Perpetual

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for the 12 months ended 30 June 2011

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Note in this report:

- 1H10 refers to the financial reporting period for the six months ended 31 December 2009
- 2H10 refers to the financial reporting period for the six months ended 30 June 2010
- FY10 refers to the financial reporting period for the 12 months ended 30 June 2010
- 1H11 refers to the financial reporting period for the six months ended 31 December 2010
- 2H11 refers to the financial reporting period for the six months ended 30 June 2011
- FY11 refers to the financial reporting period for the 12 months ended 30 June 2011

Perpetual is a diversified financial services company operating in three main markets: funds management, financial advisory and trustee services. The Group operates primarily in Australia. Market factors influencing the performance of these sectors include, amongst others, global and Australian economic performance, global and Australian financial markets and government policy.

The following is a discussion and analysis of Perpetual's results of operations for the 12 months ended 30 June 2011 (FY11). It also includes a discussion of its financial condition as at 30 June 2011.

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for FY11.

All amounts shown are stated in Australian dollars unless otherwise noted, and are subject to rounding.

A list of relevant ASX announcements since the start of FY11 can be found at Appendix D. Additional information is available on the Group's website www.perpetual.com.au.

A glossary of frequently used terms and abbreviations can be found at the end of the discussion.

In FY11, to facilitate a more targeted client approach, the Group refined its sales and service vision. In line with this new client segmentation, the Group transferred the direct distribution capability from Private Wealth to the Perpetual Investments business. This transfer aligns with the Group's management and reporting structure. In FY11, the Group has increased the allocation of Group shared services costs to the operating businesses to increase transparency and drive efficiency across the Group.

FY10 financial disclosure for Perpetual Investments, Private Wealth, Corporate Trust and Group Support Services has been restated in this discussion to provide comparability with the segment reporting adopted for FY11.

Refer to Appendix B for a table that details the above reclassifications. None of these changes impacts the Group's previously reported consolidated net profit after tax, earnings per share or return on equity.

Overview

Investors remained cautious throughout most of FY11 and continued to be impacted by concerns over the fiscal sustainability of a number of European economies, especially Greece, as well as the United States. Growth in the major advanced economies continued to remain subdued, particularly as households continued to unwind the debt excesses collectively accumulated over the past few decades. Despite Australia enjoying one of the highest terms of trade in its history, domestic households and companies experienced a decline in confidence, particularly in 2H11, when the country also experienced a number of natural disasters. This decreased domestic economic growth, which negatively impacted market sentiment and investment returns. This sense of caution was reflected in the domestic funds management industry, which recorded annual net outflows[1] compared to inflows in the previous corresponding period coupled with unusually weak demand for housing finance in 2H11. The S&P/ASX All Ordinaries Price Index (All Ords) increased by around 7.7% during FY11, closing at 4,659.8 on 30 June 2011. However, the average All Ords in FY11 only increased by around 2.7%.

FY11 underlying profit after tax (UPAT) was $72.9 million in line with $72.8 million in FY10. The result reflected:

- the impact of subdued investment market performance on the Group's core market linked revenues;
- a full year's contribution from the Grosvenor and Fordham businesses acquired by Private Wealth in FY10, which was more than offset by the continued investment in improving the private wealth offering;
- a reduction in equity-based remuneration expense; and
- a lower effective tax rate.

FY11 net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders was $62.0 million, down 31% from $90.5 million in FY10. The decline in NPAT was attributable to:

[1] Based on most recent available Plan for Life data – March 2011.

- a $10.5 million after tax decrease in the recovery of prior period losses in relation to the Exact Market Cash Fund (EMCF), reflecting the continued maturing of securities in the portfolio at their face value (FY11: $9.8 million versus FY10: $20.3 million), in line with guidance;
- a $3.1 million after tax expense relating to the response to the private equity proposal, which did not proceed (FY10: nil);
- a $14.7 million after tax non-cash impairment charge relating to the smartsuper business (FY10:nil);
- a $6.4 million after tax restructuring expense to deliver greater flexibility in the Group's future cost base (FY10: nil); offset by
- a $6.1 million after tax increase in gains on disposal and impairment of investments (FY11: $3.5 million gain versus FY10: $2.6 million loss).

A FY11 final fully franked dividend of 90 cents per share was declared by the Board, bringing total fully franked dividends in respect of FY11 to 185 cents per share, down 25 cents per share or 12% on FY10. The FY11 final dividend is payable on 27 September 2011.

The Group's financial strength improved in FY11, with net tangible assets per share increasing by 14% to $4.50 from $3.95 at the end of FY10. At the end of FY11, the Group had increased its holdings of cash, cash equivalents and liquid investments by 15% to $274.0 million, from $237.4 million at the end of FY10.

Segment results summary

For the 12 month period	Operating revenue		EBITDA [1]		Profit before/ after tax	
	FY10 $m	FY11 $m	FY10 $m	FY11 $m	FY10 $m	FY11 $m
Perpetual Investments	227.7	225.0	99.7	94.0	68.8	73.3
Private Wealth	100.8	116.2	23.4	21.8	17.4	13.3
Corporate Trust	87.5	97.2	29.0	29.1	25.1	25.3
Group Support Services	10.3	10.3	(0.1)	(1.7)	(3.6)	(6.5)
Totals before tax and significant items	426.3	448.7	152.0	143.2	107.7	105.4
Income tax expense					(34.9)	(32.5)
Underlying profit after tax (UPAT)[2] before significant items					**72.8**	**72.9**
Significant items after tax:						
› EMCF gains/(losses)					20.3	9.8
› Gain/(loss) on sale/impairment of investments					(2.6)	3.5
› Private equity proposal response costs					-	(3.1)
› Impairment of assets					-	(14.7)
› Restructuring costs					-	(6.4)
Net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders					**90.5**	**62.0**

(1) EBITDA represents earnings before interest, taxation, depreciation, amortisation of intangible assets, equity remuneration expense and significant items.

(2) UPAT excludes certain items that are either significant by virtue of their size and impact on net profit after tax, or are 'one-off' in nature. UPAT has been calculated in accordance with the guidelines issued by the AICD and Finsia. It reflects management's assessment of the result for the ongoing business activities of the Company.

The following table presents the change in underlying profit before tax by business unit for 2H11 compared to 2H10 and 1H11, and FY11 compared to FY10.

Change in underlying profit before tax	2H11 v 2H10 $m change	2H11 v 2H10 % change	2H11 v 1H11 $m change	2H11 v 1H11 % change	FY11 v FY10 $m change	FY11 v FY10 % change
Perpetual Investments	0.9	+3%	(2.9)	-8%	4.5	+7%
Private Wealth	(5.4)	-49%	(2.1)	-27%	(4.1)	-24%
Corporate Trust	(1.3)	-12%	(5.3)	-35%	0.2	+1%
Group Support Services	(1.6)	-55%	(2.5)	-125%	(2.9)	-81%
Total	(7.4)	-14%	(12.8)	-22%	(2.3)	-2%

Underlying performance in FY11 was 2% lower than in FY10, reflecting the subdued improvement in the performance of domestic equity markets over the year, combined with the impact of net outflows of funds under management, as well as the continued investment in the Private Wealth business and the costs associated with the transition of senior management.

The profitability of each business unit is heavily influenced by its key revenue drivers:

- funds under management (FUM) for Perpetual Investments;
- funds under advice (FUA) for Private Wealth; and
- funds under administration (FUA) for Corporate Trust.

The Group earns the majority of its revenue based on a percentage of total assets under management, advice or administration. Around 23% of the Group's revenues are charged on a per transaction or time basis.

The following table summarises the movements in each business unit's key revenue driver across the year. More detailed analysis is contained within the 'Review of Businesses' section.

