contribution to WHSP

Brickworks contributed \$54.7 million to the Group's regular profit after tax for the year (2018: \$44.6 million). This contribution excludes the WHSP profit taken up by Brickworks under the equity accounting method.

Outlook

Building Products Australia - whilst the order book remains strong, particularly in Austral Bricks and Austral Precast, Brickworks anticipates a soft first half for FY20. In the second half, Brickworks expects the market to stabilise, based on the current level of home builder sales. In addition, Brickworks' transition to the wholesale gas market on 1 January 2020 will reduce costs and finally provide some relief from rising energy costs.

Building Products North America - Brickworks believes the growth prospects for Building Products North America are strong. The recent acquisition of Sioux City Brick strengthens Brickworks' leadership position in the architecturally focussed Midwest and Northeast regions of the United States and will provide significant cost synergies once fully integrated.

Property - activity within the Property Trust remains strong with developments at Oakdale South expected to drive growth in rent and asset value over the next few years.

New Hope Corporation Limited

Controlled entity: **50.0% held**
Dividends paid to WHSP: **\$66.5 million**
Total market capitalisation: **\$2.09 billion**
Value of WHSP's holding: **\$1.04 billion**
ASX code: **NHC**



New Hope reported net profit before tax and non-regular items of \$384.3 million for the year ended 31 July 2019, 3% higher than the 2018 result of \$373.2 million.

The net profit after tax, including non-regular items, was \$210.7 million for the year, 41% higher than the 2018 result of \$149.5 million.

Before non-regular items, basic earnings for 2019 were 32.3 cents per share, compared to 31.5 cents in 2018. After non-regular items, basic earnings were 25.3 cents per share for 2019 against 18.0 cents in 2018.

Compared to last year, the 2019 full year result benefited from:

- Increased production and sales driven by the acquisition of an additional interest in the Bengalla Joint venture; and
- A lower AUD:USD exchange rate.

Partially offset by:

- Increased cost of sales as the Acland Mine nears the end of the Stage 2 life;
- Increased cost of sales at Bengalla with increased stripping activities combined with timing of major repairs;

- Reduction in interest revenue and increase in interest expenses resulting from borrowings required for the Bengalla acquisitions; and
- Non-regular items including acquisition costs relating to the Bengalla acquisition.

During the year, New Hope generated a strong operating cash surplus of \$509.8 million (before acquisition costs, interest and tax) which is an increase of 18% on the 2018 result of \$433.9 million.

New Hope has declared a fully franked final dividend of 9 cents per share, up 12.5% from 8 cents last year. This brings the total dividends for the year to 17 cents per share, up 21.4% on 2018.

Coal Operations

The New Hope Group produced 10.9 million tonnes of saleable coal in 2019 which was a 21% increase on 2018. New Hope's two operating mines in South East Queensland (New Acland and Jeebropilly) combined to produce 4.8 million tonnes of saleable coal during the year ended 31 July 2019. New Hope's share of the Bengalla mine (which increased from 40% to 80% during the year) produced 6.0 million tonnes. The total quantity of coal sold in 2019 was 10.9 million tonnes.

New Acland Coal Mine

New Acland produced 4.1 million tonnes of clean coal for the year, down 8% year on year due to operating constraints and the quality of raw coal as operations extract the final coal from the Stage 2 resource area.

The Department of Natural Resources and Mines has certified 349 hectares of progressively rehabilitated land at New Acland. This is the largest single area of certified rehabilitation for at an open cut mine in Queensland.

New Hope remains committed to delivering the New Acland Mine Stage 3 project and will continue to work with the relevant government departments to ensure all necessary approvals are received for the project. Obtaining final approval in a timely manner is critical to ensuring the continuity of operations and therefore employment for approximately 300 employees and 500 contractors currently engaged at the New Acland mine.

Bengalla Joint Venture (New Hope share 80%)

New Hope completed its acquisition of an additional 30% interest in the Bengalla Joint Venture from Wesfarmers on 3 December 2018 and its acquisition of 10% from Mitsui on 25 March 2019 (both with effect from 1 December 2018), bringing New Hope's ownership to 80%.

The Bengalla Mine (100% basis) produced 9.3 million tonnes of coal in 2019 which is in line with the prior year. In the last quarter of the year Bengalla operations achieved an annualised production rate of 10 million tonnes per annum, a level that New Hope believes can be sustained into the future.

Queensland Bulk Handling (QBH)

QBH, New Hope's 100% owned coal terminal at the Port of Brisbane, exported 6.7 million tonnes of coal on 85 vessels in 2019, which was 7% lower than 2018. QBH remains essentially a demurrage free port.

Pastoral Operations

Acland Pastoral has continued its pasture management and supplement feeding strategy on previously mined land. Its success demonstrates that carefully rehabilitated mining land can support productive pastoral operations.

Acland Pastoral successfully managed its breeder herd through a severe drought period with minimal losses and the breeders producing in excess of a 90% calving rate in very trying conditions.

The Acland Pastoral irrigation footprint, utilising water from the Wetalla pipeline, was substantially increased from 26 to 112 hectares, which presents attractive opportunities for future cropping in the area.

Following the increase in ownership of the Bengalla Joint Venture, New Hope's land management experience is being applied to the active management of agricultural land surrounding the Bengalla operations.

Bridgeport Energy Limited

Oil production was 381,474 barrels in 2019, a 2% increase on 2018. Bridgeport's operations have now been lost time injury free for 5 years.

Revenue for the year was \$33.9 million against \$29.1 million for the prior year, an improvement of 16%. Realised oil sales prices averaged \$98 per barrel against the previous year of \$88 per barrel.

Contribution to WHSP

New Hope contributed \$134.3 million to the Group's regular profit after tax for the year, being WHSP's 50.0% share (2018: \$133.0 million, 52.7% share).

Outlook

The acquisition of the additional 40% stake in Bengalla during the 2019 financial year combined with the increase in Bengalla's production rate to 10 million tonnes per annum provides a profitable and sustainable asset base for New Hope. New Hope will continue to focus on creating synergies and integration efficiencies across all sites by leveraging off the individual strengths of each operation and where possible, applying those across other sites.

Queensland operations are set to record lower production volumes in the year ahead. Acland production will be constrained to mining remnant coal from Stage 2 operations in the absence of receiving Stage 3 approvals. The Jeebropilly mine will cease mining operations in December 2019 once all economically viable reserves have been extracted.

Work will continue on New Hope's development assets at Burton, Lenton and the North Surat, with the Burton coking coal project being the most prospective short-term development opportunity. Final approvals will be sought for the Lenton project, with exploration and feasibility planning ongoing for the North Surat Group of projects.

Coal markets have been, and are likely to remain, volatile in the near term, however, demand for high quality thermal coal remains strong across Asia. For most Asian countries, thermal coal will continue to be a significant component of their energy mix for many years to come, underpinned by continued investment in new coal fired power stations.

continued over

Financial Services Portfolio

Dividends paid to WHSP: **\$19.1 million**
Value of WHSP's holdings: **\$353 million***

Listed and unlisted entities

*Market values or Directors' valuations



The assets in the Financial Services Portfolio include investments in funds management, corporate advisory and Listed Investment Companies (LICs). This portfolio provides WHSP with exposure to both Australian and international equities.

The market valuations of some of the assets in this portfolio reduced during the year ended 31 July 2019, leading to a reduction for the portfolio as a whole. Despite this, the total value of the portfolio at the end of the year was \$353.1 million, significantly higher than its cost base of just over than \$260 million.

WHSP increased the portfolio's investment in Ironbark Asset Management during the period from 13.9% to 25.6%. Ironbark provides asset management solutions for investors and financial advisers by partnering with best in class investment managers across a range of asset classes.

WHSP realised part of its investment in Milton Corporation during the year producing proceeds of \$13.4 million and a gain of \$5.3 million.

Pengana Capital Group, in which the portfolio has a 38.6% shareholding, successfully launched its Pengana Private Equity Trust (ASX code: PE1) during the year. PE1 listed on the ASX in April 2019 having raised in excess of \$205 million. It provides an opportunity for Australian investors to gain access to a diversified portfolio of global private equity fund investments, with daily liquidity, through a single ASX trade.

As at 31 July 2019	WHSP's Holding %
BKI Investment Company Limited (ASX: BKI)	8.5%
Contact Asset Management Pty. Limited	20.0%
Ironbark Asset Management	25.6%
Milton Corporation Limited (ASX: MLT)	3.3%
Pengana Capital Group Limited (ASX: PCG)	38.6%
Pengana International Equities Limited (ASX: PIA)	9.6%
Pitt Capital Partners Limited	100%
URB Investments Limited (ASX: URB)	12.4%

Contribution to WHSP

WHSP received dividends of \$19.1 million from the Financial Services Portfolio during the year, up 24.1% from \$15.4 million in 2018.

The Financial Services Portfolio contributed \$23.5 million to the Group's regular profit after tax for the year (2018: \$18.3 million).

Pharmaceutical Portfolio

Dividends paid to WHSP: **\$9.0 million**
Value of WHSP's holdings: **\$265 million**
Total market capitalisation: **\$1.17 billion**
Listed entities



The Pharmaceutical Portfolio is made up of Australian Pharmaceutical Industries Limited (API), Palla Pharma Limited (formerly TPI Enterprises Limited) and Apex Healthcare Berhad. API and Palla are listed on the ASX and Apex is listed on the Main Board of Bursa Malaysia.

As at 31 July 2019	WHSP's Holding %
Australian Pharmaceutical Industries Limited (ASX: API)	19.3%
Apex Healthcare Berhad (Bursa Malaysia code: APEX MK)	30.1%
Palla Pharma Limited (ASX: PAL) (formerly TPI Enterprises Limited)	19.9%

API

API's financial year ended on 31 August 2019. The results for the full year are not expected to be released to the market until late October 2019.

For the six months ended 28 February 2019, API reported the following results which are compared to those of the first half last year:

- Total revenue was up 6.6% to \$1.98 billion, excluding the impact of Hepatitis C medicine sales and PBS Reforms.
- Earnings before interest and tax of \$44.4 million, up 5.8%.
- Net profit after tax (NPAT) of \$25.0 million, up 0.2%, including the impact of financing costs associated with the purchase of shares in Sigma Healthcare and the acquisition of Clear Skincare.
- Underlying NPAT of \$26.8 million, in line with 2018.

API commented that its performance for the period was solid, with Priceline Pharmacy returning to positive like-for-like sales growth, its Consumer Brands business expanding once again, and the effective bedding in its Clear Skincare acquisition.

API has completed the first stage of its acquisition of Clear Skincare Clinics a leading provider of non-invasive aesthetic services such as laser hair removal, skin treatments and cosmetic injectables. Clear Skincare has continued its strong growth trajectory with revenue increasing by 21% over the first half of 2018. Three new clinics were opened during the half, taking the total to 47.

In May 2019, API paid a fully franked interim dividend of 3.75 cents per share, up 7.1% on 2018. This represents a payout ratio of 77.0% for the half and reflects the confidence of the API Board in the future performance of the Company.

Apex Healthcare

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

While Apex's results are converted to Australian dollars (AUD) in WHSP's results, the percentage

movements shown below are based on Malaysian Ringgit (MYR) movements to aid comparison.

