



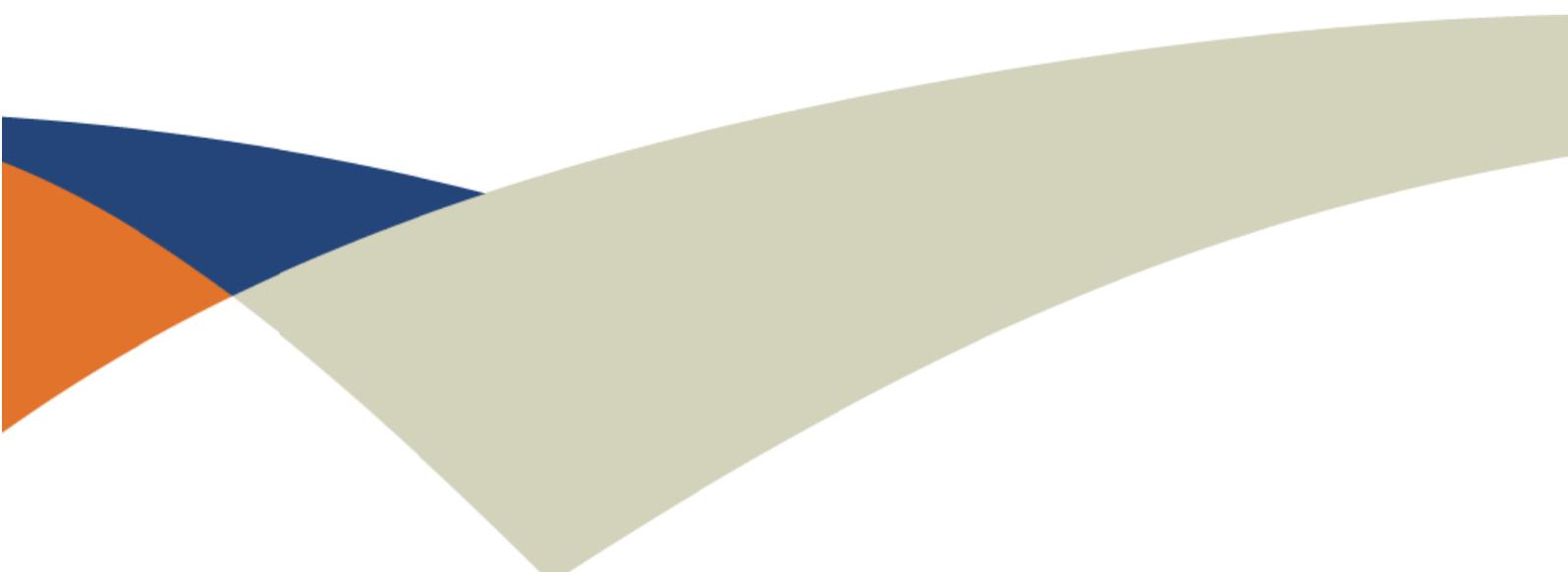
# **WAM Capital Limited**

ABN 34 086 587 395

**And Controlled Entity**

## **Annual Report**

for the year ending 30 June 2013



## Company Particulars

WAM Capital Limited is a Listed Investment Company and is a reporting entity. It is primarily an investor in equities listed on the Australian Securities Exchange.

**Directors:** Geoffrey Wilson (Chairman) James Chirnside Lindsay Mann  
Matthew Kidman Paul Jensen

**Secretary:** Kate Thorley

**Investment Manager:** Wilson Asset Management (International) Pty Limited  
Level 11, 139 Macquarie Street  
Sydney NSW 2000

**Auditors:** Moore Stephens Sydney

**Country of Incorporation:** Australia

**Registered Office:** Level 11, 139 Macquarie Street  
Sydney NSW 2000

**Contact Details:** Postal Address: GPO Box 4658, Sydney NSW 2001  
Telephone: (02) 9247 6755  
Fax: (02) 9247 6855  
Email: info@wamfunds.com.au  
Website: www.wamfunds.com.au

**Share Registrar:** Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Telephone: (02) 9290 9600  
Fax: (02) 9279 0664

For enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters, please contact the share registrar.

**Australian Securities Exchange:** WAM Capital Ordinary Shares (WAM)  
WAM Capital Options (WAMO) \$1.60 expired 31 July 2013

## Shareholder Presentations 2013

**Perth**  
**Thursday 14 November**  
**Presentation only**

Rydges Perth  
Cnr King & Hay St  
Perth WA 6000  
10.00am – 11.30am

**Annual General Meeting and  
Presentation  
Sydney  
Wednesday 20 November**

Lyceum Theatre  
Wesley Centre  
220 Pitt St  
Sydney NSW 2000  
11.00am – 12.15pm



**Adelaide**  
**Thursday 21 November**  
**Presentation only**

National Wine Centre  
Cnr Botanic & Hackney Rd  
Adelaide SA 5000  
10.00am – 12.00pm

**Melbourne**  
**Friday 22 November**  
**Presentation only**

Morgans at 401  
401 Collins St  
Melbourne VIC 3000  
10.00am – 12.00pm

**Canberra**  
**Monday 25 November**  
**Presentation only**

Belconnen Premier Inn  
110 Benjamin Way  
Belconnen ACT 2617  
10.00am – 11.00am

**Brisbane**  
**Tuesday 26 November**  
**Presentation only**

Urban Hotel  
345 Wickham Tce  
Brisbane QLD 4000  
10.00am – 12.00pm

# Key Highlights FY2013

↑ 22.7%

Investment Portfolio Performance

↑ 9.1%

Full Year Fully Franked Dividend

↑ 14.2%

After Tax Net Tangible Assets (NTA)  
(adjusted for dividends)

↑ 191.1%

Shareholders' Equity

## Summary of Results FY2013

WAM Capital reported a consolidated operating profit before tax of \$53.6m (2012: \$3.6m) and operating profit after tax of \$44.2m (2012: \$4.3m) for the year to 30 June 2013. The significant increase in the profit reflects the change in the size and value of the investment portfolio due to the strong performance of the investment portfolio and capital management initiatives including the merger with Premium Investors Limited, option issue and placement.

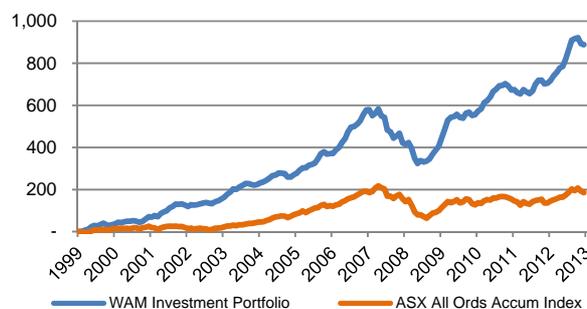
WAM Capital's investment portfolio outperformed the S&P/ASX All Ordinaries Accumulation Index by 2.0% for the year to 30 June 2013 with an average equity exposure of 63.7%.

The Board declared a fully franked final dividend of 6.0 cents per share which brings the full year dividend to 12.0 cents per share, fully franked. This is a 9.1% increase on the previous year.

### At a glance as at 30 June 2013

|   |             |
|---|-------------|
| Listing date                            | August 1999 |
| Market cap (\$m)                        | \$479.1m    |
| Share price                             | \$1.64      |
| Shares on issue (WAM)                   | 292,114,947 |
| Options on issue (WAMO)                 | 35,345,837  |
| Net Tangible Assets (pre-tax)           | \$1.66      |
| Net Tangible Assets (post-tax)          | \$1.66      |
| Gross Assets (\$m)                      | \$486.5m    |
| Fully franked dividends FY2013          | 12.0 cents  |
| Fully franked dividends FY2012          | 11.0 cents  |
| Fully franked annualised dividend yield | 7.3%        |

### WAM Capital's investment portfolio return 17.9% p.a. over 14 years



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# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## OBJECTIVES AND INVESTMENT APPROACH

### WAM Capital Objectives

The investment objectives of WAM Capital Limited ('WAM Capital' or 'the Company') are to:

- deliver investors a rising stream of fully franked dividends;
- provide capital growth; and
- preserve capital of the Company.

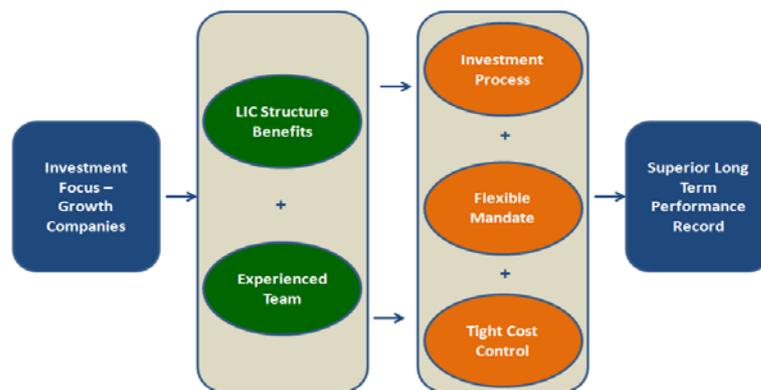
### Our Approach and Business Model

Our focus is to invest in growth companies with an emphasis on identifying stocks that are under-researched and undervalued. These companies have strong earnings growth, trade on low price to earnings multiples and have an experienced management team. They are well positioned in their industry and tend to be small-to-medium sized industrial companies listed on the Australian Securities Exchange ('ASX'). We believe small cap stocks outperform their big cap rivals for a number of reasons:

- small companies tend to grow at a faster rate than their larger peers;
- the dilution of the Efficient Market Hypothesis (EMH) as you move from large cap stocks to small cap stocks; and
- the increased possibility of corporate activity.

Our disciplined approach is to provide the maximum return possible while taking the minimum amount of risk. WAM Capital has a relatively low risk profile for a number of reasons. If we do not identify a catalyst under the Research Driven approach or a trading opportunity under the Market Driven approach, we revert to cash. The average net cash position held over the last 14 years is 33.6%. The Company also has a low exposure to the resources sector because we consider this sector is subject to extreme volatility and is difficult to value according to conservative accounting and investment principles.

### WAM Capital Business Model



Our investment team has over 50 years of collective experience in the Australian sharemarket with a high degree of 'street smarts'. The team comprises of Geoff Wilson and Chris Stott as Portfolio Managers, Martin Hickson, Equity Analyst/Dealer, and Matthew Haupt and Mark Tobin, Equity Analysts. The team spends as much time as possible meeting with the management of investee companies - during the past year we have had over 1,000 company meetings.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## OBJECTIVES AND INVESTMENT APPROACH

### Our Style

Our investment style can be summarised as:

- fundamental bottom-up approach
- absolute return focus, benchmark unaware
- quick decision making resulting from a flat organisational structure
- increased flexibility due to the relatively small funds under management and flexible mandates
- a focus on risk adjusted returns with above average cash positions

### Investment Process

We employ the following two investment processes to achieve the Company's objectives:

#### ***Research Driven Investing***

We undertake extensive research of companies, focusing on free cash flow, return on equity and the quality of the business. Then we rate each company with respect to management, earnings growth potential, valuation and industry position. Once the company rates, we only buy when we can identify a catalyst or an event that will change the valuation the market gives to the company. We sell once the company reaches our valuation. This process is very labour intensive with over 1,000 company meetings each year.

#### Research Driven Investment Process



In the Research Driven part of the portfolio, we do not favour investing in mining companies due to their unpredictability, the volatility of revenue and the unfavourable risk reward equation. This does not apply to the Market Driven part of the portfolio where we look for trading opportunities.

# **WAM CAPITAL LIMITED AND CONTROLLED ENTITY**

## **OBJECTIVES AND INVESTMENT APPROACH**

### ***Market Driven Investing***

We take advantage of relative short-term arbitrages and mis-pricings in the Australian equities market, rather than investing in any individual companies or a portfolio of companies for a prolonged period of time. This part of the portfolio is traded actively.

We scour the market for opportunities such as:

- initial public offerings (IPOs)
- capital raisings
- block trades
- oversold positions
- takeovers
- Listed Investment Companies (LICs) discount to net tangible assets (NTA) plays
- stocks trading at a discount to their NTA
- earnings momentum / surprises
- short selling
- market themes and trends

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CHAIRMAN'S LETTER

Dear Fellow Shareholders,

Firstly, I would like to thank you very much for your support of WAM Capital Limited in financial year 2013. I would also like to welcome all new shareholders to the Company, including shareholders who have joined the Company as a result of the merger with Premium Investors Limited ('Premium Investors').

In 2013, the Company achieved significant growth increasing shareholders equity by 191.1% to \$486.7 million and the number of shareholders by 158% to 10,946. This has been achieved through the strong performance of our investment portfolio and capital management initiatives including the option issue, a share placement and the merger with Premium Investors. The proceeds from the capital management initiatives have been invested in accordance with WAM Capital's disciplined investment process focused on delivering the highest possible return while taking the minimum amount of risk.

There are numerous benefits to shareholders of WAM Capital's increased size including, a reduction in fixed administration costs, increased liquidity and generally increasing the relevance of the Company in the market, which can increase investment opportunities.

Since its inception in 1999, WAM Capital has consistently applied its proven investment philosophy to achieve an investment portfolio return of 17.9% per annum, which is 10.1% greater than the S&P/ASX All Ordinaries Accumulation Index over the same period, while being on average 66.4% invested. This performance has enabled the Company to pay shareholders an annualised fully franked dividend yield on the initial public offering price of 10.8% per year over the last 14 years.

### **Performance**

In evaluating the performance of the Company, we look at three key measures set out below. These performance numbers were achieved with an average of 63.7% invested in equities during the year. The return on the cash portion of our portfolio was 4.0% and the return on the equity portion of the portfolio was 33.3%.

#### **1. How the investment manager performed**

This measure is before tax and all costs and is compared to the S&P/ASX All Ordinaries Accumulation Index which is also before tax and costs. WAM Capital's investment portfolio increased 22.7% for the 12 months to 30 June 2013, while the S&P/ASX All Ordinaries Accumulation Index rose by 20.7% and the S&P/ASX Small Ordinaries Accumulation Index fell 5.3%. This represents an outperformance of 2.0% and 28.0% respectively while holding 36.3% of the portfolio in cash.

#### **2. The movement in net tangible assets (NTA) after taxes, management fees and other costs**

This performance measure shows the change in the value of the assets that belong to the shareholders over the 12 month period. Corporate tax (being 30%) is a significant item of difference between the investment portfolio and the net asset performance. The franking credits attached to corporate tax payments are available for distribution to shareholders through fully franked dividends. WAM Capital's after tax NTA, adjusted for dividends, increased 14.2% for the 12 months to 30 June 2013. Shareholders exercising their options over the 12 months had an impact on the after tax NTA of minus 6.6%. The merger with Premium Investors boosted the after tax NTA by 3.3% due to the recognition of Premium Investor's tax losses in the WAM Capital accounts.

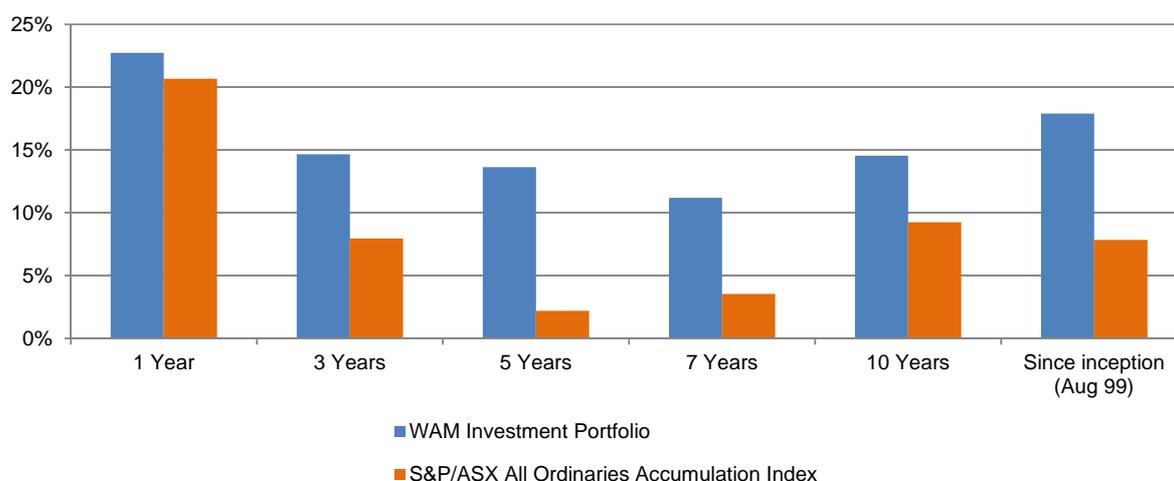
# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CHAIRMAN'S LETTER

### 3. Total shareholder return

This measure shows the return to shareholders (assuming a proportionate exercise of options during the year) being the change in share price together with dividends reinvested expressed as a percentage. The total shareholder return for WAM Capital for the year to 30 June 2013 was 19.9%.