Movement in key revenue drivers and operating environment

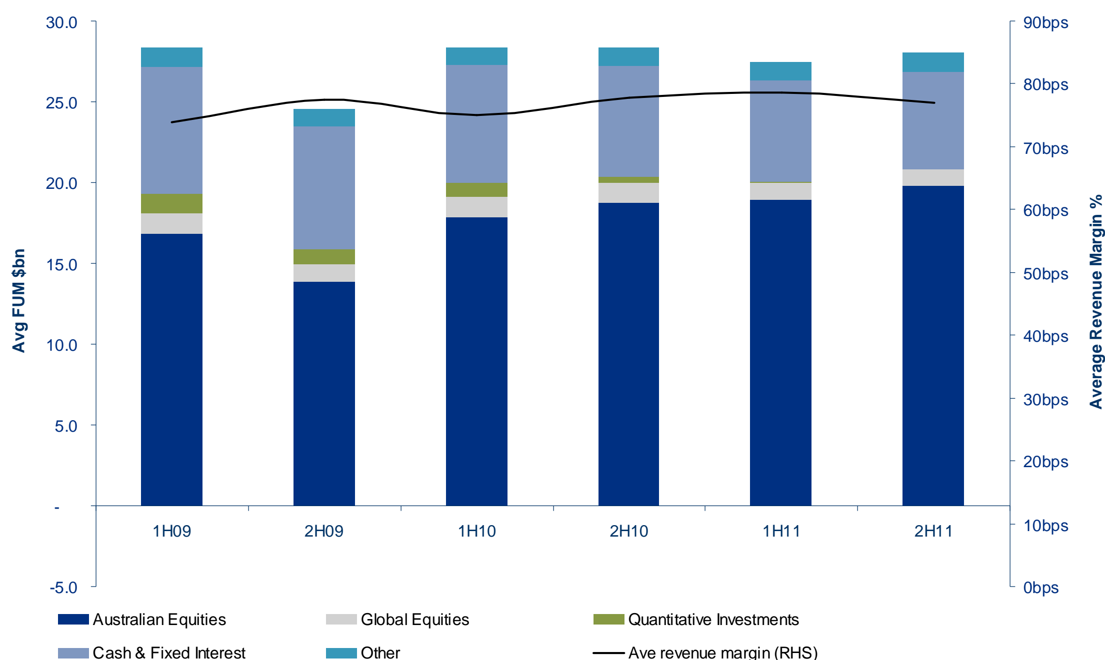
At end of	FY09 $b	FY10 $b	Net flows $b	Other[1] $b	FY11 $b	FY11 v FY09 % variance	FY11 v FY10 % variance
Perpetual Investments FUM (including Direct)	26.2	26.9	(1.8)	2.1	27.2	+4%	+1%
Private Wealth FUA	6.8	8.3	(0.1)	0.5	8.7	+28%	+5%
Corporate Trust FUA	241.4	210.5	(4.7)	-	205.8	(15%)	(2%)
Corporate Trust Number of mortgage matters	95,687	199,257	40,370	-	239,627	+150%	+20%

(1) Includes reinvestments, distributions, income and asset growth.

The key driver of the Group's revenue is the average value of the Australian equity market over the period. The average value of the Australian equity market in FY11 as measured by the All Ords was 2.7% higher than in FY10.

The largest drivers of total revenue are the value of FUM within Perpetual Investments and FUA within Private Wealth, which are mainly influenced by the level of the Australian equity market. At the end of FY11, Perpetual Investments' FUM and Private Wealth's FUA were around 77% and 56% exposed respectively to domestic and international equity markets.

The following chart and table detail the movement in average FUM and revenue margin over the last three years.



For the period	1H09 $b	2H09 $b	1H10 $b	2H10 $b	1H11 $b	2H11 $b	FY10 $b	FY11 $b
Total average FUM	28.4	24.6	28.4	28.4	27.5	28.0	28.4	27.8
Average FUM revenue margin	74 bps	77 bps	75 bps	78 bps	79 bps	77 bps	76 bps	78 bps
Average FUM revenue margin excluding performance fees	74 bps	69 bps	75 bps	76 bps	79 bps	77 bps	76 bps	78 bps

The Group's main source of revenue is from its funds under management. Average FUM revenue margin for FY11 improved by two basis points to 78 bps (FY10: 76 bps) due to the net outflows from lower margin products such as institutional cash. Following consultation with clients whose equity investments were subject to performance fees, effective from the beginning of FY11, the Group waived performance fees in exchange for a higher base fee structure.

The key asset classes managed by the Group are equities and cash & fixed interest. Average FUM decreased by 2% in FY11 to $27.8 billion as net outflows exceeded the growth attributable to market movement.

In FY11, there were $1.8 billion of net outflows from Perpetual Investments (FY10: $1.9 billion of net outflows), composed as follows:

- an aggregate $0.8 billion of net outflows from the equities asset class, compared to $0.4 billion of net outflows in FY10. In FY11 there were $0.6 billion of net outflows from Australian equities (FY10: $0.4 billion of net outflows) and $0.2 billion from international equities (FY10: nil);
- net outflows of around $0.9 billion from the cash & fixed interest asset class, versus $1.4 billion of net outflows in FY10; and
- $0.1 billion in net outflows of other FUM due to a reduction in investment assets backing Perpetual Protected Investments (PPI) in response to loan repayments by investors (FY10: $0.1b).

Management calculates the expected impact on revenue, across all of its businesses, for each 1% movement in the All Ords. Based on the level of the All Ords at the end of FY11, a 1% movement in the market changes annualised revenue by approximately $2.0 million to $2.5 million. It is worth noting this movement is not linear to the overall value of the market. This means that as the market reaches higher or lower levels, a 1% movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity market and non-equity asset classes.

Note that the above revenue sensitivity is a guide only and may vary due to a number of factors, including but not limited to:

- equity funds under the Group's management and advice performing broadly in line with the All Ords;
- the impact of FUM and FUA flows, both inflows and outflows, and their timing; and
- changes in channel, product mix and pricing policy possibly affecting the level of revenue earned from the Perpetual Investments and Private Wealth businesses.

Private Wealth FUA increased by 5% to $8.7 billion over FY11, primarily as a result of growth attributable to market movement.

Corporate Trust FUA decreased by 2% to $205.8 billion over FY11, compared to a 13% decrease in FY10. In FY11, market conditions for residential mortgage backed securities (RMBS) continued to improve, with higher levels of issuance than in any of the three previous fiscal years.

Mortgage services volumes increased by 20% in FY11 compared to FY10, benefiting from a full period contribution from a major bank client secured in 1H10, as well as increased activity from the existing client base, particularly in 1H11. The growth in 1H11 was however reversed in 2H11, primarily due to a sharp decline in housing finance activity.

Operating environment

The Australian share market traded within a narrow range in FY11, with the All Ords oscillating between 4,500 and 5,000 for most of the year. From its low point in July 2010, the market experienced a ten month uptrend and prices peaked in April 2011. After this peak, the share market gave back some of its earlier gains as concerns about the global economic outlook intensified. Despite this headwind, the Australian All Ords index closed out the year at 4659.8, constituting an increase of 7.7%, which was slightly above the post-1900 average of 7.1%, even though this return was significantly less than in most of Australia's global peers.

In line with the experience of the past five years, domestic share market sentiment was dominated by developments in international economies, particularly in Asia and Europe, as well as the US. After a very sharp rebound in global economic growth in FY10, optimism faded towards the end of the year, as investor concerns about European and US government debt intensified. These fears were sparked by developments in peripheral European economies (including Greece, Ireland and Portugal), where governments needed to be bailed out by the European Central Bank and the International Monetary Fund. The associated rise in default possibility in the June 2011 quarter, in turn, saw market fears spread to the larger economies, including Spain and Italy and, subsequently, the US.

As the US fiscal deficit remained quite high, the impact of these developments on market sentiment outweighed the impact of significant economic stimulus, with the US Federal Reserve not only maintaining official interest rates at between 0% and 0.25%, but also initiating a US$600 billion program of quantitative easing to support US economic growth. Despite the stimulus, growth weakened as the year progressed (down to 1.4% in June 2011) as a consumer spending rebound waned due to households paying down their debt further. Despite this anaemic growth and only a marginal decline in unemployment (from 9.5% in June 2010 to 9.2% in June 2011), US corporate earnings continued to grow at a very solid rate, underpinned by good revenue growth primarily from global sources and a strong focus on cost controls.

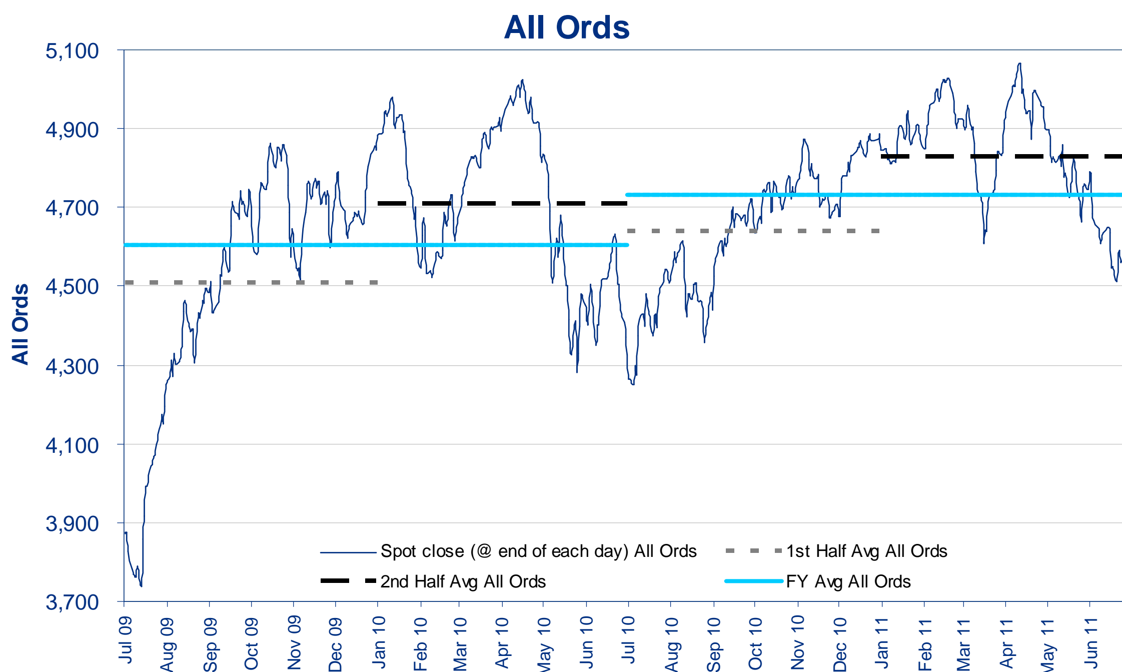
The bright spot in relation to the global economic picture continued to be Asia, with growth outperforming market expectations despite both the withdrawal of economic stimulus (as interest rates rose) and the impact of the Japanese earthquake in March 2011. Even though Japan's economy has grown only marginally over the past 20 years, relative to a surging China, it still remains one of the world's most important component manufacturers for the US and Asia. The March 2011 earthquake, which sparked the world's worst nuclear crisis in 25 years, and the associated power shortages, had a profound effect