For the six months ended 30 June 2019 Apex generated revenue of \$116.5 million, an increase of 4.1% in MYR over the previous corresponding six month period. The net profit after tax attributable to shareholders was \$8.5 million, a reduction of 8.4% in MYR compared to the first half of 2018. The result was impacted by higher operating and finance costs associated with the start-up of Apex's new manufacturing facility, SPP Novo.

The SPP Novo manufacturing facility in Malacca Malaysia added 19,400 square metres to Apex's manufacturing campus at Cheng Industrial Estate, more than doubling its production floor space. Apex is in the process of transferring its high volume oral dosage products to SPP Novo.

Apex's share price has continued to perform well, increasing by 18.9% in MYR and 27.1% in AUD for the 12 months to 31 July 2019.

Apex has declared an interim dividend of 0.54 cents per share for the six months ended 30 June 2019. After adjusting for the bonus issue in June, this represents an increase of 4.6% over last year in MYR and 7.5% in AUD.

Palla Pharma (formerly TPI Enterprises)

Palla is an internationally licenced narcotic producer supplying pain relief products. It has fully integrated operations taking product from the farm gate to tablet production and has operations in Victoria and Norway.

Palla has developed an innovative, efficient and environmentally sustainable water-based method for extracting narcotic raw material from opium poppies. Its manufacturing cost advantage is central to its strategy to achieve significant market share growth.

For the six months ended 30 June 2019, Palla reported the following results which are compared to those of the first half last year:

- Record revenue of \$27.3 million, up 20.3%.
- Gross profit margin of 34.6%, up 126 bps.
- Operating earnings before interest and tax up \$2.1 million, to \$0.3 million.
- Underlying net loss of \$2.3 million (2018 \$3.9 million loss).

Increases in Narcotic Raw Material extraction rates and Active Pharmaceutical Ingredient production led to a substantial improvement in operational efficiencies and an enhanced gross profit margin. Palla plans to increase its Active Pharmaceutical Ingredient production by a further 50% by the end of its 2019 financial year.

Contribution to WHSP

WHSP received dividends of \$9.0 million from the Pharmaceutical Portfolio during the year, up 12.2% from \$8.0 million in 2018.

WHSP has equity accounted Apex's and Palla's results for the 12 months to 30 June 2019 and API's result for the 12 months to 28 February 2019.

The Pharmaceutical Portfolio contributed \$15.0 million to the Group's regular profit after tax for the year (2018: \$13.3 million).

continued over

Round Oak Minerals Pty. Limited

Controlled entities: **100% held**
Value of WHSP's holding: **\$188 million***
Unlisted entity

*Directors' valuation



Round Oak is a mining and exploration company focused primarily on the production of copper, zinc and gold. Round Oak has several assets throughout Australia which are currently in production or under development.

Queensland assets

Commissioning of the gold processing facilities at Cloncurry was completed in the second half of 2018 with first gold production in December. This facility processes ore from Round Oak's portfolio of satellite open pit gold mines which will feed the plant over an initial two year period.

The Mt Colin underground copper mine commenced mining activities in July 2018 with underground mine development on schedule. The first ore was produced in May 2019, having been delayed by activities at the mine being slowed in January and February 2019 by the impacts of an extreme weather event which caused wide scale flooding in north-west Queensland. Copper ore from Mt Colin will be toll treated at Glencore's Ernest Henry operation commencing in October 2019.

Development of the Barbara open pit copper mine commenced in February 2019, with first ore produced in June 2019. As with Mt Colin, production was delayed by the extreme weather event in January and February. Copper ore from Barbara will be toll treated at Glencore's Mt Isa operation commencing in October 2019.

Western Australian assets (Jaguar)

Ore production from the Bentley underground mine at Jaguar reduced in the latter part of 2018 as the focus shifted to completing mine development to open up additional mining fronts, including the new high grade Bentayga ore lens, to enable higher production rates in FY20. A new lens (Pegasus) was discovered in 2019 and will significantly add to the Bentley mineral inventory.

Work on the Definition Phase Study (DPS) for the development of the Triumph resource at Jaguar commenced in 2019 with this project having the potential to both increase production capacity and extend the life of Jaguar beyond its current four year mine life. The DPS is expected to be completed in the second half of 2019.

Victorian assets (Stockman)

The Stockman copper-zinc project in north-east Victoria, acquired in 2017, continued through its approval and permitting phase with the final primary approval (the Mine Work Plan) granted in April 2019. A Selection Phase Study was completed in 2019.

Exploration

Exploration activities are continuing in north-west Queensland on a number of prospective targets for the purpose of identifying additional copper and gold resources for future mining activities within the operating radius of the Cloncurry processing facilities.

An exploration programme aimed at increasing the mineral resource base at Stockman continued with the testing of both new and existing targets. This has resulted in two additional mineral resources (Eureka and Big Foot) being added to the mineral inventory in early 2019.

Exploration activities continued on two fronts at Jaguar: Brownfields exploration aimed at identifying additional near-mine base metals resources; and Greenfields exploration testing base metals and gold targets further from the current mining operations. Early results have been encouraging and these programmes will continue into FY20.

Contribution to WHSP

Round Oak contributed a regular after tax loss of \$54.1 million to the Group's result for the year (2018: \$9.7 million). In the current year, the increased regular loss after tax arose principally from:

- Start-up expenses for new projects and increased corporate overhead, exacerbated by delays caused by extreme weather events causing flooding; and
- A reduction in production volumes and increased operating costs at Jaguar to realign the mining sequence. This realignment is expected to benefit future production.

The statutory loss after tax of \$73.5 million includes a non-regular impairment charge of \$18.0 million following a reassessment of the carrying values of development and exploration assets.

Property

In August 2018 WHSP completed the sale of its head office building at 160 Pitt Street Sydney for \$95.0 million. The non-regular gain on sale of \$69.0 million after tax was taken up during the year.

The redevelopment and subdivision of the Kingsgrove property was completed during the year. All of the subdivided lots have been sold and the project finalised.

Construction of the warehouse and distribution centre at Prestons was completed during the year and the tenanted property sold.

WHSP has maintained its ownership of: the office building at Pennant Hills; the industrial property at Castle Hill; and its 50.1% interest in Penrith shopping centre and hotel.

The carrying value of the Property Portfolio (net of borrowings) reduced by \$93 million during the year. The reduction due to the sales discussed above was partly offset by the repayment of bank debt. No property values were written down during the year.

Pitt Street Real Estate Partners continues to investigate opportunities to add to WHSP's property portfolio, whilst also considering the sale of mature assets.

Contribution to WHSP

Property contributed \$11.0 million to the Group's regular profit after tax for the year (2018: \$4.3 million).

continued over

Other Investments

	WHSP's Holding %
Listed	
Bailador Technology Investments Limited	19.1%
Clover Corporation Limited	21.7%
Heritage Brands Limited	25.1%
Lindsay Australia Limited	18.7%
Quickstep Holdings Limited	12.6%
Novonix Limited	12.5%
Unlisted	
Ampcontrol Pty. Limited	42.9%
Aquatic Achievers	100%
Dimeo Cleaning Services	16.1%
Seven Miles Coffee Roasters Pty. Limited	40.0%
Specialist Oncology Property Pty. Limited	17.6%
Verdant Minerals Limited	33.4%

Washington H. Soul Pattinson and Company Limited
Year ended 31 July 2019

Consolidated Income Statement
For the year ended 31 July 2019

	Notes	2019 \$'000	Restated* 2018 \$'000
Revenue from continuing operations	4(a)	1,615,888	1,174,748
Other income	4(b)	117,409	98,588
Cost of sales		(967,001)	(565,502)
Selling and distribution expenses		(196,107)	(167,183)
Administration expenses		(74,043)	(48,721)
Acquisition costs expensed		(46,041)	(5,662)
Other expenses		(21,675)	(14,976)
Impairment expense	4(c), 8	(60,450)	(113,908)
Finance costs		(27,857)	(5,424)
Share of results from equity accounted associates	8	134,343	161,661
Profit before income tax from continuing operations		474,466	513,621
Income tax expense	4(d)	(115,197)	(140,490)
Profit after tax from continuing operations		359,269	373,131
Profit / (loss) after tax from discontinued operations	7	220	(37,831)
Profit after tax for the year		359,489	335,300
Profit after tax attributable to non-controlling interest		(111,546)	(68,454)
Profit after tax attributable to members of Washington H. Soul Pattinson and Company Limited		247,943	266,846

** Comparative figures have been restated to present the impact of the discontinued operations (as outlined in note 7) as well as other reclassifications on the Consolidated Income Statement to better reflect the disclosures in the current year.*

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

Consolidated Statement of Comprehensive Income
For the year ended 31 July 2019

	2019 \$'000	2018 \$'000
Profit after tax for the year	359,489	335,300
Other comprehensive income		
Items that will not be reclassified subsequently to income statement		
Changes in the fair value of equity investments at fair value through other comprehensive income	28,211	9,065
Disposal of long term equity investments, net of tax	(19,299)	(7,107)
Net movement in capital profits reserve, net of tax	22,815	-
Items that may be reclassified subsequently to income statement		
Net movement in hedge reserve, net of tax	(15,251)	(14,649)
Net movement in foreign currency translation reserve, net of tax	2,275	1,897
Net movement in equity reserve, net of tax	(913)	238
Total other comprehensive expense for the year, net of tax	17,838	(10,556)
Total comprehensive income for the year	377,327	324,744
Total comprehensive income attributable to non-controlling interest	(113,023)	(61,533)
Total comprehensive income attributable to members of Washington H. Soul Pattinson and Company Limited	264,304	263,211

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

Earnings per share	2019 Cents	2018 Cents
Basic and diluted earnings per share attributable to ordinary equity holders of the Company		
Earnings per share from operations	103.57	111.47
Earnings per share from continuing operations		
Basic and diluted earnings per share attributable to ordinary equity holders of the Company	103.48	127.27
	No. of shares	
Weighted average number of shares used in calculating basic and diluted earnings per share	239,395,320	239,395,320

Washington H. Soul Pattinson and Company Limited
Year ended 31 July 2019

Consolidated Statement of Financial Position
As at 31 July 2019

	Notes	31 July 2019 \$'000	31 July 2018 \$'000
Current assets			
Cash and cash equivalents		125,445	337,933
Term deposits		1,470	206,044
Trade and other receivables		162,258	131,723
Inventories		120,471	93,236
Assets classified as held for sale		53	1,407
Trading equities	11	77,148	69,930
Total current assets		486,845	840,273
Non-current assets			
Trade and other receivables		38,588	53,525
Equity accounted associates	8	1,603,610	1,517,125
Long term equity investments	11	785,135	749,869
Derivative financial instruments	11	190	-
Investment properties	11	106,281	158,254
Property, plant and equipment		2,329,476	1,520,573
Exploration and evaluation assets		355,946	310,798
Deferred tax assets		56,669	71,567
Intangible assets		114,479	73,553
Total non-current assets		5,390,374	4,455,264
Total assets		5,877,219	5,295,537
Current liabilities			
Trade and other payables		158,874	131,521
Contract liabilities		591	-
Interest bearing liabilities	9	32,537	25,267
Derivative financial instruments	11	10,774	3,353
Current tax liabilities		9,234	81,091
Provisions	10	93,029	71,219
Total current liabilities		305,039	312,451
Non-current liabilities			
Trade and other payables		15,989	30,033
Interest bearing liabilities	9	370,213	19,790
Deferred tax liabilities		422,445	405,270
Provisions	10	252,064	186,388
Total non-current liabilities		1,060,711	641,481
Total liabilities		1,365,750	953,932
Net assets		4,511,469	4,341,605
Equity			
Share capital		43,232	43,232
Reserves		176,603	605,865
Retained profits		3,301,831	2,718,057
Parent Entity interest		3,521,666	3,367,154
Non-controlling interest		989,803	974,451
Total equity		4,511,469	4,341,605