### Annualised Investment Portfolio Performance vs S&P/ASX All Ordinaries Accumulation Index



### Investment portfolio

The Research Driven portion of the portfolio performed strongly in financial year 2013. The global macro-economic outlook improved during the year and Australian equities experienced significant price earnings (P/E) ratio expansion, although earnings per share growth through the year was, and remains, muted. The best performing research stocks for FY2013 were: Magellan Financial Group Limited (MFG), G8 Education Limited (GEM), REA Group Ltd (REA), Amcom Telecommunications Limited (AMM) and Corporate Travel Management Limited (CTD). We believe opportunities are, and continue to be, available irrespective of the direction of the overall equity market. In the last six months the Company has established new positions in stocks such as CSG Limited (CSV), M2 Telecommunications Group Limited (MTU) and Slater & Gordon Limited (SGH) while taking profits and rotating out of existing positions that have reached our valuation targets.

The Market Driven portion of the portfolio delivered a sound performance in FY2013 as a result of the strategy's low correlation to equity markets and a high average cash weighting. The top contributors on the Market Driven strategy for FY2013 were: Ingenia Communities Limited (INA), Australian Infrastructure Fund Limited (AIX), Clough Limited (CLO), RHG Limited (RHG) and Sunland Group Limited (SDG).

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

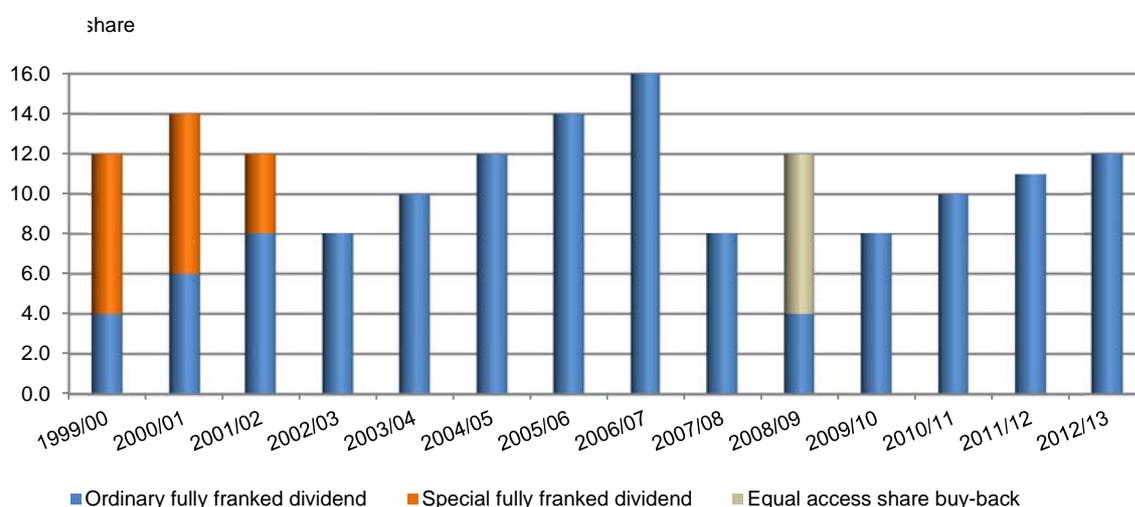
## CHAIRMAN'S LETTER

### Dividends

On 19 July 2013, the Board announced a fully franked final dividend of 6.0 cents per share. This brought the FY2013 full year dividend to 12.0 cents per share fully franked, an increase of 9.1% on the previous year.

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Dividends are paid on a six-monthly basis and the dividend reinvestment plan is available to shareholders for both the interim and final dividend.

The dividend reinvestment plan will be operating at a 2.5% discount.



### Capital Management

During the year, the Board implemented a number of capital management initiatives (discussed below). The objectives of these capital management initiatives have been to increase shareholder value by continuing to grow the Company's assets, increase its relevance in the market and increase liquidity of WAM Capital's shares. The proceeds from the capital management initiatives have been invested in accordance with WAM Capital's disciplined investment process focused on delivering the highest possible return while taking the minimum amount of risk.

#### Option issue – expired 31 July 2013

The Company raised \$246.0 million during the term of the option issue. A total of 153,771,706 options (95.0%) were exercised, with the remaining options expiring. The Board announced the issue of options to acquire ordinary shares of the Company in April 2012 for an exercise price of \$1.60. Further options were issued as part of the placement in August 2012 and the merger with Premium Investors in December 2012.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CHAIRMAN'S LETTER

### Placement

In August 2012, WAM Capital successfully completed a placement raising \$37.0 million, representing a 24.6% increase in the Company's assets. Due to significant demand for the initial offer to raise \$25.9 million, the Board resolved to accept oversubscriptions to raise an additional \$11.1 million.

### Premium Investors merger

On 31 December 2012, the Company successfully completed a merger with Premium Investors which resulted in WAM Capital's assets growing by 28.0% (\$64.9 million) and shareholders numbers increasing by 53.2% at the time.

Following the implementation of the merger, the Board resolved to form a tax consolidated group. Subsequently the underlying funds invested by Premium Investors were transferred to WAM Capital so that the investments could be managed in line with WAM Capital's proven and disciplined investment process.

The merger has led to a reduction in the fixed administration expense ratio of the Group. There are also benefits from tax losses and franking credit balances which were assets of Premium Investors.

### **Equity Market Outlook**

The S&P/ASX All Ordinaries Accumulation Index closed the FY2013 year up 20.7%, its strongest annual performance since the onset of the Global Financial Crisis. The new financial year has started strongly with the market up 8.2% in the first two months. Still much of Europe remains troubled by high unemployment and ongoing sovereign debt crises and we expect below-average growth from the region for many years. Positive signs continue to emerge from the United States that an economic recovery is underway following a deep and prolonged recession. While still expanding, data out of China indicates a slower pace of economic growth with the new regime indicating they will tighten monetary conditions over the medium term.

Australia's economy has been flagging in calendar year 2013 with political uncertainty dampening business and consumer confidence and delaying expenditure decisions. Reflecting the poorer trading conditions, numerous companies have announced profit downgrades in recent months with softer economic conditions making it difficult for businesses to grow earnings.

We remain optimistic about the longer term outlook for the Australian economy which is supported by strong underlying fundamentals. Australia's housing market is showing signs of a recovery, albeit patchy, with house prices in some regions up 10% in the last 12 months. We expect the Reserve Bank of Australia will make further cuts to the Official Cash Rate and we anticipate that the lower interest rate environment, coupled with rising house prices, will stimulate consumer confidence. In turn, this would boost the economy and encourage cyclical stocks to rally, such as retailers and building materials companies. The softer Australian dollar will continue to have a positive impact on many businesses and generates investment opportunities in a number of sectors including tourism, manufacturing and those with an export focus. In the mining services sector, we believe there are deep value opportunities. However, we expect the full benefits of the softer dollar and near record-low interest rates will not be felt until early 2014.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CHAIRMAN'S LETTER

### Company Outlook

The Company is benefitting from the recent introduction of the Future of Financial Advice ('FOFA') reforms which have acted to 'level the playing field' for listed investment companies ('LICs') such as WAM Capital. The reforms have had a positive impact in raising the awareness of LICs and the benefits of their structure and increased the level of interest in WAM Capital.

With a conservative cash weighting, no debt and a flexible and proven investment approach, WAM Capital is well positioned to capitalise on opportunities in the market as they arise. The investment team remains committed to identifying undervalued growth companies and providing investors with exposure to small-to-mid cap industrial companies which, over the long term, have outperformed larger companies. We are strongly of the view that we can continue to find opportunities irrespective of market conditions with the Company achieving outperformance through up and down markets since its inception.

### Shareholder Communication

We take an active approach to keeping shareholders informed about WAM Capital's activities and performance including, monthly investment updates and NTA announcements, yearly and half yearly profit announcements, semi-annual shareholder briefings and access to all relevant information, such as independent research reports, on our website: [www.wamfunds.com.au](http://www.wamfunds.com.au).

We encourage shareholders and interested investors to use the "Subscribe Here" feature on our website to receive weekly market updates and notification when announcements and other important information becomes available.

During the year we continued the successful and well-attended shareholder briefings, with presentations held in Sydney, Melbourne, Adelaide, Brisbane, Perth and Canberra. The team at Wilson Asset Management enjoys the opportunity to meet with you and are committed to maintaining shareholder briefings as a semi-annual event. We invite you to attend the upcoming briefings in November 2013 – please see details at the front of this document.

We aim to provide valuable communications and we welcome all feedback on how we can improve our communication with our shareholders by calling our office on (02) 9247 6755 or sending us an email to [info@wamfunds.com.au](mailto:info@wamfunds.com.au).

Thank you for your continuing support.



**Geoff Wilson**  
Chairman

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CORPORATE GOVERNANCE STATEMENT

The Board is committed to the Company operating effectively and in the best interests of shareholders. The Board has followed the principles and best practice recommendations established by the ASX Corporate Governance Council having regard to the nature of the Company's activities and its size. The Company has adopted the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (2<sup>nd</sup> Edition) for the 2013 financial year, subject to the exceptions noted below.

### **Role of the Board (Recommendations: 1.1 to 1.3)**

The Company has a Board but no full time employees. Subject at all times to any written guidelines issued by the Board of Directors of WAM Capital Limited, the day-to-day management and investment of funds is carried out by Wilson Asset Management (International) Pty Limited (the Manager) pursuant to a management agreement. Consequently, there is no need to delegate functions to senior management or for a process to evaluate the performance of senior executives under Recommendations 1.1, 1.2 and 1.3.

The role of the Board is to set strategic direction, approve capital management initiatives and to be responsible for the overall corporate governance of the Company which includes:

- To oversee and monitor the performance of the Manager's compliance with the management agreement and to ensure that the Manager is monitoring the performance of other external service providers;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Ensuring significant business risks are identified and appropriately managed;
- Approving the interim and final financial statements and related reports and generally various other communications to the ASX and shareholders that the Board deems material; and
- Setting appropriate business standards and codes for ethical behaviour.

The Board aims to ensure that all Directors and the Manager act with the utmost integrity and objectivity and endeavour to enhance the reputation of the Company. The Board aims to act in a manner designed to create and build sustainable value for shareholders.

### **Composition & Operation of the Board (Recommendations: 2.1 to 2.6)**

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the Annual Report and their term in office are detailed in the Directors' Report on pages 17 to 20.

The Board has three independent Directors and two non-independent Directors. The names of the Directors considered to be independent are:

- James Chirnside
- Paul Jensen
- Lindsay Mann

These Directors are considered independent as per the criteria outlined in the Board of Directors Charter which includes the Company's criteria for independence of Directors, and can be found in the Corporate Governance section of the Company's website at [www.wamfunds.com.au](http://www.wamfunds.com.au). The criteria is in accordance with ASX Corporate Governance Council's Principles.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CORPORATE GOVERNANCE STATEMENT

The Chairman is not an independent Director. The Company believes that an independent Chairman, under Recommendation 2.2, does not necessarily improve the function of the Board. The Company believes that when the Chairman is a significant driver behind the business and is a sizeable shareholder, as is the case with this Company, it adds value to the Company and all shareholders' benefit. The Company does not employ a Chief Executive Officer, consequently Recommendation 2.3 is not applicable.

Given the size of the Board, a Nomination Committee has not been formed under Recommendation 2.4. The Board as a whole considers the composition of the Board and appointment of new Directors. The Board identifies suitable candidates to fill vacancies as they arise with consideration to the optimal mix of skills and diversity.

Under the Board of Directors Charter, the performance of each Director was reviewed by the Chairman during the year and the Board undertook the annual review of the performance of the Chairman to ensure the Board's activities continue to be efficiently organised and conducted. At every annual general meeting one third of the Directors must retire from office and be eligible for re-election. Shareholder approval is required on the composition of the Board.

Each Director has the right to access all relevant information and, subject to prior consultation with the Chairman, may seek independent professional advice at the entity's expense. A copy of advice received by the Director is made available to all other members of the Board.

### **Code of Conduct (Recommendations: 3.1 and 3.5)**

The Company has established a Directors Code of Conduct which sets out the Company's key values and how they should be applied within the workplace and in dealings with those outside of the Company. The Directors Code of Conduct can be found in the Corporate Governance section of the Company's website at [www.wamfunds.com.au](http://www.wamfunds.com.au).

### **Diversity Policy (Recommendations: 3.2 to 3.5)**

As the Company has no full time employees and given the size of the Board, a diversity policy has not been established under Recommendations 3.2 to 3.5. The Board's composition is reviewed on an annual basis. In the event a vacancy arises, the Board will include diversity in its nomination process. Currently, there are no women on the Board, however, 50% of the Manager's staff are women, including the CEO/Company Secretary.

### **Audit & Risk Committee (Recommendations: 4.1 to 4.4)**

The Company has formed an Audit & Risk Committee consisting of three non-executive Directors of whom two are independent as defined by the ASX Corporate Governance Council's Principles. This is considered adequate given the size of the Board (five members) and the nature of the Company. The members of the Audit & Risk Committee are:

- James Chirnside                      Chairman, independent director
- Paul Jensen                              Non-Executive Director, independent director
- Matthew Kidman                      Non-Executive Director, non-independent director

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CORPORATE GOVERNANCE STATEMENT

The Committee's responsibilities are to:

- Oversee the existence and maintenance of internal controls and procedures to ensure compliance with all applicable regulatory obligations;
- Oversee the financial reporting process;
- Review the annual and half-year financial reports and recommend them for approval by the Board of Directors;
- Nominate external auditors; and
- Review the existing external audit arrangements.

The qualifications of those appointed to the Committee are detailed in the Directors' Report on pages 17 to 20.

The Audit & Risk Committee Charter can be found in the Corporate Governance section of the Company's website at [www.wamfunds.com.au](http://www.wamfunds.com.au).

The Committee formally reports to the Board after each of its meetings. Details of the number of meetings of the Audit & Risk Committee during the 2013 year are set out in the Directors' Report on page 23.

The external audit firm partner responsible for the Company audit attends meetings of the Board and Audit & Risk Committee by invitation.

The Company's external audit is undertaken by Moore Stephens Sydney and the audit engagement partner is required to be changed at regular intervals. Scott Whiddett, a partner of Moore Stephens Sydney, is the partner responsible for the external audit of the Company for the 2013 financial year.

### **ASX Listing Rule Compliance (Recommendations: 5.1 and 5.2)**

The Company has established a continuous disclosure policy to ensure compliance with the continuous disclosure obligations under the ASX Listing Rules and the *Corporations Act 2001*. The policy aims to ensure all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and balanced way. The Continuous Disclosure Policy can be found in the Corporate Governance section of the Company's website at [www.wamfunds.com.au](http://www.wamfunds.com.au).

Under the Securities Dealing Policy, which can be found in the Corporate Governance section of the Company's website at [www.wamfunds.com.au](http://www.wamfunds.com.au), Directors are not required to hold a minimum number of shares pursuant to the Company's Constitution. However, their current relevant interests in the Company's shares are shown in the Directors' Report. Directors must not deal in shares of the Company if they are in possession of price sensitive or inside information. The Board has also nominated they may not deal in shares of the Company the five business days before the announcement of a dividend or any other capital management initiative that might have a material impact on the share price.

In addition, the Company has established a Conflict of Interest Policy, in accordance with the *Corporations Act 2001*. Under this policy, the Directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the Company. Where the Board

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CORPORATE GOVERNANCE STATEMENT

believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

### **Shareholder Rights & Communication (Recommendations: 6.1 and 6.2)**

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

The Company Secretary is primarily responsible for coordinating the disclosure of information to shareholders and regulators under the direction of the Board.