on regional industrial production, which declined from elevated levels back to historic averages, but Asia ex-Japan growth overall still remained quite resilient.

The resilience of Asian economic growth was most evident in China, where growth remained around 10% despite four rises in domestic interest rates and nine rises in the Chinese banks' reserves requirements. However, even this positive light began to fade towards the end of the year, as rising regional inflation heightened concerns about future interest rate decisions.

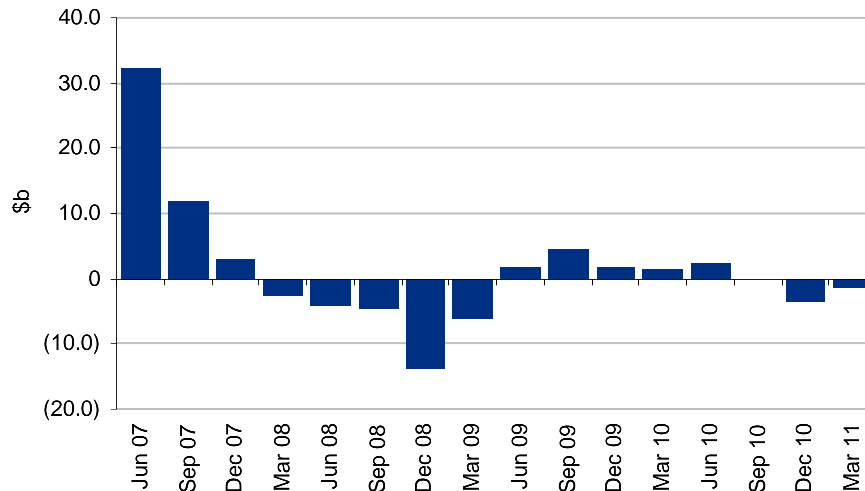
Despite its continued strong rhetoric about inflation and the expectation of strong domestic growth, the Reserve Bank of Australia (RBA) only raised official interest rates once over FY11, by 0.25%, with the target cash rate finishing the period at 4.75%. Despite this, the RBA continued to state that the balance of risks in interest rate settings was to the upside in the wake of Australia's record terms of trade, low unemployment, limited spare capacity and rising inflation. All of these remained evident at the end of FY11, but growth softened in the wake of the natural disasters in early 2011. These events meant that coal exports from Queensland declined notably and growth in the Australian economy experienced a contraction for one of the few times in the past 20 years. These events and their associated impact on growth are viewed as temporary and growth is expected to recover in FY12 as the reconstruction of the Queensland capital stock begins and the early stages of Australia's largest mining investment boom in 150 years commences.

The following chart shows the movement in the daily All Ords as well as the average levels for 1H10, 2H10, FY10, 1H11, 2H11 and FY11.



The All Ords increased in value during FY11 by 7.7%, closing at 4,659.8 at the end of the period, compared to 4,324.8 at the end of FY10. The average All Ords for FY11 was around 2.7% higher than in FY10.

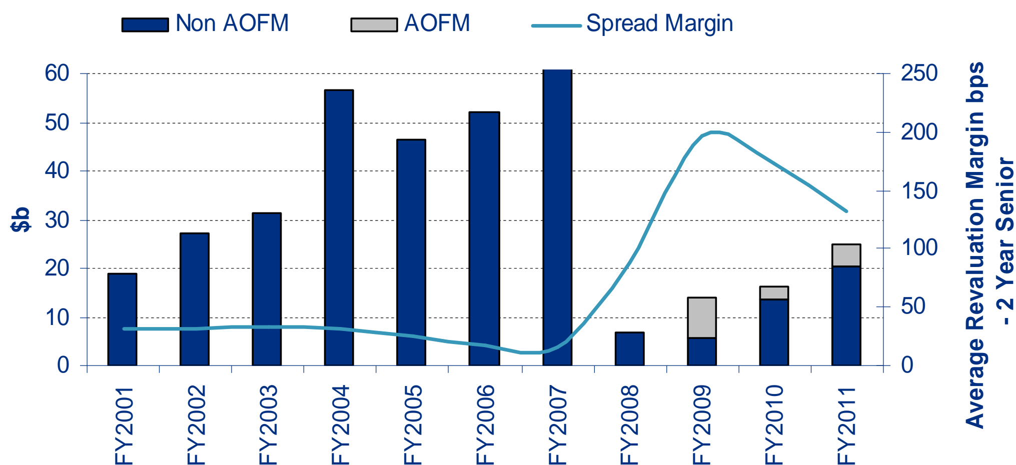
Based on the most recently available data, the Australian funds management industry has experienced a return to net outflows. In the 12 months to March 2011 there were net outflows of $2.6 billion, compared to net inflows of $9.4 billion in the previous corresponding period.



Source: Plan for Life March 2011.

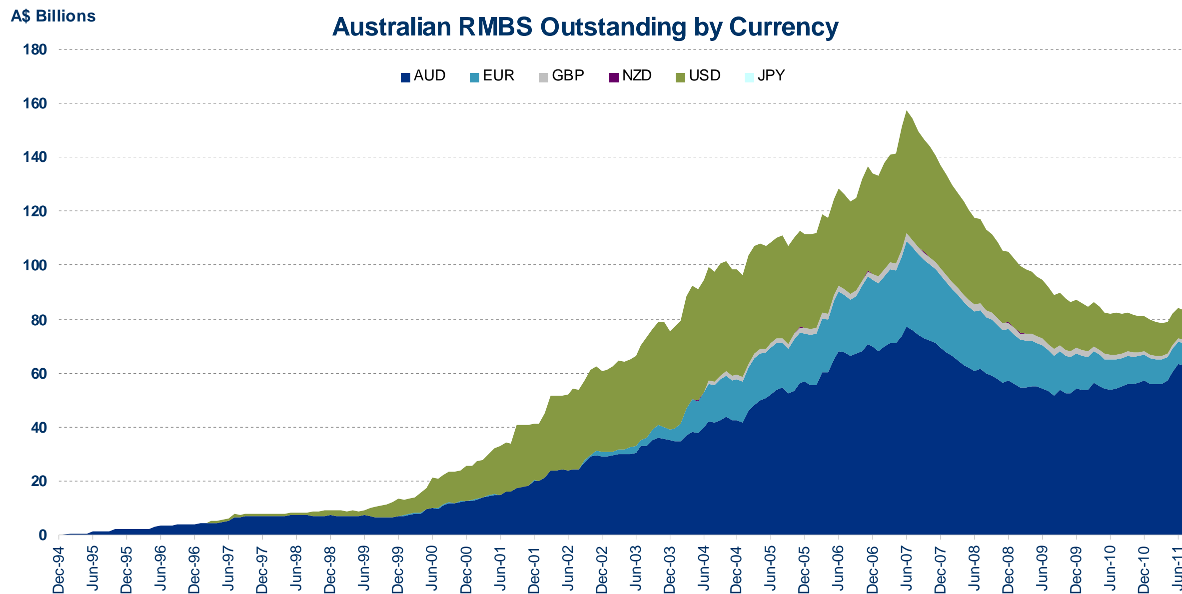
The above chart demonstrates the reversal in the post-GFC recovery of net flows into the Australian funds management industry. Cyclical factors adversely affecting the funds management industry include the continued deleveraging by consumers and risk aversion which favours investment in retail term deposits because of the high interest rates on offer from banks.

The improvement in credit market conditions in FY11 flowed into the residential mortgage backed securities market (RMBS), where spreads continued to narrow, increasing the confidence of both issuers and investors.