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

Consolidated Statement of Changes in Equity For the year ended 31 July 2019

Year ended 31 July 2019	Share capital \$'000	Retained profits \$'000	Reserves \$'000	Total Parent Entity interest \$'000	Non-controlling interest \$'000	Total equity \$'000
Total equity at the beginning of the year						
1 August 2018	43,232	2,718,057	605,865	3,367,154	974,451	4,341,605
Effect of initial adoption of AASB 9 (note 12)	-	52,687	(53,892)	(1,205)	-	(1,205)
Effect of initial adoption of AASB 15 (note 12)	-	1,174	-	1,174	-	1,174
Restated balance at the beginning of the year – 1 August 2018	43,232	2,771,918	551,973	3,367,123	974,451	4,341,574
Net profit for the year after tax	-	247,943	-	247,943	111,546	359,489
Other comprehensive income for the year						
Net movement in asset revaluation reserve, net of tax	-	(8,715)	13,619	4,904	4,008	8,912
Net movement in hedge reserve, net of tax	-	-	(12,720)	(12,720)	(2,531)	(15,251)
Net movement in foreign currency translation reserve, net of tax	-	-	2,275	2,275	-	2,275
Net movement in equity reserve, net of tax	-	-	(913)	(913)	-	(913)
Net movement in general reserve, net of tax *	-	402,206	(402,206)	-	-	-
Net movement in capital profit reserve, net of tax	-	-	22,815	22,815	-	22,815
Total comprehensive income for the year	-	641,434	(377,130)	264,304	113,023	377,327
Transactions with owners						
Dividends declared and paid	-	(111,726)**	-	(111,726)	(75,096)	(186,822)
Net movement in share based payments reserve	-	205	1,760	1,965	361	2,326
Return of capital	-	-	-	-	(22,936)	(22,936)
Total equity at the end of the year						
31 July 2019	43,232	3,301,831	176,603	3,521,666	989,803	4,511,469

* The General reserve historically recorded funds set aside for future requirement of the Group and related to the Parent Entity. This reserve was created by transferring from retained profits in prior years. This is a legacy balance and is no longer required, accordingly this reserve has been transferred back to retained profits in the current year.

** After the elimination of a proportion of the Parent Entity dividend paid to Brickworks Limited (FY19 43.8%)

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

Consolidated Statement of Changes in Equity For the year ended 31 July 2019

Year ended 31 July 2018	Share capital \$'000	Retained profits \$'000	Reserves \$'000	Total Parent Entity interest \$'000	Non-controlling interest \$'000	Total equity \$'000
Total equity at the beginning of the year 1 August 2017	43,232	2,603,186	611,226	3,257,644	780,666	4,038,310
Net profit for the year after tax	-	266,846	-	266,846	68,454	335,300
Other comprehensive income for the year						
Net movement in asset revaluation reserve, net of tax	-	-	2,006	2,006	(48)	1,958
Net movement in hedge reserve, net of tax	-	-	(7,776)	(7,776)	(6,873)	(14,649)
Net movement in foreign currency translation reserve, net of tax	-	-	1,897	1,897	-	1,897
Net movement in equity reserve, net of tax	-	-	238	238	-	238
Total comprehensive income for the year	-	266,846	(3,635)	263,211	61,533	324,744
Transactions with owners						
Dividends declared and paid	-	(106,943)*	-	(106,943)	(46,933)	(153,876)
Net movement in share based payments reserve	-	74	1,781	1,855	41	1,896
Return of capital	-	-	-	-	(5,968)	(5,968)
Transactions with non-controlling interests	-	(1,238)	(3,507)	(4,745)	180,457	175,712
Tax on partial disposal of controlling entity to non-controlling interests	-	(43,868)	-	(43,868)	-	(43,868)
Equity transfer from members on issue of share capital in a controlled entity	-	-	-	-	4,655	4,655
Total equity at the end of the year 31 July 2018	43,232	2,718,057	605,865	3,367,154	974,451	4,341,605

* After the elimination of a proportion of the Parent Entity dividend paid to Brickworks Limited (FY18 43.9%).

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

Washington H. Soul Pattinson and Company Limited
Year ended 31 July 2019

Consolidated Statement of Cash Flows
For the year ended 31 July 2019

	2019 \$'000	2018 \$'000
Cash flows from operating activities		
Receipts from customers inclusive of GST	1,563,833	1,171,513
Payments to suppliers and employees inclusive of GST	(1,077,978)	(725,384)
	<u>485,855</u>	<u>446,129</u>
Dividends received	89,723	76,325
Interest received	14,607	9,465
Acquisition costs expensed	(46,041)	(5,662)
Finance costs	(12,561)	(1,452)
Income taxes paid	(165,581)	(17,245)
Net cash inflow from operating activities	<u>366,002</u>	<u>507,560</u>
Cash flows from investing activities		
Proceeds from sale of debt to third party	8,000	-
Payments for property, plant, equipment and intangibles	(165,243)	(110,863)
Proceeds from sale of property, plant and equipment	96,255	3,159
Payments for capitalised exploration and evaluation activities	(29,591)	(38,294)
Net proceeds from / (payments to) term deposits	204,574	(205,629)
Payments for acquisition and development of investment properties	(32,577)	(16,088)
Proceeds from sale of investment properties	100,068	29,059
Payments for equity investments	(95,025)	(94,941)
Proceeds from sale of equity investments	94,882	88,485
Proceeds from sale of controlled entity	-	175,736
Payments to acquire equity accounted associates	(11,172)	(1,430)
Payments for acquisition of business, net of cash acquired	(839,086)	(48,349)
Loans advanced	(56,911)	(58,218)
Loan repayments	29,084	7,697
Net cash outflow from investing activities	<u>(696,742)</u>	<u>(269,676)</u>
Cash flows from financing activities		
Dividends paid to WHSP shareholders	(136,455)	(131,667)
Dividends paid by subsidiaries to non-controlling interests	(74,997)	(47,119)
Proceeds from external borrowings	790,000	12,017
Repayments of external borrowings	(425,272)	(42,356)
Payment for establishment costs of debt/guarantee facilities	(12,802)	-
Proceeds from issue of equity	-	4,524
Return of capital to non-controlling interest	(22,937)	(5,968)
Payment of shares acquired for the employee long term incentive plan	(569)	-
Net cash inflow / (outflow) from financing activities	<u>116,968</u>	<u>(210,569)</u>
Net (decrease) / increase in cash and cash equivalents	<u>(213,772)</u>	<u>27,315</u>
Cash and cash equivalents at the beginning of the year	337,933	301,275
Effects of exchange rate changes on cash and cash equivalents	1,284	9,343
Cash and cash equivalents at the end of the year	<u>125,445</u>	<u>337,933</u>

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

Notes to the Consolidated Financial Statements

1. Basis of Preparation

Washington H. Soul Pattinson and Company Limited (the Company, the Parent Entity or WHSP) is a for profit company listed on the Australian Securities Exchange (ASX:SOL).

This report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 31 July 2018 and any public announcements made by Washington H. Soul Pattinson and Company Limited and its controlled entities (Consolidated Entity or Group) during the reporting period in accordance with continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies are consistent with those of the previous financial year, except for changes brought about by the adoption of Australian Accounting Standard Board (AASB) 9 and 15.

Comparative information has been re-classified where appropriate to enhance comparability.

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 July 2019 reporting period. The Group has elected not to early adopt these standards and interpretations.

This preliminary financial report was authorised for issue by the Board on 19 September 2019.

2. Parent Entity Financial Information

Source of shareholder's dividends

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

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

The classification of income and expenses as regular or non-regular is consistent with the Consolidated entity's measurement of segment results. This is a non-statutory measure and a reconciliation to the Parent Entity's statutory profit after tax is provided. The Director's have presented this information, which is used by the Chief Operating Decision Maker, as they consider the disclosure enhances the understanding of the results to members and users of the financial statements.

ACCOUNTING POLICIES

Parent Entity

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

In the Parent Entity, investments in subsidiaries and associates are carried at the lower of cost or impaired value. Dividends from these entities are recognised as income within profit/loss. This approach reflects Parent entity's activities as an investor.

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

Statement of Financial Position

	As at 31 July 2019 \$'000	As at 31 July 2018 \$'000
Current assets		
Cash and term deposits	38,830	41,946
Assets held for sale	53	1,407
Other current assets	120,483	98,525
Total current assets	159,366	141,878
Non-current assets		
Long term equity investments – measured at market value	739,587	688,576
Other financial assets		
Listed controlled and associated entities – measured at the lower of cost or impaired value	547,325	552,950
Unlisted entities – measured at the lower of cost or impaired value	456,827	381,363
Other non-current assets	85,209	108,202
Total non-current assets	1,828,948	1,731,091
Total assets	1,988,314	1,872,969
Total current liabilities	33,171	2,495
Total non-current liabilities	106,593	92,662
Total liabilities	139,764	95,157
Net assets	1,848,550	1,777,812
Equity		
Share capital	43,232	43,232
Reserves	187,934	620,952
Retained profits	1,617,384	1,113,628
Total equity	1,848,550	1,777,812

Income Statement

	2019 \$'000	2018 \$'000
Profit after tax	164,903	164,903
Less: Non-regular items after tax		
Net gain on sale of property	(68,968)	—
Net gain on disposal of investments	—	(140,278)
Non cash unfranked dividend on demerger of listed investment	(3,592)	—
Net impairment expense on investments	82,451	3,413
Net impairment expense on associates	(4,327)	—
Other	4,270	2,737
Regular profit after tax	174,737	138,851
Other comprehensive income		
Net movement in the fair value of the listed investment portfolio	(25,521)	1,881

Market value of listed entities as at 31 July 2019 (based on ASX closing prices 31 July 2019)

		\$'000
Long term equity investments		
Milton Corporation Limited		107,971
BKI Investment Company Limited		107,025
Clover Corporation Limited		83,028
Commonwealth Bank of Australia		53,586
Woolworths Limited		31,698
Macquarie Group Limited		27,562
Pengana International Equities Limited		26,320
Bailador Technology Investments Limited		24,265
Magellan Financial Group Limited		22,184
Brambles Limited		21,248
Wesfarmers Limited		19,646
Other listed entities		215,054
Market value of long term equity investments		739,587
Listed controlled and associated entities	Holding	\$'000
TPG Telecom Limited	25.3%	1,636,085
New Hope Corporation Limited	50.0%	1,043,398
Brickworks Limited	43.8%	1,099,556
Australian Pharmaceutical Industries Ltd	19.3%	137,374
Pengana Capital Group Limited	38.6%	59,742
Apex Healthcare Berhad	30.1%	106,076
Palla Pharma Limited (formerly TPI Enterprises)	19.9%	21,352
Market value of listed controlled and associated entities		4,103,583
Total value of WHSP's listed investments		4,843,170

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

WHSP is a long term equity investor.

If WHSP had disposed of all of its assets on 31 Jul 2019, a capital gains tax liability of approximately \$1,121.1 million would have arisen based on market values as at 31 Jul 2019. Of this amount, only \$103.98 million has been recognised in the Parent company accounts at 31 Jul 2019.