Information is communicated to shareholders through the:

- Website;
- ASX Company Announcements platform;
- Annual Report;
- Investor newsletters;
- Investor presentations;
- Monthly Investment Updates and Net Tangible Assets (NTA) releases; and
- Other correspondence regarding matters impacting shareholders.

Monthly NTA releases and semi-annual investor newsletters contain additional information concerning the underlying investment portfolio of the Company in an effort to give investors a better understanding of the Company.

The Board encourages full participation of shareholders at the Annual General Meeting ('AGM') to ensure a high level of accountability and identification with the Company's strategy and goals. Shareholder information sessions are also held twice a year in May and November following the AGM. These provide an informal forum where shareholders are given the opportunity to raise questions and participate in general discussion about the Company.

The Communications Policy can be found in the Corporate Governance section of the Company's website at [www.wamfunds.com.au](http://www.wamfunds.com.au).

### **Risk Management (Recommendations: 7.1 to 7.4)**

The Company has an established enterprise risk management program in accordance with the International Risk Standard AS/NZS ISO 31000:2009. It also has an established internal control program based upon the principles set out in the Australian Compliance Standard AS 3806:2006.

The Company's enterprise risk management program addresses its material business risks. Each identified risk is individually assessed in terms of the likelihood of the risk event occurring and the potential consequences in the event that the risk event was to occur. The CompliSpace Assurance software has been implemented through which material business risks and the mitigating controls can be monitored in real time. It also ensures transparency of data and ease of reporting to the Board on the performance of its enterprise risk and compliance programs.

The Manager has provided to the Board a report as to the overall effectiveness of the Company's management of its material business risks.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## CORPORATE GOVERNANCE STATEMENT

The Board has received assurance from the Director and Chief Executive Officer of the Manager that in their view:

- the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control; and
- the system of risk management and internal control is operating effectively in all material respects in relation to financial reporting risks.

The Board requires the Manager to report annually on the operation of internal controls to manage the Company's material business risk, reviews any external audit commentary in respect to internal controls and conducts any other investigations it requires in order to report on the effectiveness of the internal control system. In respect of the current financial year all necessary declarations have been submitted to the Board.

There are two main areas of risk that have been identified:

- Market risk; and
- Operational risk

### *Market Risk*

The Manager is primarily responsible for recognising and managing market related risk as per the management agreement. The Manager provides periodic reports to the Board regarding this area of risk. By its nature, as a listed investment company, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate. However, the Company seeks to reduce and manage market risk by not being overly exposed to one investee company or one particular sector of the market. The Manager reviews the relative weightings of individual securities and the relevant market sectors regularly. The Company does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector. Wilson Asset Management (International) Pty Limited, the Manager, is required to act in accordance with the management agreement and reports to the Board regularly on the Company's performance and any material actions that have occurred in the period.

### *Operational Risk*

The Manager is primarily responsible for recognising and managing operational risk issues such as legal and regulatory risk, systems and process risk and outsourcing risk. The Company outsources its administrative functions to service providers: Wilson Asset Management (International) Pty Limited (investment management, accounting and compliance), RBC Investor Services (custody) and Boardroom Pty Limited (share registry) and accordingly risk issues associated with these activities are handled in accordance with the service provider's policies and procedures.

Wilson Asset Management (International) Pty Limited, the Manager provides a declaration to the Board twice a year to certify that the Group's financial statements and notes present a true and fair view, in all material respects, of the Group's financial condition and operational results and that they have been prepared and maintained in accordance with relevant Accounting Standards and the *Corporations Act 2001*.

# **WAM CAPITAL LIMITED AND CONTROLLED ENTITY**

## **CORPORATE GOVERNANCE STATEMENT**

### **Remuneration of Directors (Recommendations: 8.1 to 8.4)**

Given the size of the Board, a Remuneration Committee has not been formed under Recommendation 8.1. The Board believes that such a committee would not serve to protect or enhance the interests of the shareholders. The Board as a whole considers the issue of remuneration.

The maximum total remuneration of the Directors of the Company has been set at \$130,000 per annum to be divided in such proportions as they agree. The scope of the Company's operations, and the frequency of Board meetings are principal determinants of the fee level. Further detail is provided in the Directors' Report on page 21.

All directors of WAM Capital are non-executive directors. Accordingly, the requirement under Recommendation 8.3 to distinguish the structure of the remuneration paid to executive and non-executive directors is not applicable to the Company.

No equity based remuneration is paid to Directors. Directors do not receive bonuses nor are they issued options on securities as part of their remuneration.

The Chairman of WAM Capital Limited is the sole Director of Wilson Asset Management (International) Pty Limited and is further remunerated by that Company. Further detail is provided in the Directors' Report.

# **WAM CAPITAL LIMITED AND CONTROLLED ENTITY**

## **DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013**

The Directors present their report together with the consolidated financial report of WAM Capital Limited ('the Company') and its controlled entity ('the Group') for the financial year ended 30 June 2013.

### **Principal Activity**

The principal activity of the Company is making investments in listed companies. The Company's investment objectives are: to deliver a rising stream of fully franked dividends; to provide capital growth; and to preserve capital. No change in this activity took place during the year or is likely in the future.

### **Operating and Financial Review**

Investment operations over the year resulted in an operating profit before tax of \$53,644,461 (2012: \$3,629,272) and an operating profit after tax of \$44,218,171 (2012: \$4,307,262). The result is a reflection of the investment portfolio returning 22.7% as compared with the S&P/ASX All Ordinaries Accumulation Index which increased 20.7% for the 12 months to 30 June 2013.

Under Accounting Standards, realised gains and losses and dividend income are added to or reduced by changes in the market value of the Group's investments. This can lead to large variations in reported profits. We believe a more appropriate measure of the results is the change in Net Tangible Asset (NTA) per share. The after tax NTA, adjusted for dividends, increased 14.2% for the 12 months to 30 June 2013. Shareholders exercising their options over the 12 months had an impact on the after tax NTA of minus 6.6%. The merger with Premium Investors boosted the after tax NTA by 3.3% due to the recognition of Premium Investor's tax losses.

Net Tangible Assets for each ordinary share as at 30 June 2013 (calculated on market value less realisation costs and all applicable taxes and before provision for dividends declared) amounted to \$1.66 per share (2012: \$1.56). NTA after tax on realised gains but before tax on unrealised gains was \$1.68 per share (2012: \$1.59). These figures are after the payment of 11.5 cents in fully franked dividends to shareholders during the year (2012: 10.5 cents).

The Company achieved significant growth during the year increasing shareholders equity by 191.1% to \$486.7 million and total shareholder numbers by 158% to 10,946. This growth was achieved through the strong performance of the investment portfolio and capital management initiatives including the option issue, an oversubscribed placement and the successful merger with Premium Investors.

Further information on the operating and financial review of the Group is contained in the Chairman's Letter on pages 4 to 8 of the Annual Report.

### **Financial Position**

The net asset value of the Group for the year ended 30 June 2013 was \$486,738,757 (2012: \$167,219,826).

# **WAM CAPITAL LIMITED AND CONTROLLED ENTITY**

## **DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013**

### **Significant Changes in State of Affairs**

On 31 December 2012, the Company successfully completed a merger with Premium Investors. The purchase consideration of this transaction consisted of the issue of 32,206,715 WAM Capital shares for the value of \$53,624,180, 32,206,715 WAM Capital options for the value of \$1,706,956 and the payment of \$28,934,488 to those that elected to receive cash.

### **Dividends Paid or Recommended**

Dividends paid or declared are as follows:

|  | \$         |
|--|------------|
| Fully franked 2012 final dividend of 5.5 cents per share was paid on 28 September 2012 | 7,569,273  |
| Fully franked 2013 interim dividend of 6.0 cents per share was paid on 30 April 2013   | 17,160,745 |

Since year end the Board has declared a final dividend of 6.0 cents per share fully franked to be paid on 18 October 2013.

### **Options**

On 2 April 2012, the Board announced a one-for-one bonus issue of options to acquire ordinary shares in the capital of the Company for an exercise price of \$1.60. A total of 106,819,954 options were allotted to shareholders on 3 May 2012. Further options totaling 55,091,924 were issued during the year as part of the placement and merger.

At 30 June 2013, a total of 126,586,341 (2012: 43,074) options had been exercised for a total consideration of \$202,538,145 (2012: 68,918) with a remaining balance of outstanding options being 35,325,537 (106,776,880).

On 31 July 2013, the WAM Capital options expired. A total of 153,771,706 options (95.0%) were exercised and allotted for a total consideration of \$246.0 million.

### **Directors**

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

G.J. Wilson  
M.J. Kidman  
P.D.K Jensen  
J.M. Chirnside  
L.R. Mann (appointed 31 December 2012)

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013

### Information on Directors

#### **Geoffrey Wilson (Chairman – Non-independent)**

##### *Experience and expertise*

Geoffrey Wilson has had 33 years experience in the Australian and international securities industry. He holds a Bachelor of Science Degree and a Graduate Management Qualification. He is also a Fellow of the Institute of Company Directors and a Fellow of the Securities Institute of Australia.

Geoffrey has been Chairman of the Company since March 1999.

##### *Other current directorships*

Geoffrey Wilson is currently Chairman of WAM Research Limited (appointed June 2003), WAM Active Limited (appointed July 2007) and the Australian Stockbrokers Foundation. He is a Director of the Australian Leaders Fund Limited (appointed October 2003), Clime Capital Limited (appointed November 2003), Incubator Capital Limited (appointed February 2000), the Sporting Chance Cancer Foundation, the Australian Fund Managers Foundation, the Odyssey House McGrath Foundation, the Australian Children's Music Foundation, Premium Investors Pty Limited and he is a Member of the Second Bite NSW Advisory Committee. He is also a Director of investment management companies Wilson Asset Management (International) Pty Limited, MAM Pty Limited, Boutique Investment Management Pty Limited and Boutique Asset Management Pty Limited.

##### *Former directorships in the last 3 years*

Geoffrey Wilson is a former Director of Cadence Capital Limited (November 2003 to February 2013).

##### *Special responsibilities*

Chairman of the Board.

##### *Interests in shares of the Company*

Details of Geoffrey Wilson's interests in the Company are included later in this report.

##### *Interests in contracts*

Details of Geoffrey Wilson's interests in contracts of the Company are included later in this report.

#### **Matthew Kidman (Non-Executive Director – Non-independent)**

##### *Experience and expertise*

Matthew Kidman worked as a portfolio manager at Wilson Asset Management (International) Pty Limited for 13 years between 1998 and 2011. Prior to joining Wilson Asset Management, Matthew worked as a finance journalist at the Sydney Morning Herald between the years 1994 and 1998. In 1997 he was made business editor of the paper and was charged with the responsibility of company coverage. He has degrees in Law and Economics and a Graduate Diploma in Applied Finance.

Matthew Kidman has been a Director of the Company since March 1999.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013

### **Matthew Kidman (Non-Executive Director – Non-independent) (cont'd)**

#### *Other current directorships*

Matthew Kidman is currently Chairman of Watermark Market Neutral Fund (appointed May 2013). He is also a Director of WAM Active Limited (appointed July 2007), WAM Research Limited (appointed May 2002), Incubator Capital Limited (appointed February 2000), financial planning group, Centrepoint Alliance Limited (appointed February 2012) and he is a Director of the investment management company Boutique Asset Management Pty Limited.

#### *Former directorships in the last 3 years*

Matthew Kidman is a former Director of Australian Leaders Fund Limited (formerly known as Wilson Leaders Fund Limited) (October 2003 to January 2010).

#### *Special responsibilities*

Member of the Audit & Risk Committee.

#### *Interests in shares of the Company*

Details of Matthew Kidman's interests in the Company are included later in this report.

#### *Interests in contracts*

Matthew Kidman has no interests in contracts of the Company.

### **James Chirnside (Non-Executive Director – Independent)**

#### *Experience and expertise*

James Chirnside has been exclusively focussed on investment management strategies for twenty-eight years in Sydney, Hong Kong, London, and Melbourne. James is a Director of Mann Distribution Australia Pty Ltd, a marketing agent for Mann Bio Holdings who itself is a specialist Global Healthcare Fund Manager founded in the UK by investor Jim Mellon. James sits as Chairman of the Investment Committee for Rivkin Securities in Sydney. James operated Fund Manager Asia Pacific Asset Management (APAM) between 2002 and 2012. From 2000-2001 James worked for Challenger Financial Group in Sydney as a product development manager. During the 1990's James managed emerging market hedge funds in Hong Kong and London for Regent Fund Management (now AIM listed Charlemagne Capital), which was also founded by Jim Mellon. Between 1988 and 1992 James ran a Proprietary trading book for County NatWest Investment Bank, based in London. Here he was primarily focussed on Country Funds and derivative arbitrage strategies.

James Chirnside has been a Director of the Company since February 2003.

#### *Other current directorships*

James Chirnside is a Director of Cadence Capital Limited (appointed February 2005), Mercantile Investments Company Limited (appointed November 2010) and Mothercare Australia Limited (appointed August 2013).

#### *Former directorships in the last 3 years*

James Chirnside has not resigned as a Director from any other listed companies within the last three years.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**DIRECTORS' REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED 30 JUNE 2013**

***James Chirnside (Non-Executive Director – Independent) (cont'd)***

*Special responsibilities*

Chairman of the Audit & Risk Committee.

*Interests in shares of the Company*

Details of James Chirnside's interests in shares of the Company are included later in the report.

*Interests in contracts*

James Chirnside has no interests in contracts of the Company.

***Paul Jensen (Non-Executive Director – Independent)***

*Experience and expertise*

Paul Jensen is a Fellow of the Australian Institute of Company Directors and holds a Bachelor degree in Accounting and Commercial Law. Paul has over 25 years of international experience in finance, investment management and banking, with specific expertise in strategy formation, governance and financial performance. He has held senior executive positions with Clime Investment Management Limited, HFA Holdings Limited; Director, Lend Lease Corporate Services Limited, Travelex Limited and the Lloyds TSB banking group in New Zealand, United Kingdom and Australia.

Paul Jensen has been a Director of the Company since June 2004.

*Other current directorships*

Paul Jensen is a Director of RHG Limited (appointed April 2011) and Murchison Metals Limited (appointed November 2012).

*Former directorships in the last 3 years*

Paul Jensen is a former Director of Clime Investment Management Limited (August 2008 to May 2012)

*Special responsibilities*

Member of the Audit & Risk Committee.

*Interests in shares of the Company*

Details of Paul Jensen's interests in shares of the Company are included later in this report.

*Interests in contracts*

Paul Jensen has no interests in contracts of the Company.

***Lindsay Mann (Non-Executive Director – Independent)***

*Experience and expertise*

Lindsay Mann has more than 39 years financial services experience. He was formerly Chairman of Premium Investors Pty Limited. Prior to that Lindsay was CEO (Singapore) and Regional Head Asia for First State Investments, the Asian business of Colonial First State Global Asset Management. Prior to this, Mr Mann was CEO of AXA Investment Managers in Hong Kong. He is a Fellow of the Institute of Actuaries of Australia, a Graduate member of the Australian Institute of Company Directors and a member of the Hong Kong Securities Institute.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013

### ***Lindsay Mann (Non-Executive Director – Independent) (cont'd)***

Lindsay Mann has been a Director of the Company since 31 December 2012.

#### *Other current directorships*

Lindsay Mann is currently an independent director of BRIM Asian Credit Fund and BRIM Asian Short Duration Fund, Cayman Islands' domiciled funds managed by Singapore based Blue Rice Investment Management and an independent member of the Compliance Committee of Antares Capital Partners Limited. He is director of Premium Investors Pty Limited.

#### *Former directorships in the last 3 years*

Lindsay Mann has not resigned as a Director from any other listed companies within the last three years.

#### *Interests in shares of the Company*

Details of Lindsay Mann's interests in shares of the Company are included later in the report.

#### *Interests in contracts*

Lindsay Mann has no interests in contracts of the Company

### **Company Secretary**

The following person held the position of Company Secretary at the end of the financial year:

#### **Kate Thorley – CPA, B.Comm, Grad Dip App Fin and Inv, Grad Dip App Corp Gov**

Kate Thorley has eight years' experience in the funds management industry and more than 14 years of financial accounting and corporate governance experience. Kate is the Chief Executive Officer and Company Secretary of Wilson Asset Management (International) Pty Limited and is also the Company Secretary of WAM Active Limited and WAM Research Limited. She previously held the positions of Chief Financial Officer and Financial Accountant for Wilson Asset Management (International) Pty Limited. Kate was appointed non-executive Director of Mothercare Australia Limited in August 2013. Kate was appointed Company Secretary of WAM Capital in October 2008.