Source: www.aofm.gov.au, S&P, Macquarie Bank and Perpetual.

During FY11, both issuance and pricing improved, with increased participation from real money investors and reduced reliance on the Federal Government's AOFM support program. These trends are apparent from the above chart.



Source: Macquarie Debt Markets Research.

The above chart shows that in FY11, for the first time since the GFC, the aggregate level of outstanding Australian RMBS has increased, as a result of higher issuance of Australian dollar denominated RMBS, coupled with lower repayments by borrowers due to increases in mortgage interest rates.

Regulatory environment

The regulatory environment has continued to evolve over the past financial year.

The areas of regulatory change of most significance to the Group's businesses continue to be:

- Implementation of legislative change associated with the Government's *Future of Financial Advice* policy;
- Implementation of legislative change associated with the Government's *Stronger Super* policy; and
- The associated government stated intention to increase the Superannuation Guarantee from 9% to 12% over the medium term.

Consultation processes on the *Future of Financial Advice* and *Stronger Super* initiatives are nearing completion, however draft legislation that will confirm the specifics of how legislative change is likely to work was not available at the date of this report. The Government states that draft legislation will be available shortly. At this stage, it is uncertain when the legislation will be passed by the Parliament of Australia.

The Group continues to believe that its businesses will be well placed to respond to the opportunities and challenges that result from the proposed regulatory change. Perpetual's advice business (Private Wealth) already adheres to high standards of advice quality and has a strong 'client first' culture and a long history of acting as a fiduciary.

The broader financial planning community, beyond the Group's own employed financial planners, are important business partners for the Perpetual Investments business. The past year has been a difficult one for financial planners due to continued subdued investor confidence. Uncertainty associated with ongoing discussion of changes in payment structures in the wealth management industry is likely to also be a contributor to a lack of investment confidence amongst investors and their financial advisers.

Shareholder returns

For the period ended [1] [2]		1H10	2H10	1H11	2H11	FY10	FY11
Diluted earnings per share (EPS) on UPAT	cents	85.1	84.1	93.9	71.8	169.3	165.5
Diluted EPS on NPAT	cents	115.0	95.6	80.1	60.8	210.5	140.8
Annualised return on average equity (ROE) on UPAT	%	22.9	20.6	22.6	17.4	22.4	20.1
Annualised return on average equity (ROE) on NPAT	%	30.9	23.4	19.3	14.7	27.9	17.1

(1) EPS is calculated using the weighted average number of ordinary shares and potential ordinary shares on issue.

(2) The returns on equity quoted in the above table are an annualised rate of return based on actual results for each period. ROE is calculated using the NPAT and UPAT attributable to ordinary equity holders for the period, divided by average equity attributable to the Group's ordinary equity holders, multiplied by the number of such periods in a calendar year in order to arrive at an annualised return on equity.

In FY11, EPS and ROE based on UPAT both declined. Whilst FY11 UPAT was broadly unchanged (FY11: $72.9 million versus FY10: $72.8 million) diluted FY11 EPS of 165.5 cents per share represented a 2.2% decrease on FY10, due to the increase in the weighted average number of ordinary shares on issue during FY11. ROE decreased by 230 bps to 20.1% from 22.4% in FY10, primarily due to the increase in average equity in FY11 compared to average equity in FY10.

Both EPS and ROE on NPAT were substantially lower in FY11 compared to FY10, mainly due to the impact of:

- the foreshadowed $10.5 million after tax decline in recovery of prior period losses from the EMCF in FY11 compared to FY10;
- an impairment charge of $14.7 million after tax in relation to the smartsuper business;
- a $3.1 million after tax expense incurred in responding to the private equity proposal; and
- restructuring costs of $6.4 million after tax to deliver greater flexibility to the Group's cost base.

During FY11, the number of shares on issue increased by around 3% (or 1.3 million shares) to 44.7 million shares due to:

- employee share plan related ordinary share issues, and
- the issue of new shares to satisfy participants in the Group's dividend reinvestment plan (DRP) that accompanied both the FY10 final dividend and the FY11 interim dividend.

Average shareholders' equity for FY11 increased by around 1% compared to opening equity for FY11, due to:

- a $39.1 million increase in contributed equity, primarily due to vesting of staff shares ($24.8 million) and the issuing of shares to satisfy the DRP ($14.0 million);
- a decrease in reserves by $12.7 million, primarily due to a $12.0 million decline in the equity compensation reserve; and
- a $19.8 million decrease in retained earnings, primarily due to $87.8 million of dividends being paid during FY11 (including $5.7 million of dividends in relation to Treasury shares), which exceeded FY11 NPAT of $62.0 million.

Dividends

For the period ended		1H10	2H10	1H11	2H11	FY10	FY11
Fully franked dividend per ordinary share	cents	105.0	105.0	95.0	90.0	210.0	185.0
Dividend payout ratio (1)	%	91.3	109.8	118.6	148.0	99.8	131.4
Proportion of NPAT paid/payable as dividend	%	92.3	110.4	120.6	148.9	100.6	132.9 (2)

(1) Dividend payout ratio is calculated using dividend(s) declared for the relevant period divided by the diluted earnings per share.
(2) Based on ordinary fully paid capital at end of FY11.

The Group's dividend policy is to pay dividends within a range of 80-100% of NPAT on an annualised basis, with a goal to maximise fully franked dividends to shareholders. The dividend policy is designed to be sustainable over the long term while providing the Group with an appropriate degree of financial flexibility.

FY11 NPAT was reduced by a $14.7 million asset impairment charge that was non-cash in nature and does not materially affect the Group's liquidity, cash flows, or current or future operations. FY11 NPAT was further adversely impacted by a one-off $3.1 million after tax cost in relation to responding to the private equity proposal and a $6.4 million after tax restructuring expense. Having taken these matters into consideration and the fact that the Group's financial profile remains strong, the Board has on this occasion excluded the impact of these charges on NPAT in determining FY11 dividends.

A FY11 final fully franked dividend of 90 cents per share will be payable on 27 September 2011 (Ex-dividend Date of 31 August 2011 and Record Date 6 September 2011).

This brings total fully franked dividends for FY11 to 185 cents per share, compared to total dividends of 210 cents per share fully franked in FY10. This equates to a FY11 dividend payout ratio of around 96% when the aforementioned items are excluded.

The DRP will be operational for the FY11 final dividend. Shares to satisfy the DRP will be acquired on or off-market (or by a combination thereof) and transferred to DRP participants. DRP shares will be allocated to participants at the Average Market Price as defined in the DRP terms[2]. There will be no discount applicable to the Average Market Price.

The Pricing Period for the FY11 final dividend DRP will be the 10 Trading Days commencing 7 September 2011 and ending 20 September 2011.

The Group's franking credit balance as at the end of FY11, prior to the payment of the FY11 final dividend, was $60.9 million, which will enable it to fully frank $142.1 million of cash dividends. After payment of the final dividend for FY11, the franking balance is capable of fully franking a further $101.9 million of cash dividends.

Review of Businesses

Perpetual Investments

Perpetual Investments is one of Australia's most highly regarded investment fund managers, offering a broad range of products for personal investment, superannuation and retirement.

The business offers clients strong investment capabilities across a range of asset classes, including Australian and international equities, property securities, multi-sector and multi-manager funds, mortgages, and cash & fixed interest.

[2] The Group's DRP Rules can be found at http://shareholders.perpetual.com.au/Shareholder services/ Dividend Reinvestment Plan.

In addition to its various asset class investment management activities, Perpetual Investments also offers clients self managed superannuation fund (SMSF) administration services[3] and the WealthFocus platform, which provides clients with a range of funds managed by both Perpetual and other fund managers under one account.

Perpetual Investments services a diverse group of clients, from large institutional investors which typically invest larger amounts on which the business receives lower fees, through to retail clients who typically invest smaller amounts but from whom generally higher fees are received.

Retail investors may access Perpetual Investments products via third party external platform providers (intermediated clients), or they can access products directly.

Financial summary

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Revenues	111.5	116.2	112.8	112.2	227.7	225.0
Operating expenses	(62.1)	(65.9)	(65.2)	(65.8)	(128.0)	(131.0)
EBITDA	49.4	50.3	47.6	46.4	99.7	94.0
Depreciation and amortisation	(3.1)	(2.8)	(2.7)	(2.7)	(5.9)	(5.4)
Equity remuneration expense	(11.8)	(13.2)	(6.8)	(8.5)	(25.0)	(15.3)
Profit before tax	**34.5**	**34.3**	**38.1**	**35.2**	**68.8**	**73.3**
Average FUM revenue margin (revenues/ average FUM)	75 bps	78 bps	79 bps	77 bps	76 bps	78 bps
Average FUM	$28.4b	$28.4b	$27.5b	$28.0b	$28.4b	$27.8b

FY11 profit before tax was $73.3 million. This represents an increase of around 7% on the previous financial year. The result reflects relatively flat revenues, offset predominantly by a lower equity remuneration expense.