The market values of the listed investments are based on the last sale prices as quoted on the ASX on 31 Jul 2019 and are therefore subject to price fluctuations.

Regular Profit after Tax and Regular Operating Cash Flows

For the year ended 31 July 2019

	Year ended 31 July 2019 \$'000
Interest income (from cash and loans)	16,854
Dividend and distribution income	
Milton Corporation Limited	5,127
BKI Investment Company Limited	5,507
Clover Corporation Limited	671
Commonwealth Bank of Australia	3,841
Woolworths Limited	934
Macquarie Group Limited	1,231
Pengana International Equities Limited	1,706
Magellan Financial Group Limited	265
Brambles Limited	470
Wesfarmers Limited	1,604
Other listed entities	11,464
TPG Telecom Limited	9,376
New Hope Corporation Limited	66,511
Brickworks Limited	36,105
Australian Pharmaceutical Industries Ltd	7,368
Pengana Capital Group Limited	4,182
Apex Healthcare Berhad	1,612
Other controlled and associates	14,023
Total dividend and distribution income	171,997
Net pharmacy profit	—
Other revenue	165
Realised and fair value (losses)/gains on equities	6,700
Other expenses	(14,325)
Finance costs	(774)
Regular profit before tax	180,617
Income tax (expense)	(5,880)
Regular profit after tax	174,737
Non-cash fair value (gains)/loss on equities	(6,700)
Net movements in working capital	1,546
Regular operating cash flows	169,583
The Board declares dividends having regard to the Parent company's regular operating cash flows.	
Dividends paid/payable	
Interim of 24 cents per share paid 9 May 2019	57,455
Final of 34 cents per share payable 9 Dec 2019	81,394
Total dividends paid/payable	138,849
Payout ratio	
Dividends as a percentage of regular operating cash flows	81.88%

Notes to the Consolidated Financial Statements

3. Segment Information

Corporate structure

The Parent Entity is an investment company that invests in a diversified range of entities and asset classes.

Larger holdings in a single entity are classified as follows:

Controlled entities: The Parent Entity is able to control the activities of the organisation.
(subsidiaries):

Associates: The Parent Entity has significant influence but does not control the activities of the organisation. Results from listed associates are sourced from publicly available information. Unlisted associates results are sourced directly from the investee.

During the year ended 31 July 2019, New Hope Corporation Limited, a controlled entity of the Group acquired an additional 40% interest in the Bengalla Joint Venture. Refer to note 6.

For changes in ownership of associates, refer to note 8.

Change in reporting segments

The Group has amended its segment disclosures to more accurately reflect the current information provided to the Chief Operating Decision Maker (CODM) and the changes to how the CODM manages and assesses the performance of the operating segments. The information provided to the CODM has changed since the 2018 financial year and therefore it was appropriate to update the segment disclosure to reflect these changes. The comparative segment disclosures have been updated to be consistent with the current year segment disclosures.

Segment reporting

The Parent Entity, its subsidiaries and associates operate within five segments. Four segments are based on material holdings of individual investments, where WHSP has board representation. All segments are predominately based in Australia.

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

The Group's operating segments are described as:

New Hope Corporation Limited

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

Other investing activities

The Group invests in diverse portfolio of equities, properties, loans, cash and term deposits.

Round Oak Minerals Pty Limited

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

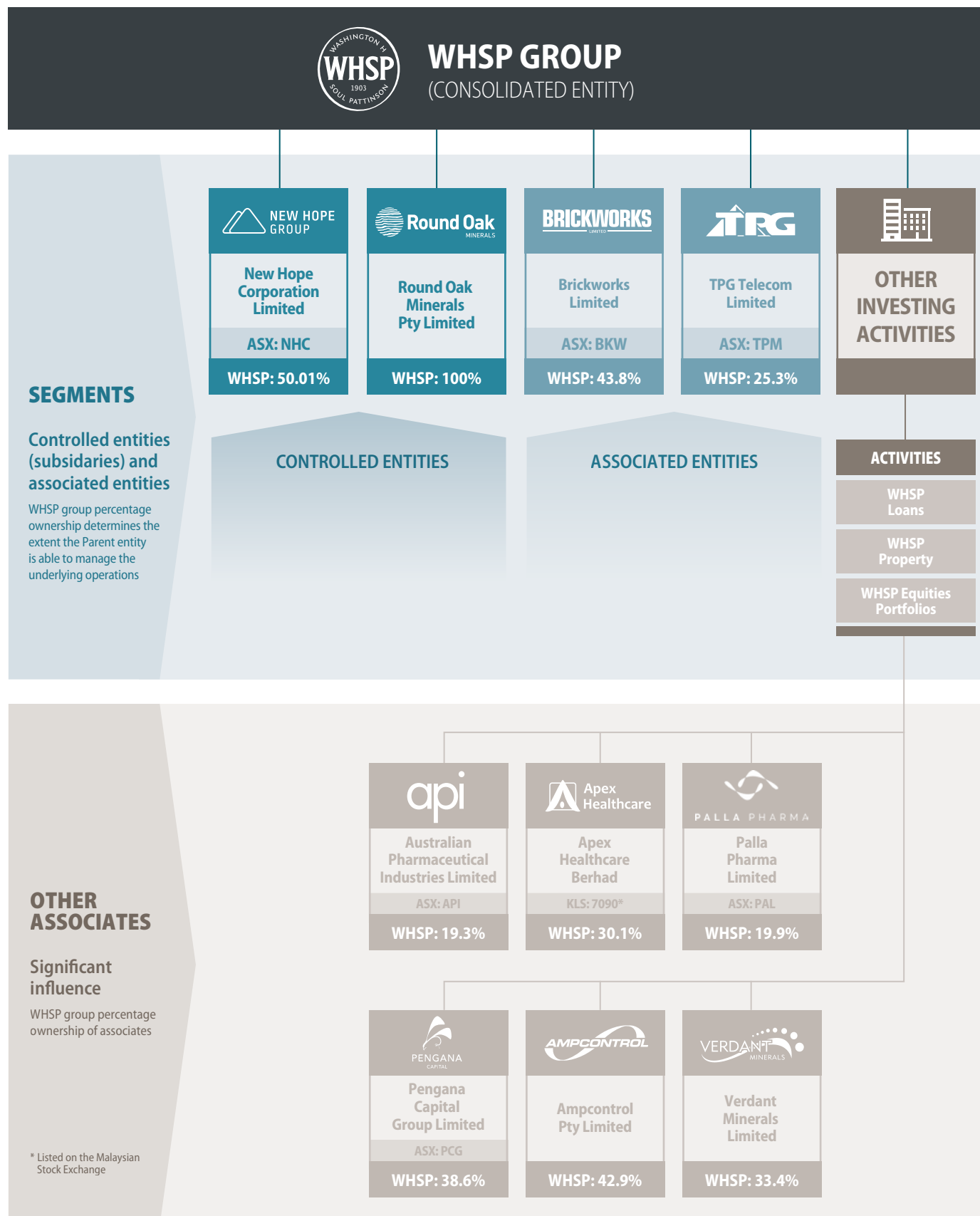
TPG Telecom Limited (TPG)

WHSP has a 25.3% strategic investment in TPG. TPG is a telecommunications and internet provider.

Brickworks Limited (Brickworks)

WHSP has a 43.8% strategic investment in Brickworks. Brickworks is a diversified business that has 3 divisions, manufacture and sales of building products, property development and an investment in Washington H. Soul Pattinson and Company Limited.

3. Segment Information continued



Notes to the Consolidated Financial Statements

3. Segment Information – how the Group is organised and managed (continued)

Business performance - measurement of segment results

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

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

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

The Directors have presented this information which is used by the CODM, as they consider the disclosure enhances the understanding of the results to members and users of the financial statements.

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

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

	2019 \$'000	2018 \$'000
Regular profit after tax attributable to members	307,262	331,143
Non-regular items – net of tax		
Acquisition costs expensed	(17,101)	(3,963)
Deferred tax expense recognised on equity accounted associates entities	(13,632)	(39,198)
Gain on deemed disposal of equity accounted associates	1,345	190
Gain on de-recognition as equity accounted associates	-	50,641
Gain on disposal of equity investments	-	18,748
Gain on sale of 160 Pitt Street	68,968	-
Onerous contract and other expenses	(10,000)	(5,243)
Impairment expense on equity accounted associates	(34,807)	(16,545)
Impairment expense on mine development assets	(16,645)	-
Impairment expense on equity investments	-	(4,206)
Impairment expense on exploration assets	-	(46,310)
Net impairment (expense) / reversal on other assets	(1,323)	14
Non-cash in-specie dividend	3,592	-
Redundancies	(1,791)	(1,081)
Share of non-regular items from equity accounted associates	(37,129)	(16,617)
Other items	(796)	(727)
Total non-regular (loss) after tax attributable to members	(59,319)	(64,297)
Profit after tax attributable to members	247,943	266,846

Notes to the Consolidated Financial Statements

3. Segment Information (continued)

a) Reporting segments	New Hope Corporation Limited	Other Investing activities	Round Oak Minerals Limited	TPG Telecom Limited ^	Brickworks Limited ^	Intersegment/ unallocated	Consolidated
Year ended 31 July 2019	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers **	1,306,429	176,321	133,138	-	-	-	1,615,888
Intersegment revenue ***	-	116,730	-	-	-	(116,730)	-
Total revenue	1,306,429	293,051	133,138	-	-	(116,730)	1,615,888
Regular profit/ (loss) before income tax	384,287	112,360	(76,163)	95,044	54,710	(13,805)*	556,433
Add non-regular items before tax	(76,517)	47,546	(27,606)	(51,136)	27,181	(1,435)	(81,967)
Profit / (loss) before income tax	307,770	159,906	(103,769)	43,908	81,891	(15,240)	474,466
Less income tax (expense)/ benefit	(97,338)	(25,156)	30,303	(9,783)#	(17,795)#	4,572	(115,197)
Profit after tax from discontinued operations	220	-	-	-	-	-	220
Profit / (loss) after tax	210,652	134,750	(73,466)	34,125	64,096	(10,668)	359,489
Less (profit) attributable to non-controlling interests	(105,305)	(6,241)	-	-	-	-	(111,546)
Profit / (loss) after tax attributable to members	105,347	128,509	(73,466)	34,125	64,096	(10,668)	247,943
Profit / (loss) after tax attributable to members (as above)	105,347	128,509	(73,466)	34,125	64,096	(10,668)	247,943
Non-regular loss / (profit) after tax attributable to members	28,923	(41,465)	19,324	60,919	(9,386)	1,004	59,319
Regular profit / (loss) after tax attributable to members	134,270	87,044	(54,142)	95,044	54,710	(9,664)	307,262

* Unallocated represents Parent Entity corporate costs that are not allocated to individual segments.

** The revenue of New Hope Corporation Limited and Round Oak Minerals Limited is in respect of contracts with customers recognised at a point in time.

*** Represents inter-segment dividends and interest received from subsidiaries and associates that are eliminated on consolidation.

^ These investments are equity accounted associates, consequently there is no revenue recognised as only the share of associates profit after tax is recognised in the consolidated income statement.

The income tax expense relates to the equity accounted associates deferred tax on consolidation.