### **Remuneration Report**

This report details the nature and amount of remuneration for each Director of WAM Capital Limited.

#### a) Remuneration of Directors

All Directors of WAM Capital are non-executive Directors. The Board from time to time determines remuneration of Directors within the maximum amount approved by the shareholders at the Annual Shareholders Meeting. Directors are not entitled to any other remuneration.

Fees and payments to Directors reflect the demands that are made on and the responsibilities of, the Directors and are reviewed annually by the Board. The Company determines the remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced Directors.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**DIRECTORS' REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED 30 JUNE 2013**

**Remuneration Report (cont'd)**

The maximum total remuneration of the Directors of the Company has been set at \$130,000 per annum. Directors do not receive bonuses nor are they issued options on securities as part of their remuneration. Directors' fees cover all main Board activities and membership of committees.

Directors' remuneration received for the year ended 30 June 2013:

| Director                                | Position               | Short-term<br>employee benefits<br>Directors' Fees<br>\$ | Post-<br>employment<br>benefits<br>Superannuation<br>\$ | Total<br>\$    |
|---|------------------------|--|---|----------------|
| G.J. Wilson                             | Chairman               | 9,174  | 826   | 10,000         |
| M.J. Kidman                             | Non-Executive Director | 27,523   | 2,477   | 30,000         |
| J.M. Chirnside                          | Non-Executive Director | 27,523   | 2,477   | 30,000         |
| P.D.K. Jensen                           | Non-Executive Director | 20,000   | 10,000  | 30,000         |
| L.R. Mann<br>(appointed 31<br>Dec 2012) | Non-Executive Director | 13,761   | 1,239   | 15,000         |
|   |                        | <b>97,981</b>  | <b>17,019</b>   | <b>115,000</b> |

Directors receive a superannuation guarantee contribution required by the government, which is currently 9% of individuals benefits and do not receive any other retirement benefits. Directors may also elect to salary sacrifice their fees into superannuation.

The following table reflects the Group's performance and Directors' remuneration over five years:

|   | 2013        | 2012        | 2011        | 2010        | 2009        |
|---|-------------|-------------|-------------|-------------|-------------|
| Operating profit/(loss)<br>after tax (\$)                           | 44,218,171  | 4,307,262   | 20,352,870  | 24,383,192  | (4,083,239) |
| Dividends (cents per<br>share)                                      | 12.0        | 11.0        | 10.0        | 8.0         | 4.0         |
| Equal Access Share<br>Buy-Back (\$1.38 per<br>share x 5.8% holding) | -           | -           | -           | -           | 8.0         |
| After tax net tangible<br>asset (\$ per share)                      | 1.66        | 1.56        | 1.63        | 1.52        | 1.37        |
| Total Directors'<br>remuneration (\$)                               | 115,000     | 100,000     | 80,000      | 80,000      | 80,000      |
| Shareholder's equity (\$)   | 486,738,757 | 167,219,826 | 171,346,450 | 158,746,626 | 141,178,888 |

As outlined above, Directors' fees are not directly linked to the Group's performance.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013

### Remuneration Report (cont'd)

#### b) Director Related Entities Remuneration

All transactions with related entities were made on normal commercial terms and conditions and at market rates.

Geoffrey Wilson is the sole Director and beneficial owner of Wilson Asset Management (International) Pty Limited, the entity appointed to manage the investment portfolio of WAM Capital Limited. Wilson Asset Management (International) Pty Limited operates a funds management business which employs a number of investment personnel, research analysts, accountants and other administrative staff. The core duties of the Manager in addition to managing the investment portfolio include the provision of financial and administrative support to ensure the maintenance of the corporate and statutory records of the Group; liaison with the ASX with respect to compliance with the ASX Listing Rules; liaison with ASIC with respect to compliance with the *Corporations Act 2001*; liaison with the share registrar of the Company; investor relations; and the provision of information necessary for the maintenance of financial accounts of the Group to be completed. In its capacity as Manager, Wilson Asset Management (International) Pty Limited was paid a management fee of 1% p.a (plus GST) of gross assets amounting to \$3,590,737 inclusive of GST (2012: \$1,897,494). As at 30 June 2013 the balance payable to the Manager was \$445,775 (2012: \$477,895).

In addition, Wilson Asset Management (International) Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the S&P/ASX All Ordinaries Accumulation Index has increased over that period, the amount by which the value of the portfolio exceeds this increase; or
- where the S&P/ASX All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in the value of the portfolio.

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. For the year ended 30 June 2013, a performance fee of \$605,984 inclusive of GST was payable to Wilson Asset Management (International) Pty Limited (2012: \$1,139,258).

These amounts are in addition to the above Directors' remuneration. Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

#### c) Remuneration of Executives

There are no executives that are paid by the Group. Wilson Asset Management (International) Pty Limited, the investment manager of the Group, remunerated Geoffrey Wilson and Kate Thorley as employees and/or as a Director of the Company during the financial year. The Manager is appointed to also provide day-to-day management of the Group and is remunerated as outlined above.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013

### Remuneration Report (cont'd)

#### d) Equity Instruments Disclosures of Directors and Related Parties

As at the date of this report, the Group's Directors and their related parties held the following interests in the Company:

| Directors                         | Ordinary Shares | Options |
|-----------------------------------|-----------------|---------|
| G.J. Wilson                       | 3,958,672       | -       |
| M.J. Kidman                       | 257,380         | -       |
| P.D.K. Jensen                     | 154,403         | -       |
| J.M. Chirnside                    | 28,823          | -       |
| L.R. Mann (appointed 31 Dec 2012) | 85,986          | -       |

Directors and director related entities disposed of and acquired ordinary shares and options in the Company on the same terms and conditions available to other shareholders. The Directors have not, during or since the end financial year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

### Directors' Meetings

| Director                          | No. eligible to attend | Attended |
|-----------------------------------|------------------------|----------|
| G.J. Wilson                       | 17                     | 17       |
| M.J. Kidman                       | 17                     | 17       |
| P.D.K. Jensen                     | 17                     | 16       |
| J.M. Chirnside                    | 17                     | 15       |
| L.R. Mann (appointed 31 Dec 2012) | 5                      | 5        |

### Audit & Risk Committee Meetings

The main responsibilities of the Audit & Risk Committee are set out in the Corporate Governance Statement on page 11 of the Annual Report.

| Director       | No. eligible to attend | Attended |
|----------------|------------------------|----------|
| M.J. Kidman    | 3                      | 3        |
| P.D.K. Jensen  | 3                      | 3        |
| J.M. Chirnside | 3                      | 3        |

### After Balance Date Events

Since year end the Company declared a final dividend of 6.0 cents per share fully franked to be paid on 18 October 2013.

On 31 July 2013, the WAM Capital options expired. A total of 153,771,706 options (95.0%) were exercised and allotted for a total consideration of \$246.0 million.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in subsequent financial years.

# **WAM CAPITAL LIMITED AND CONTROLLED ENTITY**

## **DIRECTORS' REPORT TO SHAREHOLDERS FOR THE YEAR ENDED 30 JUNE 2013**

### **Future Developments**

The Group will continue to pursue investment activities – primarily investing in equities listed on the Australian Securities Exchange – to achieve the Group's stated objectives.

The Group's future performance is dependent on the performance of the Group's investments. In turn, the performance of these investments is impacted by company-specific factors and prevailing industry conditions. In addition, a range of external factors including economic growth rates, interest rates, exchange rates and macro-economic conditions impact the overall equity market and these investments.

As such, we do not believe it is possible or appropriate to accurately predict the future performance of the Group's investments and, therefore, the Group's performance.

### **Environmental Issues**

The Group's operations are not regulated by any environmental regulation under a law of the Commonwealth or of a State or Territory.

### **Indemnification and Insurance of Officers or Auditors**

During the financial year the Group paid a premium in respect of a contract insuring the Directors of the Group, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any person who is or has been an auditor of the Group.

### **Proceedings on behalf of the Company**

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

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

### **Non-Audit Services**

During the year Moore Stephens Sydney, the Group's auditor, did not perform any other services in addition to their statutory duties for the Group. Moore Stephens Sydney Pty Limited, a related party of the Group's auditor, performed taxation services for the Group. Details of the amounts paid to the auditors and their related parties are disclosed in Note 5 to the financial statements.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**DIRECTORS' REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED 30 JUNE 2013**

**Non-Audit Services (cont'd)**

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed in Note 5 did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit & Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditory independence in accordance with the APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

**Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 26 of this Annual Report.

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

A handwritten signature in black ink, consisting of a large, stylized 'G' followed by a horizontal line extending to the right.

G.J. Wilson  
Chairman

Dated at Sydney this 3<sup>rd</sup> day of September 2013

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF WAM CAPITAL LIMITED**

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of WAM Capital Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.



**Moore Stephens Sydney**  
Chartered Accountants



**Scott Whiddett**  
Partner

Dated in Sydney, this 3<sup>rd</sup> of September 2013

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2013**

|  | Note | 2013<br>\$                | 2012<br>\$              |
|--|------|---------------------------|-------------------------|
| Proceeds from sale of investments                    |      | 667,471,270               | 341,626,298             |
| Cost of investments sold                             |      | <u>(652,930,944)</u>      | <u>(340,269,595)</u>    |
| Realised gains on financial assets                   |      | 14,540,326                | 1,356,703               |
| Unrealised gains/(losses) on financial assets        |      | 4,668,061                 | (4,907,123)             |
| Other revenue from operating activities              | 2    | 29,618,167                | 11,649,293              |
| Gains from purchase of subsidiary                    | 18   | 11,713,726                | -                       |
| Management fees                                      |      | (3,345,913)               | (1,768,119)             |
| Performance fees                                     |      | (553,035)                 | (1,061,581)             |
| Directors fees                                       |      | (115,000)                 | (100,000)               |
| Brokerage expense on share purchases                 |      | (1,992,465)               | (999,006)               |
| Custody fees   |      | (101,737)                 | (91,520)                |
| ASX listing and chess fees                           |      | (112,308)                 | (68,144)                |
| Share registry fees                                  |      | (194,393)                 | (81,070)                |
| Disbursements, mailing and printing                  |      | (114,931)                 | (41,514)                |
| Option issue expenses                                |      | -                         | (102,441)               |
| Acquisition related costs                            |      | (100,470)                 | -                       |
| Other Premium Investors expenses                     |      | (108,046)                 | -                       |
| Other expenses from ordinary activities              |      | <u>(157,521)</u>          | <u>(156,206)</u>        |
| <b>Profit before income tax</b>                      |      | <b>53,644,461</b>         | <b>3,629,272</b>        |
| Income tax (expense)/benefit                         | 3(a) | <u>(9,426,290)</u>        | <u>677,990</u>          |
| <b>Profit attributable to members of the Company</b> | 12   | <b><u>44,218,171</u></b>  | <b><u>4,307,262</u></b> |
| <b>Other comprehensive income</b>                    |      |                           |                         |
| Other comprehensive income for the year, net of tax  |      | <u>-</u>                  | <u>-</u>                |
| <b>Total comprehensive income for the year</b>       |      | <b><u>44,218,171</u></b>  | <b><u>4,307,262</u></b> |
| <b>Basic earnings per share</b>                      | 15   | <b><u>24.64 cents</u></b> | <b><u>4.1 cents</u></b> |
| <b>Diluted earnings per share</b>                    | 15   | <b><u>24.49 cents</u></b> | <b><u>4.1 cents</u></b> |

The accompanying notes form part of these consolidated financial statements.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2013**

|                             | Note | 2013<br>\$                | 2012<br>\$                |
|-----------------------------|------|---------------------------|---------------------------|
| <b>Assets</b>               |      |                           |                           |
| Cash and cash equivalents   | 13   | 219,140,757               | 78,494,624                |
| Trade and other receivables | 6    | 16,849,562                | 7,674,818                 |
| Financial assets            | 7    | 252,672,295               | 94,819,931                |
| Deferred tax assets         | 3(b) | 12,346,833                | 33,222                    |
| <b>Total assets</b>         |      | <u><b>501,009,447</b></u> | <u><b>181,022,595</b></u> |
| <b>Liabilities</b>          |      |                           |                           |
| Trade and other payables    | 9    | 3,343,793                 | 7,132,471                 |
| Financial liabilities       | 8    | -                         | 2,455,694                 |
| Current tax liabilities     | 3(c) | 4,899,184                 | 843,315                   |
| Deferred tax liabilities    | 3(d) | 6,027,713                 | 3,371,289                 |
| <b>Total liabilities</b>    |      | <u><b>14,270,690</b></u>  | <u><b>13,802,769</b></u>  |
| <b>Net assets</b>           |      | <u><b>486,738,757</b></u> | <u><b>167,219,826</b></u> |
| <b>Equity</b>               |      |                           |                           |
| Issued capital              | 10   | 453,005,419               | 152,974,641               |
| Reserves                    | 11   | 40,420,506                | 16,054,184                |
| Accumulated losses          | 12   | <u>(6,687,168)</u>        | <u>(1,808,999)</u>        |
| <b>Total equity</b>         |      | <u><b>486,738,757</b></u> | <u><b>167,219,826</b></u> |

The accompanying notes form part of these consolidated financial statements.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2013**

|  | Note  | 2013<br>\$                | 2012<br>\$                |
|--|-------|---------------------------|---------------------------|
| <b>Total equity as at 1 July</b>   |       | <b>167,219,826</b>        | <b>171,346,450</b>        |
| Profit for the year attributable to members of the Company               | 12    | 44,218,171                | 4,307,262                 |
| Total other comprehensive income for the year                            |       | -                         | -                         |
| Shares issued via dividend reinvestment plan                             | 10(b) | 5,774,775                 | 2,574,832                 |
| Shares issued via exercise of options                                    | 10(b) | 202,436,747               | 68,918                    |
| Unallotted option monies received  | 10(b) | 32,480                    | -                         |
| Shares issued via placement  | 10(b) | 36,980,219                | -                         |
| Shares issued at market value via acquisition                            | 10(b) | 53,624,180                | -                         |
| Options issued at market value via acquisition                           | 10(b) | 1,706,956                 | -                         |
| Capitalised share issue costs  | 10(b) | (524,579)                 | -                         |
|  |       | <u>511,468,775</u>        | <u>178,297,462</u>        |
| Dividends paid   | 4(a)  | <u>(24,730,018)</u>       | <u>(11,077,636)</u>       |
| <b>Total equity as at 30 June attributable to members of the Company</b> |       | <b><u>486,738,757</u></b> | <b><u>167,219,826</u></b> |

The accompanying notes form part of these consolidated financial statements.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2013**

|  | Note      | 2013<br>\$                 | 2012<br>\$                |
|--|-----------|----------------------------|---------------------------|
| <b>Cash flows from operating activities</b>                      |           |                            |                           |
| Dividends received   |           | 20,972,129                 | 6,511,388                 |
| Interest received  |           | 4,301,887                  | 4,116,647                 |
| Other investment income received                                 |           | 4,405,125                  | 891,780                   |
| Management fee (inclusive GST)                                   |           | (3,622,857)                | (1,583,308)               |
| Performance fee (inclusive GST)                                  |           | (1,127,626)                | (1,546,328)               |
| Brokerage expense on share purchases (inclusive GST)             |           | (2,136,701)                | (1,072,105)               |
| Payments for administration expenses (inclusive GST)             |           | (984,438)                  | (623,073)                 |
| Income tax paid  |           | (3,060,385)                | (795,718)                 |
| GST on brokerage expense on share sales                          |           | (115,023)                  | (64,583)                  |
| Net GST received from ATO  |           | 541,798                    | 407,356                   |
| <b>Net cash provided by operating activities</b>                 | <b>14</b> | <b><u>19,173,909</u></b>   | <b><u>6,242,056</u></b>   |
| <b>Cash flows from investing activities</b>                      |           |                            |                           |
| Proceeds from sale of investments                                |           | 659,024,760                | 339,780,070               |
| Payments for purchase of investments                             |           | (730,690,734)              | (340,769,993)             |
| Cash on acquisition of subsidiary                                |           | 2,428,351                  | -                         |
| Payments for acquisition of subsidiary                           |           | (29,034,958)               | -                         |
| <b>Net cash (used in) investing activities</b>                   |           | <b><u>(98,272,581)</u></b> | <b><u>(989,923)</u></b>   |
| <b>Cash flows from financing activities</b>                      |           |                            |                           |
| Proceeds from issue of shares                                    |           | 239,449,446                | 68,918                    |
| Payments for issue of shares                                     |           | (749,398)                  | -                         |
| Dividends paid – net of reinvestment                             |           | (18,955,243)               | (8,502,804)               |
| <b>Net cash provided by/(used in) in financing activities</b>    |           | <b><u>219,744,805</u></b>  | <b><u>(8,433,886)</u></b> |
| <b>Net increase/(decrease) in cash and cash equivalents held</b> |           | <b>140,646,133</b>         | <b>(3,181,753)</b>        |
| Cash and cash equivalents at beginning of financial year         |           | <u>78,494,624</u>          | <u>81,676,377</u>         |
| <b>Cash and cash equivalents at end of financial year</b>        | <b>13</b> | <b><u>219,140,757</u></b>  | <b><u>78,494,624</u></b>  |

The accompanying notes form part of these consolidated financial statements.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 1. Summary of significant accounting policies

These consolidated financial statements and notes represent those of WAM Capital Limited ('the Company') and its controlled entity ('the Group').