2H11 profit before tax of $35.2 million represented a decrease of around 8% on 1H11, and an increase of 3% on 2H10.

Revenues

FY11 revenues were $225.0 million, down 1% on the prior year. This decrease reflected a 2% decrease in average FUM, which was down to $27.8 billion from $28.4 billion over the previous year, in line with the subdued performance of domestic equity markets over the year and the impact of net outflows of FUM.

The average FUM revenue margin in FY11 was 78bps. This was higher than the previous year's average margin of 76bps due to net outflows from lower margin funds, such as cash funds, as well as the closure of the lower margin quantitative investments business during FY11, which resulted in $0.1 billion of net outflows and consequently, an increase in the proportion of higher margin equities as a percentage of total FUM.

The average FUM margin[4] in 2H11 was 77bps, a decrease of 2bps on 1H11. The decrease was predominantly due to net outflows from more mature funds within the retail and retail-intermediated channels, offset by inflows into the institutional channel.

[3] The smartsuper SMSF administration business was sold in August 2011.

[4] Revenue used to calculate average FUM revenue margin excludes non-FUM related revenue.

The following table provides an analysis of Perpetual Investments' revenue by asset class:

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
By asset class:						
› Equities	88.2	91.8	89.6	90.6	180.0	180.2
› Cash & fixed interest	14.3	14.4	14.0	13.3	28.7	27.3
› Other FUM related	5.4	5.9	6.1	5.7	11.3	11.8
› Other non-FUM related	3.6	4.1	3.1	2.6	7.7	5.7
Revenues	**111.5**	**116.2**	**112.8**	**112.2**	**227.7**	**225.0**

Equities revenues represent the fees earned on Australian and Global Equities products. FY11 revenue of $180.2 million was broadly unchanged from FY10.

Cash & Fixed Interest revenues are derived from the fees earned on cash, fixed income and mortgage products. FY11 revenue of $27.3 million was down $1.4 million or 5% from FY10, mainly reflecting the decrease in FUM in more mature mortgage products.

Other FUM related revenue includes management fees for external funds on the WealthFocus platform, administration fees on the PPI structured products (which are in run-off) and SMSF administration fees[5]. FY11 Other FUM related revenue was $11.8 million, up $0.5 million or 4% on FY10, predominantly due to higher revenue derived from the WealthFocus platform business, offset by lower administration fees from the PPI structured products, which are in run-off.

Other non-FUM related revenue includes the net interest margin earned on the structured products loan book and interest earned on operational bank accounts across the business. These revenues represent less than 3% of total revenues of the business. FY11 revenue of $5.7 million was down $2.0 million on FY10, predominantly due to lower fees earned on the PPI structured products following the decision to close these products in FY09 as the Group determined that it will no longer use its balance sheet to finance this type of activity.

Expenses

FY11 operating expenses were $131.0 million, an increase of $3.0 million or 2% over FY10. However, when non-cash expenses (amortisation and depreciation and equity remuneration expense) are included, FY11 expenses were down by $7.2 million or 5% on FY10.

The annual decrease in total expenses is mainly due to:

- a $3.0 million decrease in employment expenses, predominantly due to lower staff incentive payments and contractor costs;
- a $0.5 million decrease in general and administration expenses from various cost savings initiatives; and
- a $9.7 million decrease in equity remuneration expense, primarily due to the need to recognise the increased likelihood of various LTI schemes vesting in FY10.

This was offset by:

- an increase of $3.2 million in investment accounting and registry fees paid to the Group's custodian;
- an increase of $3.7 million relating to additional technology & operational support and share of the increase in costs associated with the brand awareness marketing campaign; and
- the inclusion in FY11 of one-off costs of around $1.1 million pertaining to the closure of the quantitative investment funds, coupled with the restructuring of the Equities and Distribution teams.

2H11 operating expenses of $65.8 million were slightly higher compared to 1H11 expenses of $65.2 million, mainly due to:

5 The smartsuper SMSF administration business was sold in August 2011.

- an increase of $0.4 million in investment accounting and registry fees due to the timing of payments to the custodian;
- a $0.8 million increase in professional fees, due to seasonality as more audit work of funds is undertaken in the second half of the financial year;
- a $1.4 million increase in interdivisional charges, due to the transfer of SMSF administration fees to Private Wealth in 2H11 (i.e. no impact at a Group level); and
- around $0.7 million for additional technology & operational support.

The higher expenses were offset by:

- Lower staff costs of $2.5 million due to a decrease in the number of staff as a result of the closure of the quantitative investment funds and staff departures and lower accrual of incentive payments, and
- the inclusion in 1H11 of one-off costs of around $1.1 million pertaining to the closure of the quantitative investment funds, coupled with the restructuring of the Equities and Distribution teams.

Funds under management

As at the end of FY11, FUM of $27.2 billion represented an increase of 1% for the year. However, average FY11 FUM was $27.8 billion or 2% lower than in FY10.

The table below details the closing FUM for the last three fiscal years:

At end of	FY09 $b	FY10 $b	Net flows $b	Other [1] $b	FY11 $b
Institutional	8.5	8.1	(0.1)	0.7	8.7
Intermediary (master fund and wrap)	11.9	12.9	(1.2)	0.9	12.6
Retail	5.8	5.9	(0.5)	0.5	5.9
All channels	**26.2**	**26.9**	**(1.8)**	**2.1**	**27.2**
Australian equities	16.0	17.5	(0.6)	1.8	18.7
Global equities	1.4	1.4	(0.2)	(0.2) [2]	1.0
Equities	17.4	18.9	(0.8)	1.6	19.7
Cash and fixed interest	7.5	6.7	(0.9)	0.2	6.0
Other	1.3	1.3	(0.1)	0.3 [2]	1.5
All asset classes	**26.2**	**26.9**	**(1.8)**	**2.1**	**27.2**

(1) Includes reinvestments, distributions, income and asset growth.
(2) $0.2b of FUM previously classified as Global Equities was transferred to Other.

In line with subdued markets and ongoing risk aversion from investors, the business in FY11 experienced net outflows of $1.8 billion, mainly from the intermediated and retail channels (together totalling $1.7 billion), compared to net outflows of $1.9 billion in FY10.

Net flows

Net flows for products by distribution channel and asset class for the last four reporting periods are detailed in the following table.

For the period ended	1H10 $b	2H10 $b	1H11 $b	2H11 $b	FY10 $b	FY11 $b
Institutional	(0.9)	(0.3)	(0.5)	0.4	(1.2)	(0.1)
Intermediary (master fund and wrap)	0.1	(0.4)	(0.6)	(0.6)	(0.3)	(1.2)
Retail	(0.3)	(0.1)	(0.2)	(0.3)	(0.4)	(0.5)
All distribution channels	**(1.1)**	**(0.8)**	**(1.3)**	**(0.5)**	**(1.9)**	**(1.8)**
Australian equities	-	(0.4)	(0.1)	(0.5)	(0.4)	(0.6)
Global equities	-	-	(0.1)	(0.1)	-	(0.2)
Equities	-	(0.4)	(0.2)	(0.6)	(0.4)	(0.8)
Cash and fixed interest	(1.0)	(0.4)	(1.0)	0.1	(1.4)	(0.9)
Other	(0.1)	-	(0.1)	-	(0.1)	(0.1)
All asset classes	**(1.1)**	**(0.8)**	**(1.3)**	**(0.5)**	**(1.9)**	**(1.8)**

Institutional – industry superannuation funds and clients who invest large sums. The business earns its lowest revenue margin from this channel. However, institutional FUM does not require complex technology and service structures, such as call centres and dedicated sales & distribution support, so the servicing cost is lower.

In FY11, this channel experienced net outflows of $0.1 billion, compared to net outflows of $1.2 billion in FY10, principally from cash and credit products, offset by inflows into our active equity strategies.

Intermediary – this channel includes FUM from financial advisers who invest with Perpetual via external platform providers. This is the business' largest source of FUM.

The intermediated channel experienced net outflows of $1.2 billion in FY11, compared to net outflows of $0.3 billion in FY10, due to ongoing subdued investor sentiment post-GFC. The outflows were largely from more mature funds such as the Industrial Share Fund, mortgage funds and multi sector funds.

Retail – this channel sources FUM from advisers who invest with Perpetual directly and investors who come through Perpetual's WealthFocus platform, where some FUM flows into third party products. This FUM earns the highest gross margin, however it requires significant support infrastructure, which makes the cost to service this channel the highest.

In FY11, net outflows from this channel were $0.5 billion, compared to net outflows of $0.4 billion in FY10, generally following the same trend as in the intermediated channel, with net outflows largely from more mature funds such as the Industrial Share Fund, mortgage funds and multi sector funds.