Notes to the Consolidated Financial Statements

3. Segment Information (continued)

b) Reporting segments	New Hope Corporation Limited	Other Investing activities	Round Oak Minerals Limited	TPG Telecom Limited ^	Brickworks Limited ^	Intersegment /unallocated	Consolidated
Year ended 31 July 2018 (restated)	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from external customers **	1,078,439	62,364	33,945	-	-	-	1,174,748
Intersegment revenue ***	-	94,497	-	-	-	(94,497)	-
Total revenue	1,078,439	156,861	33,945	-	-	(94,497)	1,174,748
Regular profit / (loss) before income tax	373,207	71,158	(13,804)	109,033	44,518	(12,808)*	571,304
Add non-regular items before tax	(105,594)	67,809	(4,064)	(8,998)	(4,012)	(2,824)	(57,683)
Profit / (loss) before income tax	267,613	138,967	(17,868)	100,035	40,506	(15,632)	513,621
Less income tax (expense)/ benefit	(80,284)	(34,122)	5,281	(27,214)#	(8,841)#	4,690	(140,490)
Loss after tax from discontinued operations	(37,831)	-	-	-	-	-	(37,831)
Profit / (loss) after tax	149,498	104,845	(12,587)	72,821	31,665	(10,942)	335,300
Less (profit) attributable to non-controlling interests	(68,033)	(421)	-	-	-	-	(68,454)
Profit / (loss) after tax attributable to members	81,465	104,424	(12,587)	72,821	31,665	(10,942)	266,846
Profit / (loss) after tax attributable to members (as above)	81,465	104,424	(12,587)	72,821	31,665	(10,942)	266,846
Non-regular loss / (profit) after tax attributable to members	51,539	(41,139)	2,856	36,212	12,853	1,976	64,297
Regular profit / (loss) after tax attributable to members	133,004	63,285	(9,731)	109,033	44,518	(8,966)	331,143

* Unallocated represents Parent Entity corporate costs that are not allocated to individual segments.

** The revenue of New Hope Corporation Limited and Round Oak Minerals Limited is in respect of contracts with customers recognised at a point in time.

*** Represents inter-segment dividends and interest received from subsidiaries and associates that are eliminated on consolidation.

^ These investments are equity accounted associates, consequently there is no revenue recognised as only the share of associates profit after tax is recognised in the consolidated income statement.

The income tax expense relates to the equity accounted associates deferred tax on consolidation.

Notes to the Consolidated Financial Statements

4. Profit for the year

Profit from continuing operations for the year includes the following items that are significant because of their size, nature or incidence:

	2019 \$'000	Restated 2018 \$'000
(a) Revenue		
<i>Revenue from contracts with customers</i>		
Revenue from sale of goods	1,509,588	1,090,445
Revenue from provisional pricing adjustment	5,041	7,496
Rental revenue	9,901	8,904
Revenue from services	32,044	22,222
<i>Other revenue</i>		
Dividend and distribution revenue	36,838	28,789
Interest revenue	16,261	9,780
Other	6,215	7,112
	1,615,888	1,174,748
(b) Other income		
Gain on disposal of equity investments	-	22,687
Gain on sale of property, plant and equipment	90,641	-
Gain on deemed disposal of equity accounted associates	1,921	272
Gain on de-recognition as an equity accounted associates	-	72,247
Gain / (loss) on trading equities fair value through profit or loss	6,700	(1,003)
Gain on revaluation of investment property	7,655	-
Gain on sale of investment property	6,657	3,195
Insurance recovery from ship loader	3,264	298
Other	571	892
	117,409	98,588
(c) Expenses		
Impairment of long term equity investments ⁽¹⁾	-	(5,889)
Impairment of equity accounted associates ⁽²⁾	(34,807)	(16,545)
Impairment of property, plant and equipment ⁽³⁾	(23,778)	-
Impairment of coal exploration and evaluation assets ⁽⁴⁾	-	(92,331)
Impairment (expenses) / reversal of other assets	(1,865)	857
Total impairment expenses	(60,450)	(113,908)
Depreciation and amortisation expenses	(162,949)	(98,694)

(1) Impairment of long term equity investments

In the prior year and in accordance with AASB 139, a 'prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment'. Where a long term equity investment's last sale price is lower than the original cost, and the investment is considered to be 'impaired', the Group had recognised an impairment expense in respect of these investments in the income statement. In 2018, \$5.889 million impairment expenses were recognised by the Group in the income statement.

From 1 August 2018, under AASB 9, these long term equity investments are classified as Fair Value through Other Comprehensive Income (FVOCI) investments. Any impairment loss recognised will be transferred to the asset revaluation reserve and no longer will be recognised in the income statement. Any realised gain or loss on disposal will be transferred from the asset revaluation reserve to the capital profit reserve within equity.

Notes to the Consolidated Financial Statements

4. Profit for the year (continued)

(2) Impairment of equity accounted associates

The recoverable amount of investments in equity accounted associates has been assessed as at 31 July 2019. Where the carrying value of an investment exceeded the recoverable amount, the investment has been impaired. At each reporting date, an assessment is made as to whether there are any circumstances that would indicate that the impairment recognised has decreased or no longer exists. Where evidence supports a reduction in the impairment, the impairment expense may be reversed through the income statement. In the year ended 31 July 2019, an impairment expense of \$46.519 million was recognised on the investment in Pengana Capital Group Limited and reversal of impairment of \$9.915 million and \$1.797 million were recognised for Verdant Minerals Limited and Palla Pharma Limited (formerly TPI Enterprises Limited) respectively.

(3) Impairment of property, plant and equipment (including Mine development costs)

An impairment loss on property, plant and equipment (including mine development costs) is recognised for the amount by which the asset's carrying values exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use. For the purpose of assessing impairment under value in use testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). At each reporting date, an assessment is undertaken to determine if there are any circumstances that would indicate that an asset had been impaired. In the year ended 31 July 2019, an impairment expense of \$23.778 million was recognised on mine development costs in Round Oak Minerals Limited.

(4) Impairment of coal exploration and evaluation assets

In the prior financial year, New Hope Corporation Limited (a controlled entity) determined that an indicator of impairment existed as at balance date in respect of the Colton Coal Pty Limited (Colton) exploration project. The indicator arose from recently increased charges associated with access to Wiggins Island Coal Export Terminal (WICET) which was materially higher than those previously forecast and ongoing work regarding the assessment of Joint Ore Reserves Committee (JORC) reserves position of this asset. As a result an impairment test has been undertaken and an impairment of \$92.331 million (restated in the current year from \$132.290 million due to discontinued operations reclassification) had been recognised for the year ended 31 July 2018.

Notes to the Consolidated Financial Statements

4. Profit for the year (continued)

(d) Income tax expense

	2019 \$'000	Restated 2018 \$'000
Reconciliation of prima facie income tax expense		
Profit before income tax expense from continuing operations	474,466	513,621
Profit / (loss) before income tax expense from discontinued operations	220	(53,801)
Profit before income tax expense	474,686	459,820
Income tax at 30% (2018: 30%)	142,406	137,946
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Net gain on sale of equity investments	-	(2,204)
Net impairment expenses (non-deductible)	18,135	5,219
Franking credits received (excluding controlled and associate entities)	(8,455)	(7,337)
Tax (benefit) on the carrying value of equity accounted associates	(26,671)	(9,302)
(Over) provision for income tax	(9,633)	-
Other	(585)	198
Income tax expense	115,197	124,520
The tax effective rates are as follows:	24.3%	27.1%
Income tax expense is attributable to:		
Profit from continuing operations	115,197	140,490
Loss from discontinued operations	-	(15,970)
	115,197	124,520

Notes to the Consolidated Financial Statements

5. Dividends

		\$'000	Amount per security CPS	Franking per security CPS
Final dividend 2019	Final dividend not recognised in retained profits, to be paid on 9 December 2019	81,394	34.0	34.0
	Previous corresponding year, paid on 10 December 2018	79,000	33.0	33.0
Interim dividend	Interim dividend paid on 9 May 2019	57,455	24.0	24.0
	Previous corresponding year, paid on 10 May 2018	55,061	23.0	23.0

No dividend reinvestment plans were in operation during the reporting period.

Total number of ordinary shares on issue at the end of the reporting period was 239,395,320 (2018: 239,395,320).

Notes to the Consolidated Financial Statements

6. Business combinations

Accounting policy

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or assets are acquired. The consideration transferred for the acquisition of a business combination comprises the fair value of the assets transferred and the liabilities incurred. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

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

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

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

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

Other unincorporated arrangements

As a result of the acquisition of an additional 40% interest in the Bengalla Joint Venture, New Hope Corporation Limited has identified another category of interest in other entities. Below is the updated accounting policy of applicable to that arrangement.

New Hope Corporation Limited participates in unincorporated arrangements and has rights to its share of the assets and obligations rather than a right to a net return, but does not share joint control. In such cases, New Hope Corporation Limited recognises its share of assets and liabilities, revenue from the sale of its share of the output and its share of any revenue generated from the sale of the output by the unincorporated arrangement and its share of expenses. These interests are measured in accordance with the terms of the arrangement, which is usually in proportion to the New Hope Corporation Limited's ownership interest. These amounts are recorded in the financial statements on the appropriate lines.

a) New Hope Corporation Limited's acquisition of additional interests in Bengalla joint venture

New Hope Corporation Limited increased its stake in the assets and liabilities of the Bengalla Joint Venture by 30% on 3 December 2018 and a further 10% on 25 March 2019. The 10% acquisition had an effective date of 1 December 2018, with a purchase price adjustment for working capital movements between 1 December 2018 and 25 March 2019. The Bengalla Joint Venture is a coal mining and extraction operation producing thermal coal in the Hunter Valley, New South Wales in which New Hope Corporation Limited has held a 40% interest since 1 March 2016.

Revenue and profit contribution

The acquired business contributed revenues of \$253.024 million and a regular profit before tax since acquisition of \$82.173 million to the New Hope Corporation Limited for the period 1 December 2018 to 31 July 2019. The anticipated increase in production and sales tonnes annually is 4 million tonnes. Due to the variability in key market factors and operational variations, it is considered impractical to disclose an estimated revenue and profit or loss assuming the acquisition had occurred 1 August 2018.

Notes to the Consolidated Financial Statements

6. Business combinations (continued)

a) New Hope Corporation Limited's acquisition of additional interests in Bengalla joint venture (continued)

	30%	10%	Total 40%
	\$000	\$000	\$000
Purchase consideration			
Outflow of cash to acquire subsidiary, net of cash acquired:			
Total cash consideration – current year	645,147	193,275	838,422
Less: cash balance acquired	(3,787)	(3,371)	(7,158)
Outflow of cash - investing activities	641,360	189,904	831,264

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	30%	10%	Total 40%
	\$000	\$000	\$000
Purchase consideration			
Total Purchase consideration	645,147	193,275	838,422
The fair value of assets and liabilities recognised as a result of the acquisition are as follows:			
Cash	3,787	3,371	7,158
Trade and other receivables	13,721	5,239	18,960
Inventories	18,236	7,233	25,469
Property, plant and equipment	622,188	185,419	807,607
Intangibles	31,133	10,447	41,580
Trade and other payables	(12,240)	(7,038)	(19,278)
Provisions	(31,678)	(11,396)	(43,074)
Net assets acquired	645,147	193,275	838,422

b) WHSP Aquatic Achievers Pty Ltd's acquisition of two swim schools

On 1 December 2018, a 100% subsidiary of Washington H. Soul Pattinson and Company Limited, WHSP Aquatic Achievers Pty Ltd, acquired 100% interest in two swim schools - one in Australian Capital Territory and one in Victoria.