The separate financial statements of the parent entity, WAM Capital Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial report was authorised for issue on 3<sup>rd</sup> September 2013 by the Board of Directors.

#### a) Basis of preparation

The consolidated financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out the accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the Group's financial statements and notes also comply with International Financial Reporting Standards (IFRS) as issued by the IASB. Material accounting policies adopted in the preparation of these consolidated financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the consolidated financial statements have been prepared on an accruals basis and are based on historical costs with the exception of financial assets and certain other financial assets and liabilities which have been measured at fair value.

#### b) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the entity controlled by the Company at the end of the reporting period. A controlled entity is any entity over which the Company has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

In preparing the consolidated financial statements, the balances and effects of transactions between the Company and its controlled entity have been eliminated in full.

Where a controlled entity has entered or left the Group during the year, the financial performance of that entity is included only for the period of the year that they were controlled.

#### c) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method of accounting. It is accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed are recognised.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 1. Summary of significant accounting policies (cont'd)

#### c) Business combinations (cont'd)

If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Acquisition related costs, other than those associated with the issue of shares, are expensed to the Consolidated Statement of Comprehensive Income as incurred.

#### d) Financial instruments

##### (i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions to the instrument. For financial assets, trade date accounting is adopted, which is equivalent to the date that the Group commits itself to purchase or sell the assets.

Financial instruments are initially measured at fair value. Transaction costs related to financial instruments are expensed to the Consolidated Statement of Comprehensive Income immediately.

##### (ii) Classification and subsequent measurement

Investments such as shares in publicly listed and unlisted companies, exchange traded call and put options and investments in fixed interest securities are subsequently measured at fair value and are presented in the Consolidated Statement of Financial Position on a liquidity basis.

The Group may short sell securities in anticipation of a decline in the market value of that security, or it may short sell securities for various arbitrage transactions. Short sales or borrowed stock are classified as a financial liability and are revalued to fair value through the Consolidated Statement of Comprehensive Income.

##### (iii) Financial assets at fair value through profit or loss

Financial assets are classified 'at fair value through the profit or loss' when they are held for trading for the purpose of short-term profit taking. Realised and unrealised gains and losses arising from changes in fair value are included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

##### (iv) Financial liabilities

Borrowed stock is classified 'at fair value through profit or loss'. Realised and unrealised gains and losses arising from changes in fair value are included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 1. Summary of significant accounting policies (cont'd)

#### d) Financial instruments (cont'd)

##### (v) *Fair value*

Fair value is determined based on current market prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions and reference to similar instruments.

##### (vi) *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or have expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the Consolidated Statement of Comprehensive Income.

#### e) Income tax

The charge of current income tax expense is based on profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted at the reporting date. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Consolidated Statement of Comprehensive Income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets relating to temporary differences and unused tax losses are recognised, to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset only where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are only offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 1. Summary of significant accounting policies (cont'd)

#### e) Income tax (cont'd)

The Company and its controlled entity have formed an income tax consolidated group under the Tax Consolidation Regime. Under this arrangement, each entity in the tax consolidated group recognises its own current tax amounts, except for any deferred tax assets arising from unused tax losses and unused tax credits, which are immediately assumed by the Company. The current tax liability of each entity in the tax consolidated group is subsequently assumed by the Company. There is no tax funding agreement between the Company and its controlled entity.

#### f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, at call deposits with banks or financial institutions and other fixed interest securities maturing within three months or less.

#### g) Revenue and other income

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established. All revenue is stated net of the amount of goods and services tax (GST).

#### h) Trade and other receivables

Trade and other receivables are non-derivative financial assets and are initially recognised at fair value. They are subsequently stated at amortised cost, less any provision for impairment [refer Note 1(j)].

#### i) Trade and other payables

Trade and other payables are non-derivative financial liabilities and are stated at amortised cost.

#### j) Impairment of assets

At each reporting date, the Group reviews the carrying values of its non-financial assets to determine whether there is any indication that those assets may be impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Consolidated Statement of Comprehensive Income.

#### k) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Consolidated Statement of Financial Position.

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

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 1. Summary of significant accounting policies (cont'd)

#### l) Comparative figures

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

#### m) Critical accounting estimates and judgments

The Directors evaluate estimates and judgments incorporated into the consolidated financial statements based on historical knowledge and the best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data.

There are no estimates or judgments that have a material impact on the Group's financial results for the year ended 30 June 2013. All material financial assets are valued by reference to quoted prices and therefore no significant estimates or judgements are required in respect to their valuation.

#### n) New standards and interpretations not yet adopted

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to adopt any of the new and amended pronouncements. The new and amended pronouncements that are relevant to the Group, but applicable in future reporting periods are set out below:

- (i) AASB 9: Financial Instruments and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (effective 1 January 2015). AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to investments that are not traded. The Group has not early adopted AASB 9. This is not expected to have a significant impact on the Group's financial statements as the Group does not expect to elect any investments as not held for trading.
- (ii) AASB 10: Consolidated Financial Statements and AASB 12: Disclosure of Interests in Other Entities, revised AASB 127 and AASB 128 (effective 1 January 2013). AASB 10 provides a revised definition of control and additional application guidance so that a single definition of control will apply to all entities. This standard is not expected to significantly impact the Group's financial statements. AASB 12 contains disclosure requirements applicable to entities that hold an interest in a controlled entity. This standard is not expected to have a material impact on the Group's Financial Statements.
- (iii) AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 (effective January 2013). AASB 13 addresses how to measure fair value and aims to enhance fair value disclosures. The new standard will impact the type of information disclosed in the notes to the Group's financial statements. The Group is of the view that the current basis of their fair value recognition is consistent with the new standard's recognition basis, and is not expected to have a significant impact on the amounts recognised. Accordingly the Group will adopt the new standard from its operative date.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies (cont'd)**

**n) New standards and interpretations not yet adopted (cont'd)**

- (iv) AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement (effective 1 July 2013). Amendments to AASB 124 'Related Party' Disclosures' will remove the duplication of information relating to individual Key Management Personnel in the notes to the financial statements and the Directors' report. This standard is not expected to have a material impact on the Group's financial statements.
- (v) AASB 2012-2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013). AASB 2012-2 principally amends AASB 7: Financial Instruments: Disclosures to require entities to include information that will enable users of their financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This Standard is not expected to significantly impact the Group as no financial assets and liabilities are offset in the financial statements.
- (vi) AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014). This Standard adds application guidance to AASB 132: Financial Instruments: Presentation to address potential inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. This Standard is not expected to significantly impact the Group as no financial assets and liabilities are offset in the financial statements.

| <b>2. Other revenue</b>       | <b>2013</b>              | <b>2012</b>              |
|-------------------------------|--------------------------|--------------------------|
|                               | <b>\$</b>                | <b>\$</b>                |
| Australian sourced dividends  | 20,974,204               | 6,444,262                |
| Interest                      | 5,068,796                | 4,330,887                |
| Trust distributions           | 3,489,978                | 846,964                  |
| Premium Investors fee rebates | 62,294                   | -                        |
| Underwriting fees             | 14,935                   | 27,180                   |
| Foreign sourced dividends     | 7,960                    | -                        |
|                               | <b><u>29,618,167</u></b> | <b><u>11,649,293</u></b> |

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**3. Income tax**

**a) Income tax expense/(benefit)**

The prima facie tax on profit before income tax is reconciled to the income tax expense/(benefit) as follows:

|  | <b>2013</b>              | <b>2012</b>             |
|--|--------------------------|-------------------------|
|  | <b>\$</b>                | <b>\$</b>               |
| Prima facie tax on profit before income tax at 30% (2012: 30%)           | 16,093,339               | 1,088,782               |
| Imputation credit gross up   | 1,223,736                | 755,609                 |
| Foreign tax credits gross up   | 421                      | -                       |
| Franking credit offset   | (4,079,121)              | (2,518,696)             |
| Foreign tax credit offset  | (1,405)                  | -                       |
| Gains on purchase of subsidiary  | (3,514,118)              | -                       |
| Other non-assessable items   | (294,510)                | 16,769                  |
| Over provision in prior year   | (2,052)                  | (20,454)                |
|  | <b><u>9,426,290</u></b>  | <b><u>(677,990)</u></b> |
| <b>Total income tax expense/(benefit) results in a:</b>                  |                          |                         |
| Current tax liability  | 6,746,940                | 843,315                 |
| Deferred tax liability   | 2,656,424                | (1,477,737)             |
| Deferred tax asset   | 24,978                   | (23,114)                |
| Over provision in prior year   | (2,052)                  | (20,454)                |
|  | <b><u>9,426,290</u></b>  | <b><u>(677,990)</u></b> |
| <b>b) Deferred tax assets</b>  |                          |                         |
| Tax losses   | 12,113,769               | -                       |
| Accruals   | 8,860                    | 33,222                  |
| Capitalised costs  | 224,204                  | -                       |
|  | <b><u>12,346,833</u></b> | <b><u>33,222</u></b>    |
| <b>Movement in deferred tax assets</b>                                   |                          |                         |
| Balance at the beginning of the period                                   | 33,222                   | 10,108                  |
| Tax losses transferred from controlled entity                            | 14,965,321               | -                       |
| Recoupment of tax losses   | (2,851,552)              | -                       |
| (Charged)/credited to the Consolidated Statement of Comprehensive Income | (24,978)                 | 23,114                  |
| Capitalised share issue costs  | 224,820                  | -                       |
| At reporting date  | <b><u>12,346,833</u></b> | <b><u>33,222</u></b>    |

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**3. Income tax (cont'd)**

**b) Deferred tax assets (cont'd)**

During the year to 30 June 2013, the Group recognised \$8,730,539 of deferred tax assets recorded in Premium Investors at acquisition date. Additionally, \$6,234,782 of previously unrecognised deferred tax assets were recognised in the Group's financial statements. The recognition of the additional deferred tax asset amount relates to previously unrecognised tax losses held by Premium Investors, an entity that was 100% acquired by the Company via a scheme of arrangement on 31 December 2012. At the time of recognition, the Board was of the opinion that future taxable profits would be available against to allow these tax losses to be utilised, presumed to be a period of not more than 5 years. The amount of deferred tax assets recognised has been determined in relation to the application of AASB 112: Income Taxes and the ability of the Group to be able to utilise these losses in a reasonable period.

**c) Current tax liabilities**

|  | <b>2013</b>             | <b>2012</b>           |
|--|-------------------------|-----------------------|
|  | <b>\$</b>               | <b>\$</b>             |
| Balance at the beginning of the year   | 843,315                 | 816,172               |
| Current year income tax expense on operating profit                              | 6,746,940               | 843,315               |
| Over provision in prior year   | (2,052)                 | (20,454)              |
| Transfer tax liability from realisation of investments held by controlled entity | 3,222,918               | -                     |
| Recoupment of tax losses   | (2,851,552)             | -                     |
| Net income tax paid  | <u>(3,060,385)</u>      | <u>(795,718)</u>      |
| At reporting date  | <b><u>4,899,184</u></b> | <b><u>843,315</u></b> |

**d) Deferred tax liabilities**

|                        |                         |                         |
|------------------------|-------------------------|-------------------------|
| Fair value adjustments | 6,027,713               | 3,364,422               |
| Income provisions      | -                       | 6,867                   |
|                        | <u><b>6,027,713</b></u> | <u><b>3,371,289</b></u> |

**Movement in deferred tax liabilities**

|  |                         |                         |
|--|-------------------------|-------------------------|
| Balance at the beginning of the year                                     | 3,371,289               | 4,849,026               |
| Credited/(charged) to the Consolidated Statement of Comprehensive Income | <u>2,656,424</u>        | <u>(1,477,737)</u>      |
| At reporting date  | <b><u>6,027,713</u></b> | <b><u>3,371,289</u></b> |

**4. Dividends**

**a) Ordinary dividends paid during the year**

|  | <b>2013</b>              | <b>2012</b>              |
|--|--------------------------|--------------------------|
|  | <b>\$</b>                | <b>\$</b>                |
| Final dividend FY2012: 5.5 cents per share fully franked at 30% tax rate paid 28 September 2012 (Final dividend FY2011: 5.0 cents per share fully franked) | 7,569,273                | 5,253,158                |
| Interim dividend FY2013: 6.0 cents per share fully franked at 30% tax rate paid 30 April 2013 (Interim dividend FY2012: 5.5 cents per share fully franked) | <u>17,160,745</u>        | <u>5,824,478</u>         |
|  | <b><u>24,730,018</u></b> | <b><u>11,077,636</u></b> |

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**4. Dividends**

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

|  | 2013 | 2012 |
|--|------|------|
|  | \$   | \$   |

In addition to the above dividends, since the end of the year, the Directors have declared a 6.0 cent per share fully franked dividend which has not been recognised as a liability at the end of the financial year:

|  |            |           |
|--|------------|-----------|
|  | 17,526,897 | 5,877,467 |
|--|------------|-----------|

**c) Dividend franking account**

|   |           |           |
|---|-----------|-----------|
| Balance of franking account at year end | 4,939,531 | 2,261,002 |
|---|-----------|-----------|

Adjusted for franking credits arising from:

|                                |           |         |
|--------------------------------|-----------|---------|
| - Estimated income tax payable | 4,899,184 | 810,528 |
|--------------------------------|-----------|---------|

Subsequent to the reporting period, the franking account would be reduced by the proposed dividend disclosed in b) above as follows:

|  |             |             |
|--|-------------|-------------|
|  | (7,511,527) | (2,518,914) |
|--|-------------|-------------|

|  |           |         |
|--|-----------|---------|
|  | 2,327,188 | 552,616 |
|--|-----------|---------|

The Company's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from investments and the payment of tax.

The balance of the franking account does not include the tax to be paid on unrealised investment gains and accrued income currently recognised as a deferred tax liability of \$6,027,713 (2012: \$3,371,289).

**5. Auditor's remuneration**

**Remuneration of the auditor for:**

|   | 2013    | 2012   |
|---|---------|--------|
|   | \$      | \$     |
| Auditing and reviewing the financial report                     | 49,139  | 32,150 |
| Other assurance services  | 2,200   | -      |
| Other services provided by a related practice of the auditor:   |         |        |
| Taxation services   | 20,900  | 2,750  |
| Professional services relating to the acquisition of subsidiary | 46,222  | -      |
|   | 118,461 | 34,900 |

The Group's Audit & Risk Committee oversees the relationship with the Group's external auditors. The Audit & Risk Committee reviews the scope of the audit and review and the proposed fee. It also reviews the cost and scope of other tax compliance services provided by a related entity of the audit firm, to ensure that they do not compromise independence.

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**6. Trade and other receivables**

|                         | <b>2013</b>              | <b>2012</b>             |
|-------------------------|--------------------------|-------------------------|
|                         | <b>\$</b>                | <b>\$</b>               |
| Outstanding settlements | 14,803,581               | 6,357,071               |
| Income receivable       | 1,818,634                | 1,170,148               |
| GST receivable          | 227,347                  | 147,599                 |
|                         | <u><b>16,849,562</b></u> | <u><b>7,674,818</b></u> |

Outstanding settlements are on the terms of operating in the securities industry. These do not incur interest and require settlement within three days of the date of the transaction. Income receivable relates to interest, sub-underwriting fees, dividend, and trust distributions receivable at the end of the reporting period.