Investment performance

Investors in Perpetual Investments' funds have experienced returns above that of the overall market in nearly all funds over the medium to longer term. It is this positive 'alpha' that demonstrates the expertise of Perpetual's investment managers and helps generate new business going forward.

The table below outlines the consistent outperformance against the relevant benchmark for the main funds across nearly all of the periods:

Excess/(under) performance p.a. – gross as at end June 2011								
Period	Industrial Share Fund	Australian Share Fund	Smaller Companies Fund	Concentrated Equity Fund	International Share Fund	Diversified Income Fund	Share Plus Fund	Ethical Share Fund
1 year	-0.41%	+3.17%	+14.72%	+1.79%	-3.54%	+4.07%	+5.36%	+0.33%
3 years	+2.60%	+3.88%	+9.71%	+4.80%	+1.32%	+1.08%	+4.07%	+11.24%
5 years	+2.59%	+2.49%	+7.44%	+3.55%	+0.65%	-0.49%	+3.42%	+4.86%
7 years	+1.85%	+2.58%	+4.15%	+2.46%	N/A	N/A	+2.59%	+3.75%
10 years	+3.59%	+3.80%	+6.87%	+4.60%	N/A	N/A	N/A	N/A

Perpetual Investments' funds continue to be recognised across the industry and by various research groups. Of particular note this year:

- The Share-Plus fund won the Australian Equities Long Short category at the Money Management/Lonsec Fund Manager of the Year Awards;
- The Wholesale Ethical SRI Fund won Ethical Investor Fund of the Year at the 10th annual Australian Sustainability Awards;
- The Perpetual Smaller Companies Fund won the Small Caps Australian Share category at the AFR Smart Investor Awards; and
- Perpetual Investments was named Best Fund Manager in the *Money* magazine Best of the Best Awards 2011.

Private Wealth

Private Wealth provides holistic financial solutions for high net worth individuals. It aims to be the leading provider of wealth advice for financially successful individuals, families, businesses and not-for-profit organisations.

Private Wealth manages financial assets for around 6,600 private clients, estates, trusts and charitable trusts, with funds under advice (FUA) of $8.7 billion at the end of FY11, up 5% from the $8.3 billion at the end of FY10. The average client account balance is $1.3 million.

Private Wealth manages one of the largest private charitable foundations in Australia, with around $1.2 billion in FUA. Private Wealth is trustee to nearly 450 charitable trusts, supporting cultural, medical, social, environmental, religious and educational causes.

In FY11, Private Wealth continued to execute on its strategy through a combination of organic and inorganic initiatives. Key achievements included:

- refinement of the Private Wealth strategy focused on increasing client advocacy, staff engagement and profitability of the business. As part of the strategy, Private Wealth seeks to increase market share in its priority segments of business owners, professionals and established wealthy;
- continued investment in broadening capabilities, strengthening advisory business leadership, and modernisation of the service offering;
- near completion of the integration of Fordham and Grosvenor Financial Services (Grosvenor) (the acquired businesses). These businesses will be treated as business-as-usual going forward. Combined FY11 EBITDA for the acquired businesses, excluding integration costs, was $7.6 million. The acquired businesses made a full period contribution in FY11. In FY10, Grosvenor was present for nine months and Fordham for six months;
- initiation of a project focused on modernising the administration platform for private clients, enhancing DIY product offerings and variabilising the fixed cost base; and
- continued pursuit of the inorganic growth strategy. A number of potential investment opportunities were identified during FY11, but none were concluded during the period. Private Wealth is at different stages of discussions with a number of potential acquisition targets.

Financial summary

FY11 profit before tax of $13.3 million constituted a decrease of around 24% from the $17.4 million in FY10, reflecting continued investment in the business.

Areas of investment included strengthening the advisory teams, the enhancement of capability in the investment research and product teams, and appointments to key leadership roles, including a new Group Executive and state managers for Victoria and WA. In addition, costs of $1.9 million were incurred in relation to a project to modernise the Private Wealth platform.

These cost increases have been partially offset by an increase in revenue from improved investment markets and a full year's contribution from the acquired businesses, which generate a large proportion of the non-market related revenue, predominantly tax and accounting revenue.

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Market related revenue	33.5	40.0	39.4	39.7	73.5	79.1
Non-market related revenue	8.3	19.0	17.5	19.6	27.3	37.1
Total revenues	41.8	59.0	56.9	59.3	100.8	116.2
Operating expenses	(32.7)	(44.7)	(45.1)	(49.3)	(77.4)	(94.4)
EBITDA	9.1	14.3	11.8	10.0	23.4	21.8
Depreciation and amortisation	(1.7)	(2.9)	(3.0)	(3.3)	(4.6)	(6.3)
Equity remuneration expense	(1.0)	(0.4)	(1.1)	(1.1)	(1.4)	(2.2)
Profit before tax	**6.4**	**11.0**	**7.7**	**5.6**	**17.4**	**13.3**
Closing funds under advice (FUA)	$8.1b	$8.3b	$8.8b	$8.7b	$8.3b	$8.7b
Average funds under advice (FUA)	$7.8b	$8.5b	$8.5b	$8.8b	$8.1b	$8.7b
Market related revenue margin	86 bps	94 bps	93 bps	90 bps	91 bps	91 bps

The main revenue driver for Private Wealth is FUA, with market related revenue contributing approximately 68% of total FY11 revenue, compared to 73% in FY10. The increased level of contribution from tax and accounting revenue followed Private Wealth's acquisition of Fordham in early 2H10. By way of comparison, in 1H10, 80% of revenues were market related.

FY11 revenues were $15.4 million or around 15% higher than in FY10. The increase in market related revenue was due to higher average FUA and the impact of the full year's contribution of revenue from the acquired businesses. The FY11 market related revenue margin of 91 bps was unchanged from FY10.

The increase in non-market related revenue was due to increased activity in estate administration, tax and accounting, a broader product offering and the benefit of a full year of revenue from the acquired businesses. The increase in 2H11 non-market revenue was greater than in 1H11 due to seasonality factors in relation to tax and accounting revenue as well as an increase in revenue associated with direct property investment offered to clients.

2H11 revenues were largely in line with 2H10 revenues as both periods included a full six months of revenue from the acquired businesses.

Operating expenses in FY11 were $94.4 million, $17.0 million or 22% higher than in FY10. There are a number of contributors to this increase, including a full year of expenditure (net of synergies) relating to the acquired businesses, increases in core business activities including strengthening the advisory team and enhancing the capabilities of the investment research and product teams, continued investment in the client management system, additional technology & operational support, and share of the costs associated with the brand awareness marketing campaign. In addition, the business incurred costs of $1.9 million in 2H11 as part of the initial assessment of the platform offering, selection of service providers and preparation of a business case.

Depreciation and amortisation expense increased by $1.7 million to $6.3 million in FY11, primarily due to the full period impact of amortisation of identifiable intangibles associated with the acquired businesses, which were completed in FY10, and an increase in amortisation associated with the client management system.

FY11 equity remuneration expense was $2.2 million, an increase of $0.8 million on FY10. Equity remuneration in FY10 was lower due to the write-back of LTIs associated with the departure of a senior executive and the increase in FY11 was due to senior management appointments, including the new Group Executive for the business.

Operating expenses during 2H11 were up $4.6 million or 10% on 2H10, largely due to costs associated with the platform modernisation project, investment in organic initiatives (strengthening the advisory team, and enhancing capability in the investment research and product teams), and continued investment in the client management system. These were partially offset by lower costs relating to the acquired businesses due to lower acquisition and integration costs and extraction of synergies.

2H11 operating expenses of $49.3million were $4.2million or 9% higher than 1H11 expenses. There were a number of contributors to this increase, including $1.9 million incurred as part of the initial assessment of the platform offering, selection of service providers and preparation of a business case, an increase in variable remuneration expenses, an increase in staff costs associated with enhancing the capabilities of the team and an increase in professional fees. These increases were offset by a $1.4 million decrease in interdivisional charges due to the transfer of SMSF administration fees from Perpetual Investments in 2H11 (i.e. no impact at a Group level).

Funds under advice

As at the end of FY11, FUA of $8.7 billion represented an increase of 5% for the year. However, average FY11 FUA was $8.7 billion or 7% higher than in FY10, reflecting the full period contribution of the FUA from the acquired businesses.

The table below details the closing FUA for the last three fiscal years.

At end of	FY09 $b	FY10 $b	Net flows $b	Other (1) $b	FY11 $b
Financial advisory:					
› superannuation	2.4	3.3	(0.1)	0.3	3.5
› non-superannuation	1.8	2.2	-	-	2.2
	4.2	**5.5**	**(0.1)**	**0.3**	**5.7**
Fiduciary services:					
› philanthropic	1.0	1.1	-	0.1	1.2
› trusts and estates	1.6	1.7	-	0.1	1.8
	2.6	**2.8**	**-**	**0.2**	**3.0**
Total funds under advice (FUA)	**6.8**	**8.3**	**(0.1)**	**0.5**	**8.7**

(1) Includes reinvestments, distributions, income and asset growth.