	2019
	\$000
Purchase consideration	
Total cash consideration – current year	7,872
Contingent consideration (earn-out)	225
Total purchase consideration	8,097

An earn-out clause in the Business Sale Agreement requires the Group to pay the vendor amounts in excess of base EBITDA of \$0.445 million for the twelve-month period ending 31 October 2019. The deferred liability of \$0.225 million has been calculated based on the estimated profit forecasts in support of the acquisition business case. The key assumption taken into consideration is the probability of meeting the performance targets.

Notes to the Consolidated Financial Statements

6. Business combinations (continued)

b) WHSP Aquatic Achievers Pty Ltd's acquisition of two swim schools (continued)

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	2019 \$000
Cash and cash equivalent	50
Other receivables	12
Inventories	3
Property	4,010
Plant and equipment	1,603
Trade and other payables	(130)
Provisions	(29)
Fair value of net identifiable assets	5,519
Goodwill on acquisition	2,578
Net assets acquired	8,097

Net cash outflow for the acquisition are as follows:

	2019 \$000
Outflow of cash to acquire swim schools, net of cash acquired:	
Total cash consideration – current year	7,872
Less: Cash balance acquired	(50)
	7,822
Stamp duty expensed	180
Other acquisition costs expensed	382
Outflow of cash - investing activities	8,384

The intangible assets arose from the excess of purchase price over the land, building and plant and equipment acquired and are considered to have an indefinite life with no amortisation applied.

From the date of the acquisition, the operation of the two swim schools contributed \$1.68 million of revenues and \$0.84 million to regular profit before tax of the Group. If the acquisition had occurred on 1 August 2018, revenue and regular profit before-tax would have been \$2.52 million and \$1.26 million respectively.

Notes to the Consolidated Financial Statements

7. Discontinued Operations

Accounting policy

A discontinued operation is a component or subsidiary of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the Consolidated Income Statement.

(i) Description

On 17 October 2018, two New Hope Corporation Limited wholly owned subsidiaries, Northern Energy Corporation Limited and Colton Coal Pty Ltd were placed into voluntary administration. Effective on this date, New Hope Corporation Limited lost control over these subsidiaries. The financial information relating to the discontinued operations for the period to 17 October 2018 is set out below.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations for the period ended 17 October 2018 and the comparative balance for the year ended 31 July 2018.

	2019 \$'000	2018 \$'000
Revenue	26	134
Expenses	(2,828)	(53,935)
Loss before income tax	(2,802)	(53,801)
Income tax benefit	-	15,970
Loss after income tax of discontinued operations	(2,802)	(37,831)
Profit on loss of control of subsidiary after income tax	3,022	-
Profit / (loss) from discontinued operations	220	(37,831)
Other comprehensive income from discontinued operations	-	-
Net cash outflow from operating activities	(329)	(9,940)
Net cash inflow / (outflow) from investing activities	26	(667)
Net cash inflow / (outflow) from financing activities	303	(4,016)
Net cash (outflow) from discontinued operations	-	(14,623)
	Cents	Cents
Basic earnings per share from discontinued operations	0.09	(15.80)
Diluted earnings per share from discontinued operations	0.09	(15.80)

(iii) Details of the disposal of the subsidiaries

	2019 \$'000	2018 \$'000
Total consideration	-	-
Carrying amount of net liabilities	(3,022)	-
Profit before income tax	3,022	-
Income tax expense	-	-
Profit on loss of control of subsidiary after income tax	3,022	-

Notes to the Consolidated Financial Statements

8. Equity accounted associates

Name of associated entity	Group's percentage of holding at balance date*		Contribution to Group net profit for the year **						Fair value of listed investments***	
	July 2019	July 2018	2019			2018			July 2019	July 2018
	%	%	Regular \$'000	Non-regular \$'000	Total \$'000	Regular \$'000	Non-regular \$'000	Total \$'000	\$'000	\$'000
Associates – held by the Parent Entity										
Apex Healthcare Berhad (i)	30.1	30.3	5,917	(96)	5,821	5,019	(28)	4,991	106,076	83,469
Australian Pharmaceutical Industries Limited (i)	19.3	19.3	10,351	(1,063)	9,288	9,669	(355)	9,314	137,374	160,666
Brickworks Limited (i)	43.8	43.9	54,710	27,181	81,891	44,518	(4,012)	40,506	1,099,556	1,022,751
Pengana Capital Group Limited (ii)	38.6	39.2	3,058	(8,566)	(5,508)	4,799	(2,061)	2,738	59,742	133,025
TPG Telecom Limited	25.3	25.3	95,044	(51,136)	43,908	109,033	(8,998)	100,035	1,636,085	1,350,122
Palla Pharma Limited (formerly TPI Enterprises Limited)	19.9	19.9	(1,250)	10	(1,240)	(1,431)	(807)	(2,238)	21,352	20,705
Other Associates	various	various	3,642	(3,459)	183	6,671	(356)	6,315	n/a	n/a
Share of results from equity accounted associates			171,472	(37,129)	134,343	178,278	(16,617)	161,661		
Gain on de-recognition of associates, net of tax			-	-	-	-	50,641	50,641		
Net gain on deemed disposal of equity accounted associates, net of tax			-	1,345	1,345	-	190	190		
Deferred tax expense recognised on equity accounted associates			-	(13,632)	(13,632)	-	(39,198)	(39,198)		
Net impairment expense of associates			-	(34,807)	(34,807)	-	(16,545)	(16,545)		
Total non-regular items from equity accounted associates			-	(47,094)	(47,094)	-	(4,912)	(4,912)		
Net contribution from equity accounted associates			171,472	(84,223)	87,249	178,278	(21,529)	156,749		

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

** Contribution to Group net profit represents the amount included in profit after tax before non-controlling interest.

*** Fair value of listed investments represents the last sale price of listed associates at balance date. These investments are subject to capital gains tax and other transaction costs.

Notes to the Consolidated Financial Statements

8. Equity accounted associates (continued)

Details of investments and result in associates

- (i) During the year, Apex Healthcare Berhad, Australian Pharmaceutical Industries Limited and Brickworks Limited issued shares by way of employee share scheme. The Parent Entity did not participate in the share issues. As a result, there has been a change in the Group's shareholding in each of these investments.
- (ii) During the year, Pengana Capital Group Limited issued shares under its Loan Share Plan and as consideration for the acquisition of PT Private Capital Pty Limited. The Parent Entity did not participate in the share issues. As a result, the shareholding in this investment has reduced by 0.6% to 38.6%.

9. Interest bearing liabilities

Accounting policy

Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value, net of any transactions costs incurred. These balances are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the term of the liability using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the term of the facility to which it relates.

Interest bearing liabilities are classified as current liabilities to the extent that the Group has no unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Lease liabilities

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

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

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

Notes to the Consolidated Financial Statements

9. Interest bearing liabilities (continued)

	2019 \$'000	2018 \$'000
Current liabilities		
Equity finance loan (i)	30,000	-
Secured loans	-	22,825
Finance lease liabilities (iii)	2,537	2,442
	32,537	25,267
Non-current liabilities		
Finance lease liabilities (iii)	5,265	7,790
Secured loans (ii)	364,948	12,000
	370,213	19,790
Financing facilities	604,690	215,510
Facilities utilised at reporting date	(395,428)	(194,972)
Facilities not utilised at reporting date	209,262	20,538

- (i) During the year, the Parent Entity utilised \$30.0 million in short term bank finance. The debt incurs interest at a variable rate and is repayable upon either the bank or the Parent Entity providing notice of 30 days. As security, the Parent Entity transfers ownership of title over certain long term equity investments to the bank. As the Parent Entity retains the risks and benefits of ownership of the transferred equity investments, including the right to receive dividends, these securities continue to be included as an asset on the Group's balance sheet. Upon repayment of the debt, ownership of title of the equity investments, is transferred back to the Parent Entity.
- (ii) At 31 July 2019, long term secured loan comprised of New Hope Corporation Limited of \$352.948 million (2018: \$nil) and a WHSP's property trust's bank loan facility for a commercial property in Penrith of \$12.0 million (2018: \$12.0 million).

New Hope Corporation Limited

During the year, New Hope Corporation Limited entered into a \$600 million secured drawable amortising debt facility with a syndicate of Australian and international banks. The syndicated debt facility's drawable line for credit is for general corporate purposes and has a maturity of November 2023. Under the terms of the secured syndicated debt facility, the facility limit has amortised to \$570 million as at 31 July 2019.

During the year, \$400 million of debt drawn down under the facility by New Hope Corporation Limited was repaid.

The fair values of New Hope Corporation Limited interest bearing liabilities materially approximate their respective carrying values as at 31 July 2019.

The financiers to the secured facility hold fixed and floating charges over all assets held by New Hope Corporation Limited (with the exception of certain excluded subsidiaries).

The transaction costs incurred by New Hope Corporation Limited in obtaining the secured debt facility and the credit support facility totalled \$12.802 million. Amortisation of the transaction costs and setup fees for the credit support facility totalled \$5.750 million during the year was recorded as financing expenses in the income statement. As at 31 July 2019, the transaction costs balance was \$7.052 million and offset against the secured loans balance.

Notes to the Consolidated Financial Statements

9. Interest bearing liabilities (continued)

(iii) Finance lease liabilities

New Hope Corporation Limited leases various plant and equipment with a carrying amount of \$6.430 million (2018: \$9.108 million) under finance leases expiring within two to three years:

	2019 \$'000	2018 \$'000
Commitments in relation to finance leases are payable as follows		
Within one year	2,767	2,767
Later than one year but not later than five years	5,353	8,120
Minimum lease payments	8,120	10,887
Future finance charges	(318)	(655)
Total lease liability	7,802	10,232

The present value of finance lease liabilities is as follows:

	2019 \$'000	2018 \$'000
Within one year	2,537	2,442
Later than one year but not later than five years	5,265	7,790
Minimum lease payments	7,802	10,232

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. No other assets are pledged as security for the lease liability.

10. Provisions

	2019 \$'000	2018 \$'000
Current liabilities		
Mining restoration and site rehabilitation	17,717	12,912
Employee benefits	59,089	43,331
Onerous contracts (i)	223	14,976
Other (ii)	16,000	-
	93,029	71,219
Non-current liabilities		
Mining restoration and site rehabilitation	242,836	178,822
Employee benefits	8,374	6,909
Onerous contracts	656	-
Other	198	657
	252,064	186,388

New Hope Corporation Limited (New Hope)

(i) Onerous contracts

In the 2018 year, New Hope recognised provisions for onerous contracts in relation to take or pay agreements associated with the Colton exploration project of \$14.976 million. An impairment of the Colton coal exploration and evaluation assets was also recognised (refer to note 4(c)). It was considered that the charges associated with the Wiggins Island Coal Export Terminal Pty Ltd (WICET) Agreement at that time were materially higher than previously forecast, and had a material impact on the viability of that project. As such, New Hope had determined that the long term take or pay agreements associated with this project were onerous contracts.

Notes to the Consolidated Financial Statements

10. Provisions (continued)

New Hope Corporation Limited (New Hope) (continued)

(i) Onerous contracts (continued)

New Hope determined for the 2018 year that the lowest unavoidable cost associated with the onerous contracts was represented by a failure to fulfil the contracts. The cost to New Hope of failing to fulfil its obligations under the contracts was the value of the bank guarantees which had been provided as security against the contractual obligations.