**7. Financial assets**

|                                    | <b>2013</b>               | <b>2012</b>              |
|------------------------------------|---------------------------|--------------------------|
|                                    | <b>\$</b>                 | <b>\$</b>                |
| Listed investments at fair value   | 251,871,145               | 90,531,858               |
| Unlisted investments at fair value | 801,150                   | 4,288,073                |
|                                    | <u><b>252,672,295</b></u> | <u><b>94,819,931</b></u> |

The market values of individual investments held at 30 June 2013 are disclosed on pages 59 to 61 of the Annual Report.

**8. Financial liabilities**

|                | <b>2013</b> | <b>2012</b>             |
|----------------|-------------|-------------------------|
|                | <b>\$</b>   | <b>\$</b>               |
| Borrowed stock | <u>-</u>    | <u><b>2,455,694</b></u> |

Borrowed stock is carried at fair value. The Group provides cash collateral backing of 105% of the fair value of the borrowed stock to the stock lender. The level of borrowed stock plus other borrowings cannot exceed 50% of the net asset value of the Group as outlined in the Management Agreement.

**9. Trade and other payables**

|                         | <b>2013</b>             | <b>2012</b>             |
|-------------------------|-------------------------|-------------------------|
|                         | <b>\$</b>               | <b>\$</b>               |
| Outstanding settlements | 2,135,254               | 5,408,045               |
| Management fee payable  | 445,775                 | 477,895                 |
| Performance fee payable | 605,984                 | 1,139,258               |
| Sundry payables         | 156,780                 | 107,273                 |
|                         | <u><b>3,343,793</b></u> | <u><b>7,132,471</b></u> |

Outstanding settlements are on the terms operating in the securities industry. These do not incur interest and require settlement within three days of the date of the transaction. Sundry payables are settled within the terms of payment offered. No interest is applicable on these accounts.

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**10. Issued capital**

| <b>a) Paid-up capital</b>   | <b>2013</b>               | <b>2012</b>               |
|---|---------------------------|---------------------------|
|   | <b>\$</b>                 | <b>\$</b>                 |
| 292,114,947 ordinary shares fully paid (2012: 106,863,028)  | <b><u>453,005,419</u></b> | <b><u>152,974,641</u></b> |
| <b>b) Ordinary shares</b>   |                           |                           |
| Balance at the beginning of the year  | 152,974,641               | 150,330,891               |
| 126,522,967 ordinary shares issued from the exercise of options allotted July 2012 to June 2013         | 202,436,747               | -                         |
| Options exercised at \$1.60, not yet allotted at 30 June 2013   | 32,480                    | -                         |
| 1,061,390 ordinary shares issued on 21 September 2012 under a dividend reinvestment plan                | 1,634,951                 | -                         |
| 2,575,638 ordinary shares issued on 30 April 2013 under a dividend reinvestment plan                    | 4,139,824                 | -                         |
| 22,885,209 ordinary shares issued from the placement on 31 August 2012                                  | 36,980,219                | -                         |
| 32,206,715 ordinary shares issued at market value as consideration for acquisitions on 31 December 2012 | 53,624,180                | -                         |
| 32,206,715 options issued at market value as consideration for acquisitions on 31 December 2012         | 1,706,956                 | -                         |
| Share issue costs (net of tax)  | (524,579)                 | -                         |
| 43,074 ordinary shares issued from the exercise of options allotted May 2012 to June 2012               | -                         | 68,918                    |
| 836,339 ordinary shares issued on 15 September 2011 under a dividend reinvestment plan                  | -                         | 1,152,970                 |
| 920,457 ordinary shares issued on 23 March 2012 under a dividend reinvestment plan                      | -                         | <u>1,421,862</u>          |
| At reporting date   | <b><u>453,005,419</u></b> | <b><u>152,974,641</u></b> |

Holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholder meetings, otherwise each member present at a meeting or by proxy has one vote on a show of hands. In the event of winding up of the Group, ordinary shareholders rank after creditors and share in any proceeds on winding up in proportion to the number of shares held.

**c) Capital management**

The Board manages the Company's capital by regularly reviewing the most efficient manner by which the Company employs its capital including share capital and unexercised options. At the core of this, management is of the belief that shareholder value should be preserved through the management of the level of distributions to shareholders, share and options issues as well as the use of share buy-backs. These capital management initiatives will be used when deemed appropriate by the Board. There have been no changes in the strategy adopted by the Board to control the capital of the Group since the prior year. The Group is not subject to any externally imposed capital requirements.

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**10. Issued capital (cont'd)**

**d) Options**

At 30 June 2012, the Company had 106,776,880 options on issue to acquire fully paid ordinary shares, exercisable at \$1.60 per option. A further 22,885,209 options were issued as part of the placement in August 2012 and 32,206,715 options were issued through the merger with Premium Investors in December 2012. At 30 June 2013, 126,522,967 shares had been allotted from the exercise of options (2012: 43,074). 35,325,537 options remain unexercised (2012: 106,776,880) and expired on 31 July 2013.

**11. Reserves**

|                           | <b>2013</b>       | <b>2012</b>       |
|---------------------------|-------------------|-------------------|
|                           | <b>\$</b>         | <b>\$</b>         |
| Profits reserve           | 40,420,506        | 16,054,184        |
| Asset revaluation reserve | -                 | -                 |
| <b>Total reserves</b>     | <b>40,420,506</b> | <b>16,054,184</b> |

The profits reserve is made up of amounts allocated from retained earnings that are preserved for future dividend payments. The asset revaluation reserve is no longer retained and was previously used to record increments and decrements on the revaluation of investments, net of potential tax.

|   | <b>2013</b>       | <b>2012</b>       |
|---|-------------------|-------------------|
|   | <b>\$</b>         | <b>\$</b>         |
| <b>Movement in profits reserve</b>              |                   |                   |
| Balance at the beginning of the year            | 16,054,184        | 15,061,865        |
| Transfer from retained earnings                 | 49,096,340        | 12,069,955        |
| Final dividend FY2012 paid (refer to note 4a)   | (7,569,273)       | (5,253,158)       |
| Interim dividend FY2013 paid (refer to note 4a) | (17,160,745)      | (5,824,478)       |
| <b>At reporting date</b>                        | <b>40,420,506</b> | <b>16,054,184</b> |

**Movement in asset revaluation reserve**

|                                      |          |             |
|--------------------------------------|----------|-------------|
| Balance at the beginning of the year | -        | 5,049,246   |
| Transfer to retained earnings        | -        | (5,049,246) |
| <b>At reporting date</b>             | <b>-</b> | <b>-</b>    |

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**12. Accumulated losses**

|  | <b>2013</b>               | <b>2012</b>               |
|--|---------------------------|---------------------------|
|  | <b>\$</b>                 | <b>\$</b>                 |
| Balance at the beginning of the year                       | (1,808,999)               | 904,448                   |
| Profit for the year attributable to members of the Company | 44,218,171                | 4,307,262                 |
| Transfer to profits reserve                                | (49,096,340)              | (12,069,955)              |
| Transfer from asset revaluation reserve                    | -                         | 5,049,246                 |
| At reporting date  | <u><b>(6,687,168)</b></u> | <u><b>(1,808,999)</b></u> |

**13. Cash and cash equivalents**

Cash at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to the related items in the Consolidated Statement of Financial Position as follows:

|                           | <b>2013</b>               | <b>2012</b>              |
|---------------------------|---------------------------|--------------------------|
|                           | <b>\$</b>                 | <b>\$</b>                |
| Cash at bank and on hand  | 3,740,757                 | 1,212,784                |
| Fixed interest securities | 215,400,000               | 77,281,840               |
|                           | <u><b>219,140,757</b></u> | <u><b>78,494,624</b></u> |

The weighted average interest rate for cash and fixed interest securities as at 30 June 2013 is 3.98% (2012: 5.35%). The fixed interest securities have an average maturity of 80 days (2012: 67 days). The majority of fixed interest securities are invested in term deposits with Australian major banks and their banking subsidiaries that have Standard & Poor's A-1+ rating. The fixed interest securities include the cash collateral for the borrowed stock (refer Note 8).

**14. Cash flow information**

|  | <b>2013</b>              | <b>2012</b>             |
|--|--------------------------|-------------------------|
|  | <b>\$</b>                | <b>\$</b>               |
| <b>Reconciliation of profit after tax to cash flow from operations:</b>      |                          |                         |
| Profit after income tax  | 44,218,171               | 4,307,262               |
| <b>Cash flows excluded from profit attributable to operating activities:</b> |                          |                         |
| Realised gains on sale of investments  | (14,540,326)             | (1,356,703)             |
| <b>Non-cash flow items in profit:</b>  |                          |                         |
| Unrealised (gains)/losses on investments                                     | (4,668,061)              | 4,907,123               |
| <b>Changes in assets and liabilities:</b>                                    |                          |                         |
| Increase in receivables  | (18,774)                 | (86,906)                |
| Increase in deferred tax assets  | (12,060,115)             | (23,114)                |
| Decrease in payables   | (469,279)                | (55,012)                |
| Increase in current tax liabilities  | 4,055,869                | 27,143                  |
| Increase/(decrease) in deferred tax liabilities                              | 2,656,424                | (1,477,737)             |
| Cash flow from operating activities  | <u><b>19,173,909</b></u> | <u><b>6,242,056</b></u> |

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**15. Earnings per share**

|  | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|
|  | <b>\$</b>   | <b>\$</b>   |
| Profit after income tax used in the calculation of basic and diluted earnings per share                                | 44,218,171  | 4,307,262   |
|  | <b>No.</b>  | <b>No.</b>  |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share    | 179,462,303 | 106,014,378 |
| Weighted average number of dilutive options outstanding  | 1,061,096   | -           |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive earnings per share | 180,523,399 | 106,014,378 |

**16. Financial risk management**

The Group's financial instruments consist of listed and unlisted investments, trade receivables, trade payables and borrowed stock. The risks exposed to through these financial instruments are discussed below and include credit risk, liquidity risk and market risk consisting of interest rate risk and other price risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objective, policies and processes for managing or measuring the risks from the previous period.

Under delegation from the Board, the Manager has the responsibility for assessing and monitoring the financial market risk of the Group. The Manager monitors these risks daily. On a formal basis the investment team meet on a weekly basis to monitor and manage the below risks as appropriate.

**a) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge a contracted obligation. The Manager monitors the credit worthiness of counterparties on an ongoing basis and evaluates the credit quality of all new counterparties before engaging them.

The maximum exposure to credit risk on financial assets, excluding investments of the Group which have been recognised in the Consolidated Statement of Financial Position, is the carrying amount net of any provision for impairment of those assets.

The Manager is responsible for ensuring there is appropriate diversification across counterparties and that they are of a sufficient quality rating. The Manager is satisfied that the counterparties are of sufficient quality and diversify to minimise any individual counterparty credit risk. The majority of the Group's receivables arise from unsettled trades at year end which are settled three days after trade date. Engaging with counterparties via the Australian Securities Exchange facilitates the Group in both mitigating and managing its credit risk.

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**16. Financial risk management (cont'd)**

**a) Credit risk (cont'd)**

Credit risk is not considered to be a major risk to the Group as any cash and fixed interest securities held by the Company or in its portfolios are invested with financial institutions that have a Standard and Poor's short term rating of A-1+ and long term rating of AA-. Also the majority of maturities are within three months.

None of the assets exposed to a credit risk are overdue or considered to be impaired.

**b) Liquidity risk**

Liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group's major cash payments are the purchase of securities and dividends paid to shareholders, the levels of which are managed by the Board and the Manager.

The Group's cash receipts depend upon the level of sales of securities, dividends and interest received and the exercise of options that may be on issue from time to time.

The Manager monitors the Group's cash-flow requirements daily by reference to known sales and purchases of securities, dividends and interest to be paid or received. Should these decrease by a material amount the Group can alter its cash outflows as appropriate. The Group also holds a portion of its portfolio in cash and fixed interest securities sufficient to ensure that it has cash readily available to meet all payments. Furthermore the assets of the Group are largely in the form of tradable securities which, if liquidity is available, can be sold on market if necessary.

The table below reflects an undiscounted contractual maturity analysis for the Group's liabilities. The timing of cash flows presented in the table to settle liabilities reflects the earliest possible contractual settlement date to the reporting date.

| <b>30 June 2013</b>      | <b>&gt;1 month</b> | <b>&lt;1 month</b> | <b>Total</b>     |
|--------------------------|--------------------|--------------------|------------------|
|                          | <b>\$</b>          | <b>\$</b>          | <b>\$</b>        |
| <b>Liabilities</b>       |                    |                    |                  |
| Trade and other payables | -                  | 3,343,793          | 3,343,793        |
| Financial liabilities    | -                  | -                  | -                |
| <b>Total</b>             | <b>-</b>           | <b>3,343,793</b>   | <b>3,343,793</b> |

| <b>30 June 2012</b>      | <b>&gt;1 month</b> | <b>&lt;1 month</b> | <b>Total</b>     |
|--------------------------|--------------------|--------------------|------------------|
|                          | <b>\$</b>          | <b>\$</b>          | <b>\$</b>        |
| <b>Liabilities</b>       |                    |                    |                  |
| Trade and other payables | -                  | 7,132,471          | 7,132,471        |
| Financial liabilities    | -                  | 2,455,694          | 2,455,694        |
| <b>Total</b>             | <b>-</b>           | <b>9,588,165</b>   | <b>9,588,165</b> |

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**16. Financial risk management (cont'd)**

**c) Market risk**

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the fair value or future cash flows of the Group's financial instruments.

By its nature, as a listed investment company that invests in tradable securities, the Group will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate.

**(i) Interest rate risk**

The Group's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. The Group however is not materially exposed to interest rate risk as the majority of its cash and fixed interest securities mature within three months. As the Group's exposure to interest rate risk is not significant, interest rate sensitivities have not been performed.

At the end of the reporting period, the Group's exposure to interest rate risk and the effective weighted average interest rate was as follows:

| <b>30 June 2013</b>         | <b>Weighted<br/>average<br/>interest rate<br/>(% pa)</b> | <b>Interest<br/>bearing<br/>\$</b> | <b>Non-<br/>interest<br/>bearing<br/>\$</b> | <b>Total<br/>\$</b> |
|-----------------------------|--|------------------------------------|---|---------------------|
| <b>Assets</b>               |  |                                    |   |                     |
| Cash and cash equivalents   | 3.98%  | 219,140,757                        | -   | 219,140,757         |
| Trade and other receivables |  | -                                  | 16,849,562                                  | 16,849,562          |
| Financial assets            |  | -                                  | 252,672,295                                 | 252,672,295         |
| <b>Total</b>                |  | <b>219,140,757</b>                 | <b>269,521,857</b>                          | <b>488,662,614</b>  |
| <b>Liabilities</b>          |  |                                    |   |                     |
| Trade and other payables    |  | -                                  | 3,343,793                                   | 3,343,793           |
| Financial liabilities       |  | -                                  | -   | -                   |
| <b>Total</b>                |  | <b>-</b>                           | <b>3,343,793</b>                            | <b>3,343,793</b>    |

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**16. Financial risk management (cont'd)**

**c) Market risk (cont'd)**

**(i) Interest rate risk (cont'd)**

| <b>30 June 2012</b>         | <b>Weighted<br/>average<br/>interest rate<br/>(% pa)</b> | <b>Interest<br/>bearing<br/>\$</b> | <b>Non-interest<br/>bearing<br/>\$</b> | <b>Total<br/>\$</b> |
|-----------------------------|--|------------------------------------|--|---------------------|
| <b>Assets</b>               |  |                                    |  |                     |
| Cash and cash equivalents   | 5.35%  | 78,494,624                         | -                                      | 78,494,624          |
| Trade and other receivables |  | -                                  | 7,674,818                              | 7,674,818           |
| Financial assets            |  | -                                  | 94,819,931                             | 94,819,931          |
| <b>Total</b>                |  | <b>78,494,624</b>                  | <b>102,494,749</b>                     | <b>180,989,373</b>  |
| <b>Liabilities</b>          |  |                                    |  |                     |
| Trade and other payables    |  | -                                  | 7,132,471                              | 7,132,471           |
| Financial liabilities       |  | -                                  | 2,455,694                              | 2,455,694           |
| <b>Total</b>                |  | <b>-</b>                           | <b>9,588,165</b>                       | <b>9,588,165</b>    |

**(ii) Other price risk**

Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group's investments are carried at fair value with fair value changes recognised in the Consolidated Statement of Comprehensive Income, all changes in market conditions will directly affect net investment income.