Private Wealth's increase in FY11 FUA was driven principally by improved investment markets. At the end of FY11, around 56% of Private Wealth's FUA was invested in equities.

Private Wealth is well placed to accelerate its growth as market volatility reduces and turnaround in investor sentiment occurs.

Corporate Trust

Corporate Trust is a leading provider of corporate trustee, mortgage and transaction support services to the financial services industry. Products and services include trustee services for mortgage-backed and other securitisation programs for major banks and non-bank organisations; regulatory compliance services for fund managers; custody, unit registry and accounting services for property and mortgage funds; trusteeships for corporate debt issues, infrastructure projects and other structures; and mortgage loan processing services for financial institutions.

Financial summary

Corporate Trust's FY11 profit before tax of $25.3 million represents an increase of 1% on FY10. Whilst the FY11 profit before tax was in line with that earned in FY10 the following matters impacted the composition of the FY11 result:

- an increase in Trust and Fund Services fees of $1.7 million for additional services provided to trusts that were experiencing financial distress in 2H11. These fees tend to be unpredictable in nature;
- one-off fees of around $2 million received by Mortgage Services in 1H11 to accommodate variations in service contracts recorded, coupled with strong growth in Perpetual Lenders Mortgage Services (PLMS) business volumes compared to FY10 as a result of the full year contribution from a major bank client and increased activity from the existing client base (particularly in 1H11), partially offset by the sharp contraction in housing market activity in 2H11, which negatively impacted earnings as the variability of the cost base was not able to match the decline in matter volumes; offset by
- a $2.8 million decline in revenue within Trust and Fund Services, primarily as a result of a decline in securitisation FUA and a reduction in margin due to changes in client and asset class mix; and
- an increase in expenses including the share of the costs associated with the brand awareness marketing campaign.

In 2H11, profit before tax decreased 35% or $5.3 million compared to 1H11, largely due to:

- the absence of significant one-off mortgage services fees compared to the $2 million received in 1H11;
- the sharp contraction in housing market activity, coupled with the seasonal nature of the mortgage industry (which generally experiences lower activity in the second half of the financial year) adversely impacting Mortgage Services earnings as the variability in the cost base was not able to match the decline in matter volumes; and
- the continued decline in securitisation FUA, albeit at a lower rate than in previous periods, coupled with a change in business and client mix that yielded lower margins; partially offset by
- an increase in Trust and Fund Services fees associated with financially distressed trusts.

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Trust and Fund Services	27.9	27.7	26.9	27.6	55.6	54.5
Mortgage Services	13.7	18.2	25.4	17.3	31.9	42.7
Total revenues	41.6	45.9	52.3	44.9	87.5	97.2
Operating expenses	(25.8)	(32.7)	(35.4)	(32.7)	(58.5)	(68.1)
EBITDA	15.8	13.2	16.9	12.2	29.0	29.1
Depreciation and amortisation	(1.8)	(1.8)	(1.3)	(1.9)	(3.6)	(3.2)
Equity remuneration amortisation	(0.2)	(0.1)	(0.3)	(0.3)	(0.3)	(0.6)
Profit before tax	**13.8**	**11.3**	**15.3**	**10.0**	**25.1**	**25.3**

FY11 revenues of $97.2 million constituted an increase of 11% on FY10. The increase in FY11 revenues included around $3.7 million of fees that are irregular in nature. Adjusting for these items, full year revenue grew by $6.0 million or 7%, largely supported by the full year impact from the take-on of a major bank client within Mortgage Services, as well as increased matter activity from its installed client base particularly during 1H11.

2H11 revenues were down 14% on 1H11, largely due to a decline in Mortgage Services revenues of $8.1 million. This decline was primarily driven by the aforementioned $2 million in one-off fees in 1H11, and the significant contraction in housing market activity as housing finance data hit a 10-year low[6], which combined with the seasonal nature of the mortgage industry, led to a fall of 18% in business volumes in 2H11. In addition, the change in client mix, shift in mortgage matter type and the level of service provided, led to a reduction in the average price per matter by around 10%. These were offset by an increase in Trust and Fund Services revenue of $0.7 million, which included $1.7 million of fees that are unpredictable in nature.

[6] Based on data from the Australian Bureau of Statistics seasonally adjusted.

FY11 operating expenses increased 16% over FY10, to $68.1 million. This increase in full year expenses relative to FY10 was largely driven by the growth in the Mortgage Services business, which is a labour intensive operation. In addition, investment continued in the Mortgage Services business through a number of initiatives aimed at enhancing financial performance, such as variabilising the fixed cost base. Additional costs to support the future growth of the Fund Services business were also incurred. FY11 expenses also include a $0.8 million increase in expenses, which includes the share of the costs associated with the brand awareness marketing campaign.

2H11 operating expenses were down 8% compared to 1H11, largely in response to the fall in demand for mortgage services volumes during the period. The Mortgage Services business also invested to improve labour productivity and support growth. In addition, 2H11 expenses included $0.5 million for the share of the costs associated with the brand awareness marketing campaign.

Funds under administration (FUA) [(1)]

At end of	1H10 $b	2H10 $b	1H11 $b	2H11 $b
CMBS and ABS	31.8	30.4	28.5	26.2
RMBS – non-bank[(2)]	57.7	55.2	48.9	48.3
RMBS – repos	81.2	74.6	77.7	76.1
RMBS – bank[(2)]	51.7	50.3	54.3	55.2
Total funds under administration	**222.4**	**210.5**	**209.4**	**205.8**

(1) Includes warehouse and liquidity finance facilities.
(2) During 1H11 there was a transfer of $4 billion from RMBS non-bank to RMBS bank due to a client reclassification.

Corporate Trust's FUA at the end of FY11 decreased by 2% compared to the end of FY10, to $205.8 billion. The largest decline, excluding the client reclassification from non-bank RMBS to bank RMBS, was seen in the CMBS and ABS market, which has remained largely closed to new issuance in FY11.

In FY11, RMBS market conditions continued to improve, with RMBS issuance of approximately $12 billion in 2H11 (2H10: $7 billion and 1H11: $13 billion), primarily driven by issuance by the major banks. Further positive signs have been the ability to raise issuance with reduced participation by the AOFM ($0.8 billion in 2H11), the lowest since inception of the program, with a number of issuers upsizing their term deals due to increased investor appetite.

Run-off rates across existing RMBS continued to decrease during 2H11 compared to 1H11, though still remain above historical levels. The decline in run-off was further influenced by the 25 bps increase in the overnight cash rate to 4.75% by the RBA in November 2010, reducing borrowers' ability to pay down additional principal on their mortgage.

The Mortgage Services business consists of two offerings: Loan Servicing and PLMS. Mortgage Services volumes in FY11 increased 20% on FY10, but volumes in 2H11 declined 18% on 1H11. The decline in 2H11 volumes was driven primarily by a drop in new loan volumes, as housing finance activity contracted sharply, combined with the seasonal nature of the mortgage market, which is traditionally very slow during the first two months of the calendar year.

Number of matters	1H10 '000s	2H10 '000s	1H11 '000s	2H11 '000s	FY10 '000s	FY11 '000s
PLMS volumes	81	118	131	109	199	240

A restructuring expense was incurred in late FY11 in response to capacity adjustments in the Mortgage Services business in line with its operational environment, including the impact of a major bank client's decision to reduce the scope of their outsourced services and consolidate the remaining outsourced services with another provider. This transition is expected to occur over the first half of calendar 2012.

This restructuring expense was treated as a significant item. Refer to commentary on significant items later in the discussion.

PLMS' strategy is to continue to attract new clients, and deliver cost efficiencies and increased EBITDA margins. The revenue mix attributable to bank clients continued to grow as a proportion of total PLMS revenue, driven in part by the business undertaking with a major bank. Regional and foreign banks as well as the non-bank sector remain important client bases for the PLMS business.

PLMS revenue split by client type	1H10 %	2H10 %	1H11 %	2H11 %	FY10 %	FY11 %
Bank	72	82	85	86	77	86
Non-bank	28	18	15	14	23	14

Group Support Services

Costs that have been retained in Group Support Services (GSS) reflect costs that management deems to be associated with corporate versus business unit activity. These include costs associated with the Board of Directors and 50% of the costs associated with the Group Executives of each of the GSS Business Units (CEO, Group Finance, Risk, and People & Culture) as it is deemed that approximately 50% of their time is spent on Group reporting and setting corporate policies. Costs and revenues associated with the capital structure of the Group, including interest income, financing costs and ASX listing fees are also retained within GSS.