During the 2019 year, these bank guarantees issued by New Hope in respect of the take or pay agreements were fully drawn and settled. As such, the lowest unavoidable costs under the contracts is considered to be nil.

(ii) Other provisions

Administration of subsidiaries

Northern Energy Corporation Limited (NEC) and Colton Coal Pty Ltd (Colton), wholly owned subsidiaries of New Hope, were placed into voluntary administration on 17 October 2018. The companies have subsequently been placed into liquidation. New Hope has recognised a provision for \$16 million which it considers is the best estimate of the probable future economic outflows associated with the NEC and Colton liquidation process.

There have been a number of developments during the year associated with this matter outlined below.

Deed of cross guarantee proceedings

In proceedings relating to those administrations, WICET submitted that the debts of NEC and Colton are guaranteed by New Hope and certain of its subsidiaries pursuant to a Deed of Cross Guarantee (DOCG). New Hope denied this claim.

On 1 February 2019, New Hope commenced proceedings in the Supreme Court of New South Wales (Proceedings) seeking orders confirming that New Hope is not bound by the DOCG in respect of the debts of certain subsidiaries including NEC and Colton. A hearing of these proceedings occurred between 17 to 20 June 2019.

On 12 July 2019, the Supreme Court of New South Wales concluded that New Hope has not guaranteed the debts of NEC and Colton under the DOCG. On 20 August 2019, WICET filed an appeal with the Court of Appeal in New South Wales in relation to the Supreme Court's decision on the DOCG.

If WICET's claim is upheld, New Hope will be exposed to a liability of approximately \$155 million. New Hope continues to deny this claim.

Administration / liquidation process

In February 2019, in proceedings relating to the administrations of NEC and Colton, WICET applied successfully to the Court for an order that special purpose administrators be appointed to investigate a transaction that NEC entered into prior to the administrations of NEC and Colton, being a corporate restructure NEC undertook in February 2016.

In March 2019, New Hope put forward a conditional binding Term Sheet in respect of a proposed Deed of Company Arrangement (DOCA) for NEC and Colton. The proposed DOCA, subject to all conditions being met, required New Hope to contribute \$19 million into trust for the purpose of distribution to the creditors of NEC and Colton in accordance with the priorities and principles of the administration (Contribution). As New Hope has a secured loan receivable of \$7.060 million from NEC (representing the amount owing at the date of administration which was impaired during the year ended 31 July 2019), the Contribution, if paid and the proposed DOCA accepted, would have resulted in \$7.060 million being paid in priority by NEC to New Hope, and any and all claims by NEC or Colton against the New Hope Group (whether in respect of the DOCG, the February 2016 corporate restructure or otherwise) being released.

Notes to the Consolidated Financial Statements

10. Provisions (continued)

New Hope Corporation Limited (New Hope) (continued)

On 28 June 2019, the special purpose administrators appointed to NEC and Colton provided a report on their investigations into the February 2016 corporate restructure.

On 19 July 2019, the administrators appointed to NEC and Colton issued a Voluntary Administrators Report (the Report) in advance of the second meeting of creditors. The Report identified a number of alleged claims that may be available to any liquidators appointed to NEC and Colton, subject to the liquidators obtaining funding and conducting further investigations. If funding is obtained, further investigations are conducted and the alleged claims are pursued against New Hope, the Report identifies potential exposure to New Hope is between nil and \$48.1 million. The claims which it is alleged may be available to the liquidators relate to two transactions:

- The corporate restructure that NEC undertook in February 2016. The value attributed to the claims it is alleged may be available in respect of this transaction in the Report is between nil and \$20.5 million;
- A loan repayment made by Colton to the New Hope Group in 2017. The value attributed to the claims it is alleged may be available in respect of this transaction in the Report is between nil and \$27.6 million.

New Hope denies these alleged claims and does not consider that it has any obligations in respect of them.

In July 2019, New Hope gave a revised DOCA proposal to NEC and Colton that was presented to the second meeting of creditors held on 26 July 2019 which included a revised Contribution of \$16 million however introduced a subordination of the secured loan receivable of New Hope to below the claims of unsecured creditors.

At the second creditors meeting of creditors on 26 July 2019, the creditors did not vote in favour of this DOCA and instead voted to place NEC and Colton into liquidation.

In acknowledging the ongoing matters associated with the liquidation New Hope has considered its position and has determined that the proposed revised Contribution of \$16 million is the best estimate of the future probable economic outflows that will be incurred as a result of the NEC and Colton liquidation process. Although the DOCA has lapsed following the second meeting of creditors, New Hope has not withdrawn the proposal and considers it to represent a present obligation that should be reflected as a provision.

11. Fair value measurement

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

Investments in associates are equity accounted in accordance with AASB 128 Investments in Associates and Joint Ventures and accordingly are not recognised at fair value in the consolidated statement of financial position. Details of the fair values of listed equity accounted associates are set out in note 8.

Fair value hierarchy

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

Level 1: Fair value is determined by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities as at the end of the reporting period.

Level 2: Fair value is determined by using valuation techniques incorporating observable market data inputs.

Level 3: Fair value is determined by using valuation techniques that rely on inputs that are not based on observable market data.

Notes to the Consolidated Financial Statements

11. Fair value measurement (continued)

Fair value measurement

The following table presents the Group's assets and liabilities measured and recognised at fair value as at 31 July 2019 and 31 July 2018.

As at 31 July 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Trading equities *	60,950	-	16,198	77,148
Long term equity investments **	765,937	-	19,198	785,135
Non-financial assets				
Investment properties	-	-	106,281	106,281
Derivatives – Interest rate swap		190	-	190
Total assets	826,887	190	141,677	968,754
Financial liabilities				
Derivatives – Interest rate swap	-	10,774	-	10,774
Total liabilities	-	10,774	-	10,774
As at 31 July 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Trading equities	60,902	-	9,028	69,930
Long term equity investments	720,327	-	11,971	732,298
Other financial assets – equity investments	-	-	17,571	17,571
Non-financial assets				
Investment properties	-	-	158,254	158,254
Total assets	781,229	-	196,824	978,053
Financial liabilities				
Derivatives - Interest rate swap	-	3,353	-	3,353
Total liabilities	-	3,353	-	3,353

* From 1 August 2018, financial assets referred to as Trading equities have been accounted for as financial assets classified as Fair Value through Profit and Loss financial assets in accordance with *AASB 9 Financial Instruments* (refer note below 12(a)(ii)).

** From 1 August 2018, financial assets referred to as Long term equity investments have been accounted for as financial assets classified as Fair Value through Other Comprehensive Income financial assets in accordance with *AASB 9 Financial Instruments* (refer note below 12(a)(ii)).

Notes to the Consolidated Financial Statements

12. Other accounting policies

(a) New or amended Accounting Standards and Interpretations adopted

The Consolidated Entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

The following new and amended Accounting Standards and Interpretations are most relevant to the Consolidated Entity:

(i) AASB 15 Revenue from Contracts with Customers

AASB 15 is the new standard for recognition of revenue and replaces AASB 118 which covered revenue arising from the sale of goods and the rendering of services and AASB 111 which covered construction contracts. The Group adopted AASB 15 from 1 August 2018 which resulted in minor changes in accounting policies and adjustments to amounts previously recognised in the financial statements. In accordance with the transition provisions in AASB 15, the Group adopted the modified retrospective method of implementation and comparative figures were not restated.

Revenue recognition

The Group recognises sales revenue related to the transfer of promised goods or services when the performance obligations under the contract have been satisfied. The amount of revenue recognised reflects the consideration to which the Group is or expects to be entitled for satisfying the performance obligation.

Revenue from contracts with customers is recognised for the major business activities as follows:

- Coal sales revenue is recognised at a point in time when control of the products have been transferred to the customer in accordance with the sales terms, in this instance when the risks and benefits of ownership has transferred. The legal title, risks and rewards, and therefore the fulfilment of performance obligations normally occurs at the time of loading the shipment for export sales, and generally at the time the coal is delivered to the customer for domestic sales.
- Oil sales revenue is recognised at the point in time when control of the products have been transferred to the customer in accordance with the sales terms, in this instance when the risks and benefits of ownership have transferred. This is normally when the oil is delivered to the customer.
- Copper, zinc, silver and gold sales revenue is initially recognised at estimated sales value when the control and the risks of ownership of the product are passed to the customer. Adjustments are made for changes in commodity prices, assays, weight and currency between the time of the sale and the time of the final settlement of sales proceeds.
- Service fee income and management fee income is recognised as revenue over time as the services are performed.

Performance obligation for domestic and export sales

For domestic sales, the performance obligation is satisfied upon delivery of the products to the customer. For export sales, the revenue contracts are on Free On Board (FOB) basis. The performance obligation is satisfied when the product is loaded on a ship.

Notes to the Consolidated Financial Statements

12. Other accounting policies (continued)

(a) New or amended Accounting Standards and Interpretations adopted (continued)

(i) AASB 15 Revenue from Contracts with Customers (continued)

Provisional pricing arrangements

Sales contracts for commodities often incorporate provisional pricing. Provisional pricing might arise for a variety of reasons:

- The time taken to transport the product might mean that the customer wishes to pay the market price at the date of eventual delivery at the final destination- in those situations, a provisional price is charged on the date control of the product initially transfers.
- The final quality and volume of the component commodities will not be known until further testing at its final destination.

Sale of Copper, zinc, silver and gold metals

Sales revenue on copper, zinc, silver and gold metals are recognised in three stages:

- First provisional invoice for 90% of the transaction value is issued based on the market price, quality and quantity of the metals at date when control is passed to the buyer at the port of loading. The payment is due on the day of loading.
- Second provisional invoice for 10% of the metal value is issued based on the latest known market price, quality and quantity of the metals. The payment is due between 90 and 180 days of delivery.
- Final invoice is issued when adjustments are made for changes in commodity prices, assays, weight and currency, which is generally 90-180 days after sales was initially recognised.

Significant judgement and estimates

- Judgement is required by management to determine the amount of revenue recognised for each shipment at the port of loading. Such estimates are determined using either the 'expected value' or 'most likely amount' method. If provisional pricing results in variable consideration, further judgement will be required to determine whether the estimated revenue is subject to significant reversal. This might be particularly relevant where the final quality of products delivered will not be known until testing at its destination.

Adoption of AASB 15 by Associates

- The associates of the Consolidated Entity have adopted AASB 15 which resulted in the changes in their accounting policies for set-up revenue, brand fee income received from franchisees, subscriber acquisition costs, sales commission costs and rebates agreements. These costs were previously expensed as incurred. Under the new AASB 15, these costs are capitalised as contract costs and amortised over the anticipated contract period. The associates have adopted AASB 15 using the modified retrospective approach. Therefore, the net impact of the change in the associates' accounting policy on the Consolidated Entity's financial statement was a \$1.174 million restatement to opening retained profit and a corresponding increase in the Consolidated Entity's share on net assets of the associates. The adoption of AASB 15 by the associates did not have an impact on the Consolidated Entity's statement of comprehensive income.