The Manager seeks to manage and reduce the other price risk of the Group by diversification of the investment portfolio across numerous stocks and multiple industry sectors. The relative weightings of the individual securities and market sectors are reviewed daily and the risk managed on a daily basis. The Group does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

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**16. Financial risk management (cont'd)**

**c) Market risk (cont'd)**

**(ii) Other price risk (cont'd)**

The Group's industry sector weighting of the gross assets as at 30 June 2013 is as below:

| <b>Industry sector</b>     | <b>2013</b>  | <b>2012</b>  |
|----------------------------|--------------|--------------|
|                            | <b>%</b>     | <b>%</b>     |
| Financials                 | 16.7         | 23.7%        |
| Consumer Discretionary     | 8.5          | 6.2%         |
| Industrials                | 7.9          | 11.7%        |
| Consumer Staples           | 7.2          | 1.7%         |
| Utilities                  | -            | 2.9%         |
| Telecommunication Services | 4.5          | 2.8%         |
| Information Technology     | 4.3          | 2.2%         |
| Materials                  | 1.6          | 2.1%         |
| Health Care                | 0.7          | 1.5%         |
| Energy                     | 0.5          | -            |
| <b>Total</b>               | <b>51.9%</b> | <b>54.8%</b> |

Securities representing over 5 per cent of the gross assets of the Group at 30 June were:

| <b>Company name</b> | <b>2013 (%)</b> |
|---------------------|-----------------|
| Graincorp Limited   | 6.0             |

| <b>Company name</b> | <b>2012 (%)</b> |
|---------------------|-----------------|
| N/A                 | N/A             |

***Sensitivity analysis***

For investments held by the Group at the end of the reporting period, a sensitivity analysis was performed relating to its exposure to other price risk. This analysis demonstrates the effect on current year net assets after tax as a result from a reasonably possible change in the risk variable. The sensitivity assumes all other variables to remain constant.

Investments represent 51.9% (2012: 54.8%) of gross assets at year end. A 5% movement in the market value of each of the investments within the investment portfolio would result in a 2.6% (2012: 2.7%) movement in the net assets after tax. This would result in the 30 June 2013 net asset backing after tax moving by 0.04 cents per share (2012: 0.04 cents per share).

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**16. Financial risk management (cont'd)**

**d) Financial instruments measured at fair value**

The financial assets and liabilities recognised at fair value in the Consolidated Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices).
- Level 3:** Inputs for the asset or liability are not based on observable market data (unobservable inputs).

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets and liabilities have been based on the closing quoted last prices at the end of the reporting period, excluding transaction costs.

In valuing unlisted investments, included in Level 2 of the hierarchy, valuation techniques such as those using comparisons to similar investments for which market observable prices are available or the last sale price have been adopted to determine the fair value of these investments.

| <b>30 June 2013</b>   | <b>Level 1</b>     | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>       |
|-----------------------|--------------------|----------------|----------------|--------------------|
|                       | <b>\$</b>          | <b>\$</b>      | <b>\$</b>      | <b>\$</b>          |
| Financial assets      | 251,871,145        | 801,150        | -              | 252,672,295        |
| Financial liabilities | -                  | -              | -              | -                  |
| <b>Total</b>          | <b>251,871,145</b> | <b>801,150</b> | <b>-</b>       | <b>252,672,295</b> |

| <b>30 June 2012</b>   | <b>Level 1</b>    | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>      |
|-----------------------|-------------------|------------------|----------------|-------------------|
|                       | <b>\$</b>         | <b>\$</b>        | <b>\$</b>      | <b>\$</b>         |
| Financial assets      | 90,531,858        | 4,288,073        | -              | 94,819,931        |
| Financial liabilities | (2,455,694)       | -                | -              | (2,455,694)       |
| <b>Total</b>          | <b>88,076,164</b> | <b>4,288,073</b> | <b>-</b>       | <b>92,364,237</b> |

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**17. Parent entity information**

The following sets out information about the parent entity of the Group, WAM Capital Limited for the current and previous financial years:

|   | <b>2013</b>   | <b>2012</b>  |
|---|---------------|--------------|
|   | <b>\$</b>     | <b>\$</b>    |
| <b>Result of parent entity</b>                          |               |              |
| Profit for the year                                     | 37,832,688    | 20,352,870   |
| Total comprehensive income for the year                 | 37,832,688    | 20,362,870   |
| <b>Financial position of parent entity at year end</b>  |               |              |
| Current assets  | 488,662,614   | 180,989,373  |
| Total assets  | 593,842,510   | 181,022,595  |
| Current liabilities                                     | (8,242,977)   | (10,431,481) |
| Total liabilities                                       | (107,103,753) | (13,802,769) |
| Net assets  | 486,738,757   | 167,219,826  |
| <b>Total equity of the parent entity comprising of:</b> |               |              |
| Issued capital  | 453,005,419   | 152,974,641  |
| Reserves  | 46,526,588    | 16,054,184   |
| Retained earnings                                       | (12,793,250)  | (1,808,999)  |
| Total equity  | 486,738,757   | 167,219,826  |

**18. Controlled entity**

**a) Controlled entity consolidated**

The following controlled entity has been included in the consolidated financial statements:

|                           | <b>Country of<br/>Incorporation</b> | <b>Percentage<br/>Owned</b> |             |
|---------------------------|-------------------------------------|-----------------------------|-------------|
|                           |                                     | <b>2013</b>                 | <b>2012</b> |
|                           |                                     | %                           | %           |
| Premium Investors Limited | Australia                           | 100                         | 0.8         |

**b) Acquisition of a controlled entity**

On 31 December 2012, the Company increased its ownership of Premium Investors to 100% when it acquired 97.3% of its issued capital via a scheme of arrangement. The purchase consideration consisted of the issue of 32,206,715 WAM Capital shares for the value of \$53,624,180, 32,206,715 WAM Capital options for the value of \$1,706,956 and the payment of \$28,934,488 to those that elected to receive cash. The acquisition resulted in WAM Capital Limited obtaining control of Premium Investors.

In the 6 months to 30 June 2013, Premium Investors contributed revenue of \$1,121,792 and profit before tax of \$1,265,185 to the Group's results.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**18. Controlled entity (cont'd)**

**b) Acquisition of a controlled entity (cont'd)**

Had the results relating to Premium Investors been consolidated from 1 July 2012, revenue of the Group would have been \$58,886,412 and profit before tax of the Group would have been \$60,614,418 for the year ended 30 June 2013.

Prior to the acquisition date, the Company held a 2.7% equity interest in Premium Investors. Upon measuring that equity interest to fair value, a gain of \$721,107 was recognised as part of unrealised gains on financial assets in the Consolidated Statement of Comprehensive Income.

Included in the Consolidated Statement of Comprehensive Income are acquisition related costs of \$100,470. Share issues costs of \$121,495 have been included in issued capital.

The fair value of the identifiable assets and liabilities of Premium Investors at the date of acquisition, cash flow at acquisition and total gains from the acquisition were as follows:

|  | <b>Fair value<br/>\$</b> |
|--|--------------------------|
| Purchase consideration:  |                          |
| Cash   | 28,934,488               |
| Equity issued  | 55,331,136               |
| Pre-acquisition holding  | 2,461,357                |
|  | 86,726,981               |
| <b>Less:</b>   |                          |
| Cash and cash equivalents  | 2,428,351                |
| Receivables  | 776,145                  |
| Investments  | 83,614,355               |
| Deferred tax assets  | 8,730,539                |
| Deferred tax liabilities   | (3,222,918)              |
| Payables   | (450,622)                |
| <b>Identifiable assets acquired and liabilities assumed on acquisition</b> | <b>91,875,850</b>        |
| Gain recognised on acquisition*  | 5,148,869                |
| Add: Gain recognised post acquisition**                                    | 6,564,857                |
| <b>Total gains from purchase of subsidiary</b>                             | <b>11,713,726</b>        |
| Purchase consideration settled in cash                                     | 28,934,488               |
| Cash and cash equivalents in subsidiary acquired                           | (2,428,351)              |
| <b>Cash outflow on acquisition</b>   | <b>26,506,137</b>        |

\* Gain on acquisition primarily arose due to deferred tax assets from recognised tax losses, less deferred tax liabilities.

\*\* Since the acquisition date, the fair value of assets and liabilities of Premium Investors was reassessed. As a result, an additional gain on purchase was recognised in the Group's financial statements which primarily relate to previously unrecognised deferred tax assets from unused tax losses.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 19. Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 6,065 (2012: 4,137). Each contract note could involve multiple transactions. The total brokerage paid on these contract notes was \$3,578,978 (2012: \$1,881,464).

### 20. Segment reporting

The Group currently operates only in the investment industry within Australia. It has no reportable business or geographic segments.

### 21. Capital commitments

There were no capital commitments for the Group entered into before year end which settle after year end (2012: nil).

### 22. Contingent liabilities

At 30 June 2013, WAM Capital Limited had a \$75,403 contingent liability in relation to a placement for Netcomm Wireless Limited (2012: nil).

### 23. Key management personnel compensation

The names and position held of the Group's key management personnel (including Directors) in office at any time during the financial year are:

|                |   |
|----------------|---|
| G.J. Wilson    | Chairman  |
| M.J. Kidman    | Non-Executive Director                              |
| P.D.K. Jensen  | Non-Executive Director                              |
| J.M. Chirnside | Non-Executive Director                              |
| L.R. Mann      | Non-Executive Director (appointed 31 December 2012) |

#### a) Remuneration

There are no executives that are paid by the Group. Wilson Asset Management (International) Pty Limited, the Manager of the Group, remunerated Geoffrey Wilson as an employee and/or Director of the Group during the financial year to 30 June 2013.

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**23. Key management personnel compensation (cont'd)**

**a) Remuneration (cont'd)**

Information regarding individual Directors' remuneration is provided in the Remuneration Report of the Directors' Report on page 21, as permitted by Corporations Regulations 2M.3.03 and 2M.6.04.

|  | <b>Short-term<br/>employee benefits<br/>Directors' fees<br/>\$</b> | <b>Post-employment<br/>benefits<br/>Superannuation<br/>\$</b> | <b>Total<br/>\$</b> |
|--|--|---|---------------------|
| Total Directors remuneration paid by the Group for the year ended 30 June 2013 | 97,981   | 17,019  | <b>115,000</b>      |
| Total Directors remuneration paid by the Group for the year ended 30 June 2012 | 91,743   | 8,257   | <b>100,000</b>      |

**b) Share and option holdings**

The number of ordinary shares and options held in the Company during the financial year by each key management personnel of the Group and their related parties are set out below:

**30 June 2013**

*Ordinary shares held*

|   | <b>Balance at<br/>30 June 2012</b> | <b>Acquisitions</b> | <b>Disposals</b> | <b>Balance at<br/>30 June 2013</b> |
|---|------------------------------------|---------------------|------------------|------------------------------------|
| <b>Directors</b>                            |                                    |                     |                  |                                    |
| G.J. Wilson                                 | 3,596,896                          | 4,867,191           | 4,505,415        | 3,958,672                          |
| M.J. Kidman                                 | 217,564                            | 385,894             | 346,078          | 257,380                            |
| P.D.K. Jensen                               | 108,772                            | 45,885              | 254              | 154,403                            |
| J.M. Chirnside                              | 13,414                             | 15,409              | -                | 28,823                             |
| L.R Mann<br>(appointed 31<br>December 2012) | -                                  | 85,986              | -                | 85,986                             |
|   | <b>3,936,646</b>                   | <b>5,400,365</b>    | <b>4,851,747</b> | <b>4,485,264</b>                   |

*Options held*

|   | <b>Balance at<br/>30 June 2012</b> | <b>Acquisitions</b> | <b>Disposals</b> | <b>Balance at<br/>30 June 2013</b> |
|---|------------------------------------|---------------------|------------------|------------------------------------|
| <b>Directors</b>                            |                                    |                     |                  |                                    |
| G.J. Wilson                                 | 3,578,194                          | 3,545,770           | 7,123,964        | -                                  |
| M.J. Kidman                                 | 217,564                            | -                   | 217,564          | -                                  |
| P.D.K. Jensen                               | 108,772                            | 245                 | 109,017          | -                                  |
| J.M. Chirnside                              | 13,414                             | -                   | 13,414           | -                                  |
| L.R Mann<br>(appointed 31<br>December 2012) | -                                  | 42,993              | 42,993           | -                                  |
|   | <b>3,917,944</b>                   | <b>3,589,008</b>    | <b>7,506,952</b> | <b>-</b>                           |

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**23. Key management personnel compensation (cont'd)**

**b) Share and option holdings (cont'd)**

**30 June 2012**

*Ordinary shares held*

|                  | <b>Balance at<br/>30 June 2011</b> | <b>Acquisitions</b> | <b>Disposals</b> | <b>Balance at<br/>30 June 2012</b> |
|------------------|------------------------------------|---------------------|------------------|------------------------------------|
| <b>Directors</b> |                                    |                     |                  |                                    |
| G.J. Wilson      | 3,596,896                          | -                   | -                | 3,596,896                          |
| M.J. Kidman      | 202,731                            | 14,833              | -                | 217,564                            |
| P.D.K. Jensen    | 101,358                            | 7,414               | -                | 108,772                            |
| J.M. Chirnside   | 12,500                             | 914                 | -                | 13,414                             |
|                  | <b>3,913,485</b>                   | <b>23,161</b>       | <b>-</b>         | <b>3,936,646</b>                   |

*Options held*

|                  | <b>Balance at<br/>30 June 2011</b> | <b>Acquisitions</b> | <b>Disposals</b> | <b>Balance at<br/>30 June 2012</b> |
|------------------|------------------------------------|---------------------|------------------|------------------------------------|
| <b>Directors</b> |                                    |                     |                  |                                    |
| G.J. Wilson      | -                                  | 3,596,896           | 18,702*          | 3,578,194                          |
| M.J. Kidman      | -                                  | 217,564             | -                | 217,564                            |
| P.D.K. Jensen    | -                                  | 108,772             | -                | 108,772                            |
| J.M. Chirnside   | -                                  | 13,414              | -                | 13,414                             |
|                  | <b>-</b>                           | <b>3,936,646</b>    | <b>-</b>         | <b>3,917,944</b>                   |

\* Related party

Directors and Director related entities disposed of and acquired ordinary shares and options in the Company on the same terms and conditions available to other shareholders.

The Directors have not, during or since the end financial year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

**24. Related party transactions**

All transactions with related parties were made on normal commercial terms and conditions and at market rates.

Geoffrey Wilson is the Director and beneficial owner of Wilson Asset Management (International) Pty Limited, the entity appointed to manage the investment portfolio. Wilson Asset Management (International) Pty Limited operates a funds management business which employs a number of investment personnel, research analysts, accountants and other administrative staff. The core duties of the Manager in addition to managing the investment portfolio include the provision of financial and administrative support to ensure the maintenance of the corporate and statutory records of the Group; liaison with the ASX with respect to compliance with the ASX Listing Rules; liaison with ASIC with respect to compliance with the Corporations Act; liaison with the share registrar of the Company; investor relations; and the provision of information necessary for the maintenance of financial accounts of the Group to be completed. In its capacity as Manager, Wilson Asset Management (International) Pty Limited was paid a management fee of 1% p.a (plus GST) of gross assets amounting to \$3,590,737 inclusive of GST (2012: \$1,897,494). At 30 June 2013, the balance payable to the Manager was \$445,775 (2012: \$477,895).

# **WAM CAPITAL LIMITED AND CONTROLLED ENTITY**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

### **24. Related party transactions (cont'd)**

In addition, Wilson Asset Management (International) Pty Limited is to be paid, annually in arrears, a performance fee being 20% of:

- where the level of the All Ordinaries Accumulation Index has increased over that period, the amount by which the value of the portfolio exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over that period, the amount of the increase in value of the portfolio.

No performance fee is payable in respect of any performance period where the portfolio has decreased in value over that period. For the year ended 30 June 2013, a performance fee of \$605,984 was payable to Wilson Asset Management (International) Pty Limited (2012: \$1,139,258).