Notes to the Consolidated Financial Statements

12. Other accounting policies (continued)

(a) New Accounting standards and Interpretations (continued)

(i) AASB 15 Revenue from Contracts with Customers (continued)

Impact of adoption of AASB 15

The standard established new principles and models for revenue to be allocated in accordance with the satisfaction of the performance obligation of a contract. It addresses revenue derived from provision of goods, services and customer contracts. Revenue is recognised when the control of goods or services are transferred to customers and for the amount to which the company expects to be entitled, either over time or at a point in time.

The Group has reviewed its current policies in relation to the amounts and timing of revenue recognised from its contractual arrangements. As the Group's revenue is derived primarily from the sales of minerals on a free on board basis in which the transfer of the risks and rewards coincides with the fulfilment of performance obligations and transfer of control as defined by AASB 15, there was no quantitative change in respect of the timing and amount of revenue the Group currently recognises.

(ii) AASB 9 Financial Instruments

This standard includes new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting of financial instruments. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. The Group has adopted AASB 9 and related amendments from 1 August 2018. Comparative results are not restated as permitted by the standard.

Classification and measurement

The Group has performed a comprehensive assessment of its financial instruments based on the Group's business model for managing financial assets. Debt assets, derivatives and equity holdings are first tested against the "contractual cash flow characteristics test".

Financial assets at amortised cost

AASB 9 introduces a new Expected Credit Loss (ECL) model. This model is a forward looking method for impairment of debt or derivative financial assets, measured at amortised cost or FVOCI. Debt based financial assets include loans, intercompany loans and receivables.

Under the old standard, the impairment existed when a default event occurred. An impairment loss was recognised as a separate provision against the gross value of the receivable. Under AASB 9, the Group measures the loss allowance for a financial asset at an amount equal to the lifetime expected credit losses (ECL). Where the financial assets credit risk has not increased significantly since initial recognition, the Group will measure the loss allowance based on 12 month ECL.

The Group classifies its financial assets as at amortised cost only if both the following criteria are met:

- the assets is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement between 30 and 45 days and therefore are all classified as current. Trade receivables are recognised initially at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measure them subsequently at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

12. Other accounting policies (continued)

(a) New Accounting standards and Interpretations (continued)

(ii) AASB 9 Financial Instruments (continued)

Loans to external parties and intercompany

The Parent Entity, Washington H. Soul Pattinson, is the main entity within the Group holding loans (both external and intercompany). At reporting date, AASB 9 requires management to determine whether the credit risk on the financial instrument has increased significantly during the period and assess the default risk based on the rules of expected credit losses ("ECL") model. The ECL model applies a three-stage model (general model) for impairment based on changes in credit quality since initial recognition.

The three stages of the model are 1. Performing, 2. Underperforming and 3. Non-performing.

There is no change in classification of loans from the old standard, AASB 139 to the new standard AASB 9. Loans will continue to be held at amortised cost (ie principal and interest).

Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed the due date.

A simplified approach is taken to accounting for trade and other receivables as well as contract assets with the loss allowance equal to the lifetime ECL recorded. In applying this simplified method, the Group uses its historical experience, external indicators and forward-looking information to calculate the ECL.

The Group has revised its impairment methodology under AASB 9 for financial assets under the new expected credit loss model for all its assets held at amortised cost. There has been no material financial impact in the change to the impairment assessment of financial assets held at amortised cost as a result of this change in methodology.

Financial assets at fair value through profit and loss

The Parent Entity, Washington H. Soul Pattinson, is the main entity within the Group that holds equities held for trading. An "investment held for trading" has the following characteristics, including:

- Investing primarily for the purpose of providing shareholders with returns from short term capital appreciation; and
- A short to medium term investment strategy, with an intention to sell the investment at an appropriate time.

The Group's financial assets classified as trading equities are measured at fair value through profit and loss (FVTPL). These financial assets which were previously held at FVTPL under AASB 139 continue to be measured at FVTPL under AASB 9. There is no change to the classification and measurement of financial assets at FVTPL on adoption of AASB 9.

Notes to the Consolidated Financial Statements

12. Other accounting policies (continued)

(a) New Accounting standards and Interpretations (continued)

(ii) AASB 9 Financial Instruments (continued)

Financial assets at fair value through other comprehensive income

For the Consolidated Entity, a “long term equity investment” is one that has the following characteristics, including:

- An intention to hold for the long-term investment with prospects for value appreciation (both capital and a sustainable, fully franked dividend income stream) that is consistent with the Consolidated Entity's investment strategy; and
- Providing diversification benefits to the Consolidated Entity's investment portfolio.

The Group has performed a comprehensive review of its investment portfolio. For the Group's financial assets classified as long term equity investments, an irrevocable election in classifying these long term equity investments to be measured at FVOCI has been made. This is in accordance with the Group's business model and the contractual terms of the investments cash flows.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained profits.

In the prior financial year, the Group had designated long term equity investments as available-for-sale where management intended to hold them for the medium to long term.

Adoption of AASB 9 by Associates

An associate of the Consolidated Entity has adopted AASB 9 resulting in the changes in their accounting policies for provision for doubtful debts. AASB 9 replaced the 'incurred loss' model in AASB 139 with a forward-looking expected credit loss ('ECL') model. The associates had adopted AASB 9 using the modified retrospective approach. The net impact of the change in the associates' accounting policy on the Consolidated Entity's financial statement was a \$1.205 million restatement to opening retained profit and a corresponding decrease in the Consolidated Entity's share of net assets of the associate. The adoption of AASB 9 by the associate did not have an impact on the Consolidated Entity's Income Statement.

Impact of adoption of AASB 9

The Consolidated Entity elected to present in other comprehensive income changes in the fair value of all its Long term equity investments, previously accounted for as available for sale (AFS) financial assets under AASB 9. These investments are held as long term strategic investments that are not expected to be sold in the short to medium term. Upon adoption of AASB 9, these financial assets are now accounted for as financial assets classified as Fair Value through Other Comprehensive Income (FVOCI) resulting in a reclassification of prior period fair value adjustments from retained profits to reserves.

Other financial assets have been reclassified as part of Long term equity investments on the Consolidated Statement Financial Position.

Notes to the Consolidated Financial Statements

12. Other accounting policies (continued)

(a) New Accounting standards and Interpretations (continued)

(ii) AASB 9 Financial Instruments (continued)

The main effects resulting from the reclassification of the Consolidated Entity's investment portfolio are as follows:

	AFS \$'000	FVOCI \$'000
Other financial assets – equity investments	17,571	-
Long term equity investments -31 July 2018 – AASB 139	732,298	-
Reclassify other financial assets and long term equity investments to FVOCI	(749,869)	749,869
Long term equity investments -1 August 2018 – AASB 9	-	749,869

At 31 July 2018, the Consolidated Entity held \$750 million of long term equity investments which are now classified as FVOCI financial assets under AASB 9. Under AASB 139 changes in the fair value of these investments were recognised in the asset revaluation reserve within equity and any impairments of these investments were recognised in the income statement. When the investment is disposed, the cumulative fair value changes would have been recycled from asset revaluation reserve to the income statement as a reclassification adjustment.

From 1 August 2018, under AASB 9, these long term equity investments are classified as FVOCI. However, any impairment loss recognised will be transferred to asset revaluation reserve and no longer be recognised in the income statement. Any realised gain or loss on disposal will be transferred from asset revaluation reserve to the Capital profit reserve within equity.

The impact of the above AASB 9 and AASB 15 changes on the Consolidated Entity's equity is as follows:

	Effect on Reserves \$'000	Effect on Retained profits \$'000
Opening balance – 31 July 2018	605,865	2,718,057
Reclassify long term equity investments from available for sale to FVOCI	(53,892)	53,892
Effect of initial adoption of AASB 9 by Associate	-	(1,205)
Effect of initial adoption of AASB 15 by Associate	-	1,174
Opening balance -1 August 2018 – AASB 9	551,973	2,771,918

The cumulative effect on initial application of AASB 9 on long term equity investments is a change to opening retained profits and a decrease in the Asset revaluation reserve of \$53.9 million at 1 August 2018. This is predominately due to the reclassification of previous impairment losses of long term equity investments from retained profits to be presented in reserves.

Hedging (commodity and forward foreign exchange contracts)

The new hedge accounting rules under AASB 9 align the accounting for hedge instruments more closely with the Group's risk management practices. The Group has confirmed that its current hedge relationships qualify as continuing hedges upon the adoption of AASB 9 on 1 August 2018. There is no rebalancing of any of the hedging relationships necessary on initial application as the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under AASB 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under AASB 9 that would not have met the qualifying hedge accounting criteria under AASB 139.

Notes to the Consolidated Financial Statements

12. Other accounting policies (continued)

(b) Accounting standards issued but not yet implemented

Certain new accounting standards and interpretations have been published that are not mandatory for 31 July 2019 reporting period and have not been early adopted by the Consolidated Entity. The Consolidated Entity's provisional assessment of the impact of these new standards on the financial statements for the year ended 31 July 2019 is set out below:

AASB 16 Leases

AASB 16 replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases.

Subject to exceptions, a 'right-of-use' (ROU) asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to the profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is now replaced by interest expense and depreciation in profit or loss under AASB16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The Consolidated Entity has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in AASB 16. The standard will affect primarily the accounting for the Group's operating leases. As at balance date, the Group has non-cancellable operating lease commitments. The Group does hold within these lease commitments a number of short term leases and low value assets which will be recognised on a straight-line basis as an expenses in profit or loss.

This standard is mandatory for financial years commencing on or after 1 January 2019 and the Group does not intend to adopt the standard before its effective date. This standard will be first applicable for the year commencing 1 August 2019 and the Group is currently in the final stages of determining the final impact on the consolidated financial statement.

The Consolidated Entity expects to recognise on the Statement of Financial Position right-of-use assets of approximately \$108.0 million on 1 August 2019, lease liabilities of \$108.0 million and no deferred tax assets. Overall, no material change to net assets is expected. The Consolidated Entity expects that net profit after tax will decrease by approximately \$1.0 million as a result of adopting the new lease rules.

In modelling these scenarios, the Consolidated Entity has made certain assumptions and judgements in relation to economic conditions including, but not limited to: the incremental borrowing rates, composition of the lease portfolio, and non-cancellable lease terms that may cause the actual output to differ to that experienced in FY19.

The Consolidated Entity plans to adopt AASB 16 Leases using the modified retrospective approach with no restatement of comparative information for the year ending 31 July 2020 upon initial adoption.

There are no other standards or interpretations that are not yet effective that are expected to have a material impact on the Consolidated Entity.

Notes to the Consolidated Financial Statements

13. Contingent liabilities

Other than the matter set out in Note 10, there are no material changes to contingent liabilities of the Group since 31 July 2018.

14. Events occurring after the balance date

New Hope Corporation Limited

On 10 September 2019, New Hope received the judgment from the Queensland Court of Appeal in relation to the New Acland Stage 3 project which ruled against Oakey Coal Action Alliance and in favour of New Hope on groundwater and apprehension of bias. New Hope is pleased with the outcome however will await final orders to be handed down in due course before assessing next steps for the project. New Hope remains committed to delivering the New Acland Stage 3 project in a timely manner to ensure continuity of operations and ongoing employment in the region.

TPG Telecom Limited

On the 10 September 2019, the Federal Court hearing commenced in relation the proposed merger of TPG Telecom and Vodafone Hutchison Australia.

Other than the above, the Directors are not aware of any other events subsequent to balance date that would materially affect the financial report.

15. Other significant information

Please refer to the Chairman's Review and Review of Group Entities contained in this report.