Wilson Asset Management (International) Pty Limited employs accounting personnel to provide accounting services to WAM Capital Limited. These services are provided on commercial terms and include a standard charge of \$2,750 inclusive of GST per month and an additional charge of \$5,500 inclusive of GST is charged for preparing the half year and full year consolidated financial statements. These accounting services total \$38,500 inclusive of GST for the financial year 2013 (2012: \$38,500).

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

### **25. Events subsequent to reporting date**

Since year end the Directors declared a final dividend of 6.0 cents per share fully franked to be paid on 18 October 2013.

On 31 July 2013, the WAM Capital options expired. A total of 153,771,706 options (95.0%) were exercised and allotted for a total consideration of \$246.0 million.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## DIRECTORS' DECLARATION

The Directors of WAM Capital Limited declare that:

- 1) The financial statements as set out in pages 27 to 55 and the additional disclosures included in the Directors' Report designated as "Remuneration Report", as set out on pages 20 to 23, are in accordance with the *Corporations Act 2001*, including:
  - a) complying with Australian Accounting Standards, which, as stated in Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - b) giving a true and fair view of the financial position of the Group as at 30 June 2013 and of its performance, as represented by the results of the operations and the cash flows, for the year ended on that date; and
- 2) The sole Director of the Manager, Wilson Asset Management (International) Pty Limited has declared that:
  - a) the financial records of the Group for the financial year have been properly maintained in accordance with the Section 286 of the *Corporations Act 2001*;
  - b) the Group's financial statements and notes for the financial year comply with the Accounting Standards; and
  - c) the Group's financial statements and notes for the financial year give a true and fair view.
- 3) At the date of this declaration, in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



G.J. Wilson, Chairman  
Dated at Sydney this 3<sup>rd</sup> day of September 2013

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF WAM CAPITAL LIMITED  
ABN 34 086 587 395**

**Report on the Financial Report**

We have audited the accompanying financial report of WAM Capital Limited and its controlled entity, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end.

*Director's Responsibility for the Financial Report*

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

*Auditor's Responsibility*

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

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

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

*Independence*

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

*Opinion*

In our opinion:

- a. the financial report of WAM Capital Limited and its controlled entity is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the remuneration report included in pages 20 to 23 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the remuneration report of WAM Capital Limited and its controlled entity for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

**Matters Relating to the Electronic Publication of the Audited Financial Report**

This auditor's report relates to the financial report for the year ended 30 June 2013 included on WAM Capital Limited's website. The Company's directors are responsible for the integrity of WAM Capital Limited's website. We have not been engaged to report on the integrity of the WAM Capital Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information, which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



**Moore Stephens Sydney**  
Chartered Accountants



**Scott Whiddett**  
Partner

Dated in Sydney, this 3rd of September 2013

## WAM CAPITAL LIMITED AND CONTROLLED ENTITY

### INVESTMENTS AT MARKET VALUE AS AT 30 JUNE 2013

| Company Name   | Code  | Market Value<br>\$ | % of Gross<br>Assets |
|--|-------|--------------------|----------------------|
| <b>Financials</b>                                    |       |                    |                      |
| Ask Funding Limited                                  | AKF   | 297,983            | 0.1%                 |
| Australasian Wealth Investments Limited              | AWK   | 363,320            | 0.1%                 |
| Bell Financial Group Limited                         | BFG   | 1,359,555          | 0.3%                 |
| Centrepoint Alliance Limited                         | CAF   | 721,333            | 0.1%                 |
| Clime Investment Management Limited                  | CIW   | 2,697,482          | 0.6%                 |
| CIC Australia Limited                                | CNB   | 1,551,298          | 0.3%                 |
| Centuria Capital Limited                             | CNI   | 368,035            | 0.1%                 |
| Contango Microcap Limited                            | CTN   | 1,403,846          | 0.3%                 |
| Contango Microcap Limited Option Expiring 28/02/2014 | CTNON | 11,469             | 0.0%                 |
| Century Australia Investments Limited                | CYA   | 10,098,577         | 2.1%                 |
| Devine Limited                                       | DVN   | 2,599,454          | 0.5%                 |
| Emerging Leaders Investments Limited                 | ELI   | 6,786,697          | 1.4%                 |
| Homeloans Limited                                    | HOM   | 400,740            | 0.1%                 |
| Ironbark Capital Limited                             | IBC   | 5,117,425          | 1.1%                 |
| IMF (Australia) Limited 10.25% Conv Note Dec 2014    | IMFG  | 1,510,572          | 0.3%                 |
| Ingenia Communities Group                            | INA   | 3,389,764          | 0.7%                 |
| ING Private Equity Access Limited                    | IPE   | 4,924,889          | 1.0%                 |
| Keybridge Capital Limited                            | KBC   | 713,160            | 0.1%                 |
| Magellan Financial Group Limited                     | MFG   | 4,980,014          | 1.0%                 |
| Money3 Corporation Limited                           | MNY   | 1,086,899          | 0.2%                 |
| Peters Macgregor Investments Limited                 | PET   | 155,149            | 0.0%                 |
| RHG Limited  | RHG   | 1,895,576          | 0.4%                 |
| Sunland Group Limited                                | SDG   | 4,781,966          | 1.0%                 |
| SFG Australia Limited                                | SFW   | 5,963,778          | 1.2%                 |
| Signature Capital Investments Limited                | SGI   | 90,179             | 0.0%                 |
| Trinity Group  | TCQ   | 378,840            | 0.1%                 |
| Tidewater Investments Limited                        | TDI   | 53,669             | 0.0%                 |
| Templeton Global Growth Fund Limited                 | TGG   | 1,320,632          | 0.3%                 |
| Trafalgar Corporate Group                            | TGP   | 1,105,216          | 0.2%                 |
| The Trust Company Limited                            | TRU   | 1,474,790          | 0.3%                 |
| Villa World Limited                                  | VLW   | 3,566,908          | 0.7%                 |
| Wide Bay Australia Limited                           | WBB   | 452,760            | 0.1%                 |
| Westpac Stapled Preferred Securities                 | WBCPA | 1,690,462          | 0.3%                 |
| Westoz Investment Company Limited                    | WIC   | 5,029,599          | 1.0%                 |
| Wentworth Mutual Limited                             | WWM   | 550,030            | 0.1%                 |
| Yellow Brick Road Holdings Limited                   | YBR   | 2,807,771          | 0.6%                 |
|  |       | <b>81,699,837</b>  | <b>16.7%</b>         |
| <b>Consumer Discretionary</b>                        |       |                    |                      |
| Automotive Holdings Group Limited                    | AHE   | 3,535,942          | 0.7%                 |
| Beyond Sportswear International Limited              | BSI   | 14,700             | 0.0%                 |
| Enero Gorup Limited                                  | EGG   | 194,047            | 0.0%                 |
| G8 Education Limited                                 | GEM   | 2,426,406          | 0.5%                 |
| Harvey Norman Holdings Limited                       | HVN   | 6,602,208          | 1.4%                 |

## WAM CAPITAL LIMITED AND CONTROLLED ENTITY

### INVESTMENTS AT MARKET VALUE AS AT 30 JUNE 2013

| Company Name                                  | Code | Market Value<br>\$ | % of Gross<br>Assets |
|---|------|--------------------|----------------------|
| iSelect Limited                               | IIS  | 521,846            | 0.1%                 |
| Macquarie Radio Limited                       | MRN  | 337,763            | 0.1%                 |
| Noni B Limited                                | NBL  | 538,804            | 0.1%                 |
| Prime Media Group Limited                     | PRT  | 4,351,506          | 0.9%                 |
| RCG Corporation Limited                       | RCG  | 1,421,200          | 0.3%                 |
| Slater & Gordon Limited                       | SGH  | 7,456,435          | 1.5%                 |
| STW Communications Group Limited              | SGN  | 4,839,969          | 1.0%                 |
| Shine Corporate Limited                       | SHJ  | 3,318,260          | 0.7%                 |
| Village Roadshow Limited                      | VRL  | 5,668,083          | 1.2%                 |
|   |      | <b>41,227,169</b>  | <b>8.5%</b>          |
| <b>Industrials</b>                            |      |                    |                      |
| Australian Infrastructure Fund                | AIX  | 970,062            | 0.2%                 |
| Chandler Macleod Group Limited                | CMG  | 2,550,944          | 0.5%                 |
| Clarius Group Limited                         | CND  | 577,572            | 0.1%                 |
| Coventry Group Limited                        | CYG  | 5,855,312          | 1.2%                 |
| Dolomatrix International Limited              | DMX  | 122,702            | 0.0%                 |
| Hills Holdings Limited                        | HIL  | 6,649,556          | 1.4%                 |
| K & S Corporation Limited                     | KSC  | 701,116            | 0.1%                 |
| Logicamms Limited                             | LCM  | 2,473,517          | 0.5%                 |
| Norfolk Group Limited                         | NFK  | 2,554,243          | 0.5%                 |
| RCR Tomlinson Limited                         | RCR  | 5,528,373          | 1.1%                 |
| Runge Limited                                 | RUL  | 1,953,079          | 0.4%                 |
| Royal Wolf Holdings Limited                   | RWH  | 4,007,132          | 0.8%                 |
| Sedgman Limited                               | SDM  | 313,738            | 0.1%                 |
| Skilled Group Limited                         | SKE  | 2,126,585          | 0.4%                 |
| Saunders International Limited                | SND  | 22,441             | 0.0%                 |
| Seymour Whyte Limited                         | SWL  | 2,248,336          | 0.5%                 |
|   |      | <b>38,654,708</b>  | <b>7.8%</b>          |
| <b>Consumer Staples</b>                       |      |                    |                      |
| Graincorp Limited                             | GNC  | 29,246,342         | 6.0%                 |
| Gage Roads Brewing Co Limited                 | GRB  | 2,615,232          | 0.5%                 |
| Primeag Australia Limited                     | PAG  | 853,790            | 0.2%                 |
| Private Branded Beverages Limited             |      | 646,000            | 0.1%                 |
| Warrnambool Cheese and Butter Factory Company | WCB  | 1,491,356          | 0.3%                 |
|   |      | <b>34,852,720</b>  | <b>7.1%</b>          |
| <b>Telecommunication Services</b>             |      |                    |                      |
| M2 Telecommunications Group Limited           | MTU  | 8,412,645          | 1.7%                 |
| NEXTDC Limited                                | NXT  | 3,610,208          | 0.7%                 |
| TPG Telecom Limited                           | TPM  | 5,413,760          | 1.1%                 |
| Vocus Communications Limited                  | VOC  | 4,409,712          | 0.9%                 |
|   |      | <b>21,846,325</b>  | <b>4.4%</b>          |
| <b>Information Technology</b>                 |      |                    |                      |
| CSG Limited                                   | CSV  | 6,214,450          | 1.3%                 |
| Donaco International Limited                  | DNA  | 1,075,370          | 0.2%                 |
| Empired Limited                               | EPD  | 1,306,020          | 0.3%                 |
| GBST Holdings Limited                         | GBT  | 1,646,829          | 0.4%                 |

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**INVESTMENTS AT MARKET VALUE  
AS AT 30 JUNE 2013**

| Company Name  | Code | Market Value<br>\$ | % of Gross<br>Assets |
|---|------|--------------------|----------------------|
| iProperty Group Limited   | IPP  | 2,592,705          | 0.6%                 |
| ISS Group Limited   | ISS  | 192,864            | 0.1%                 |
| Longreach Group Limited   | LRG  | 469,583            | 0.1%                 |
| Nearmap Limited   | NEA  | 4,782,831          | 1.0%                 |
| RXP Services Limited  | RXP  | 2,458,150          | 0.5%                 |
|   |      | <b>20,738,802</b>  | <b>4.5%</b>          |
| <b>Materials</b>  |      |                    |                      |
| Bisalloy Steel Group Limited  | BIS  | 427,958            | 0.1%                 |
| Brickworks Limited  | BKW  | 4,643,107          | 1.0%                 |
| Capral Limited  | CAA  | 2,412,645          | 0.5%                 |
| Murchison Metals Limited  | MMX  | 356,364            | 0.1%                 |
|   |      | <b>7,840,074</b>   | <b>1.7%</b>          |
| <b>Health Care</b>  |      |                    |                      |
| Australian Pharmaceutical Industries Limited  | API  | 626,746            | 0.1%                 |
| Medical Developments International Limited  | MVP  | 771,851            | 0.2%                 |
| Virtus Health Limited   | VRT  | 2,025,294          | 0.4%                 |
|   |      | <b>3,423,891</b>   | <b>0.7%</b>          |
| <b>Energy</b>   |      |                    |                      |
| Miclyn Express Offshore Limited   | MIO  | 1,628,281          | 0.3%                 |
| Titan Energy Services Limited   | TTN  | 760,488            | 0.2%                 |
|   |      | <b>2,388,769</b>   | <b>0.5%</b>          |
| <b>Total Long Portfolio</b>   |      | <b>252,672,295</b> | <b>51.9%</b>         |
| <b>Total Cash and cash equivalents, income receivable<br/>and net outstanding settlements</b> |      | <b>233,855,065</b> | <b>48.1%</b>         |
| <b>Total Short Portfolio</b>  |      | -                  |                      |
| <b>Gross Assets</b>   |      | <b>486,527,360</b> |                      |

# WAM CAPITAL LIMITED AND CONTROLLED ENTITY

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

### Shareholdings

#### Substantial shareholders (as at 31 July 2013)

There are currently no substantial shareholders of WAM Capital Limited.

#### On-market buy back (as at 31 July 2013)

There is no current on-market buy back.

#### Distribution of shareholders (as at 31 July 2013)

| Category         | No. of shareholders |              |
|------------------|---------------------|--------------|
|                  | Ordinary Shares     | Options      |
| 1 – 1,000        | 653                 | 387          |
| 1,001 – 5,000    | 2,130               | 667          |
| 5,001 – 10,000   | 2,319               | 286          |
| 10,001 – 100,000 | 5,872               | 255          |
| 100,001 and over | 424                 | 4            |
|                  | <b>11,398</b>       | <b>1,599</b> |

The number of shareholdings held in less than marketable parcels is 314.

#### Twenty largest shareholders – Ordinary shares (as at 31 July 2013)

| Name  | Number of<br>ordinary<br>shares held | Percentage of<br>issued capital<br>held |
|---|--------------------------------------|---|
| UBS Wealth Management Australia Nominees Pty Limited              | 5,762,748                            | 1.8                                     |
| HSBC Custody Nominees (Australia) Limited                         | 4,407,857                            | 1.4                                     |
| VBS Investments Pty Limited                                       | 4,279,981                            | 1.4                                     |
| Mr Victor John Plummer  | 4,000,000                            | 1.3                                     |
| Entities Associated with Mr Geoffrey Wilson                       | 3,645,770                            | 1.2                                     |
| VBS Investments Pty Limited                                       | 2,876,385                            | 0.9                                     |
| Pineross Pty Limited  | 1,618,207                            | 0.5                                     |
| Mrs Fay Cleo Martin-Weber   | 1,463,068                            | 0.5                                     |
| Takita Exploration Pty Limited                                    | 1,451,908                            | 0.5                                     |
| Marbear Holdings Pty Limited                                      | 1,440,300                            | 0.5                                     |
| Eneber Investment Company Limited                                 | 1,322,000                            | 0.4                                     |
| ABN Amro Clearing Sydney Nominees Pty Ltd (Custodian A/C)         | 1,117,451                            | 0.4                                     |
| Trophy Components Distributors Pty Limited                        | 1,000,000                            | 0.3                                     |
| Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett A/C) | 905,081                              | 0.3                                     |
| Australian Executor Trustees Limited (No 1 Account)               | 866,246                              | 0.3                                     |
| Mr & Mrs Heathers (Heathers Family S/F A/C)                       | 858,196                              | 0.3                                     |
| Dr and Mrs English (N English SF No 1 A/C)                        | 822,429                              | 0.3                                     |
| Solana Pty Limited  | 810,000                              | 0.3                                     |
| Mr Richard Tooher   | 781,901                              | 0.2                                     |
| J P Morgan Nominees Australia Limited                             | 706,948                              | 0.2                                     |
|   | <b>40,136,476</b>                    | <b>13.0</b>                             |

**WAM CAPITAL LIMITED  
AND CONTROLLED ENTITY**

**ASX ADDITIONAL INFORMATION**

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report.

**Stock Exchange Listing**

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.



**WILSON**  
ASSET MANAGEMENT

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