Financial summary

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Revenues	5.2	5.1	5.1	5.2	10.3	10.3
Operating expenses	(4.0)	(6.4)	(4.9)	(7.1)	(10.4)	(12.0)
EBITDA	1.2	(1.3)	0.2	(1.9)	(0.1)	(1.7)
Depreciation and amortisation	(0.4)	(0.2)	(0.4)	(0.4)	(0.6)	(0.8)
Equity remuneration expense	(0.3)	0.2	(0.2)	(0.2)	(0.1)	(0.4)
Interest expense	(1.2)	(1.6)	(1.6)	(2.0)	(2.8)	(3.6)
Profit/(loss) before tax	**(0.7)**	**(2.9)**	**(2.0)**	**(4.5)**	**(3.6)**	**(6.5)**

FY11 revenue of $10.3 million from the Group's cash and principal investments was unchanged from FY10.

FY11 operating expenses of $12.0 million were $1.6 million higher than FY10, primarily due to costs associated with the transition of the CEO.

FY11 equity remuneration was $0.3 million higher than in FY10, which benefited from the write-back of LTIs for the outgoing CEO, who had resigned on 23 June 2010.

FY11 interest expense was around $0.8 million higher than FY10, due to $0.4 million of increased interest expense on the Group's $45 million of corporate debt and $0.4 million for the acceleration of the fair value discount unwind in relation to the payment of deferred acquisition consideration for one of the recent Private Wealth acquisitions.

Total Group Expenses

Total Group expenses including depreciation and amortisation and equity remuneration expense (excluding significant items) increased by around 8% to $343.3 million in FY11 compared to FY10.

Movement in Group expenses

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Employment	(100.0)	(122.2)	(117.3)	(117.7)	(222.2)	(235.0)
Occupancy	(8.2)	(10.5)	(10.4)	(10.5)	(18.7)	(20.9)
Administration and general	(35.5)	(36.1)	(36.7)	(43.3)	(71.6)	(80.0)

Other intangibles	(1.2)	(2.1)	(2.0)	(1.8)	(3.3)	(3.8)
Financing costs	(1.2)	(1.6)	(1.6)	(2.0)	(2.8)	(3.6)
Total expenses	**(146.1)**	**(172.5)**	**(168.0)**	**(175.3)**	**(318.6)**	**(343.3)**

The key drivers of the increase in Group expenses in FY11 are set out in the following table.

	$m
FY10 expenses	**318.6**
Annualisation of Private Wealth acquisitions (including integration costs)	8.1
Reduction in equity remuneration expense	(8.0)
Increased costs associated with uplift in Mortgage Services volumes	8.4
Increase in registry fees	3.2
CEO transition costs	2.1
Project relating to the modernisation of the Private Wealth platform	1.9
Brand marketing	1.4
Software maintenance	1.0
Interest expense(including amortisation of deferred consideration)	0.8
Other – including staff salary increases, the annualised impact of new staff starting in FY10 and general CPI related increases	5.8
FY11 expenses	**343.3**

Increased employment costs in FY11 reflect the full year impact of Private Wealth acquisitions completed during FY10, the increase in mortgage matters, which is a labour intensive process, and CEO transition costs, less the reduction in equity remuneration expense, primarily in Perpetual Investments.

Increased occupancy costs in FY11 reflect the full year impact of Private Wealth acquisitions and additional premises required to support new business initiatives, principally in mortgage services.

Administration and general expenses in FY11 increased by around $8.4 million, primarily due to the increase of $3.2 million in registry fees, $1.4 million in marketing expenses, $1.0 million of software maintenance and $2.5 million of consultancy fees (of which $1.9 million related to the project to modernise the Private Wealth platform).

Amortisation expense related to other intangibles increased in FY11, reflecting the full year impact of Private Wealth acquisitions made during FY10. This gave rise to an increase in identifiable intangible assets carried on the Group's balance sheet that are subject to amortisation.

Increased financing costs in FY11 were mainly attributable to the discount unwind of deferred consideration in relation to recent Private Wealth acquisitions and increased interest expense on the Group's corporate debt facility.

Tax expense

Perpetual's average tax rate in FY11 was 30.8% (FY10: 32.4%), calculated from underlying profit before tax (UPBT). The FY11 tax rate benefited from the reversal of an over-provision for income tax in the prior year. Normalising for this over-provision, the average tax rate based on FY11 UPBT would have been around 33%.

The average tax rate is higher than the Australian corporate tax rate of 30%, mainly due to the non-deductibility of the amortisation expense of acquired intangible assets in the Australian operations and the impact of losses from overseas operations not being recognised as deferred tax assets.

Significant Items

The Group separately discloses items that were material to the financial performance of the Group, but are considered to be either non-recurring or not part of the operating result as a significant item. Significant items are excluded from UPAT.

For the period ended	Profit/(Loss) Before Tax					
	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Significant items:						
1. EMCF gains	15.8	13.2	8.5	5.4	29.0	13.9
2. Gain/(loss) on sale/impairment of investments	2.5	(6.0)	2.2	2.0	(3.5)	4.2
3. Private equity proposal response costs	-	-	(4.3)	(0.1)	-	(4.4)
4. Impairment of assets	-	-	(10.6)	(4.1)	-	(14.7)
5. Restructuring costs	-	-	-	(9.1)	-	(9.1)
Total significant items	**18.3**	**7.2**	**(4.2)**	**(5.9)**	**25.5**	**(10.1)**

For the period ended	Profit/(Loss) After Tax					
	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Significant items:						
1. EMCF gains	11.1	9.2	6.0	3.8	20.3	9.8
2. Gain/(loss) on sale/impairment of investments	1.7	(4.3)	1.6	1.9	(2.6)	3.5
3. Private equity proposal response costs	-	-	(3.0)	(0.1)	-	(3.1)
4. Impairment of assets	-	-	(10.6)	(4.1)	-	(14.7)
5. Restructuring costs	-	-	-	(6.4)	-	(6.4)
Total significant items	**12.8**	**4.9**	**(6.0)**	**(4.9)**	**17.7**	**(10.9)**

1. Perpetual Exact Market Cash Funds (EMCF)

The EMCF products are investment funds managed by the Group that invest in a diversified portfolio of cash and credit securities, offering investors a guaranteed return linked to the UBS Bank Bill Index. The Group delivers the guaranteed return to investors via a swap agreement.

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Hold to maturity gains versus benchmark (1)	15.8	13.2	8.5	5.4	29.0	13.9
Tax expense	(4.7)	(4.0)	(2.5)	(1.6)	(8.7)	(4.1)
Profit after tax	**11.1**	**9.2**	**6.0**	**3.8**	**20.3**	**9.8**

(1) Under the swap agreement, over and underperformance against the index is cash settled on a monthly basis between the Group and the EMCF.

In March 2009, the Group announced a change to the swap agreement valuation methodology between EMCF1 and Perpetual. The underlying investments are now valued on a hold-to-maturity basis for unit pricing purposes, which is consistent with the way in which Perpetual now manages the portfolio. The underlying assets for EMCF1 were valued at their fair value at the date of change, which for many assets was at a discount to their maturity value. The discount to maturity value will be amortised over the remaining term of the assets. This change in valuation methodology has no impact on the investment returns to investors in EMCF1.

As investments mature in EMCF1, proceeds are used to meet redemptions or are reinvested in bank bills or cash, in line with the Group's decision to reduce risk on its balance sheet. As assets in the portfolio mature, the unrealised mark-to-market losses recorded in prior years are being recovered.

The majority of the unrealised mark-to-market losses from prior periods in the EMCF1 portfolio have now been recovered and the remainder are expected to be recovered as the portfolio matures. The average maturity of the portfolio at the end of FY11 was around 2.1 years. The recovery rate of unrealised losses is expected to decline over time as securities in the portfolio continue to mature at their face value.

EMCF liabilities at end of	1H10 $m	FY10 $m	1H11 $m	FY11 $m
EMCF1	808.4	695.1	514.9	383.6
EMCF2	472.8	495.2	504.0	512.8
Total EMCF liabilities	**1,281.2**	**1,190.3**	**1,018.9**	**896.4**

Total funds invested in the EMCF products have reduced over the last 12 months by around 25% and by 30% over the last 18 months. Since the end of 1H09, the EMCF1 has reduced by around 80%, whilst the EMCF2 has experienced growth of around 50%.

At the end of FY11, the carrying value of EMCF1 assets was $382.9 million (compared to $693.2 million at the end of FY10) and was at a deficit to the fair value of its liabilities by $0.7 million, compared to a deficit of $1.9 million at the end of FY10.

As the EMCF1 portfolio continues to run off and the majority of its unrealised losses have been recouped, its financial performance going forward is no longer expected to be material in the context of the Group's results. Accordingly, from the commencement of 1H12, the financial performance of EMCF1 will be reported as UPAT in the cash & fixed interest asset class in Perpetual Investments.

EMCF2 was established in July 2008. It has a similar structure to EMCF1 but has specific rules that govern the withdrawal of funds. EMCF2 assets are held on a hold-to-maturity basis for unit pricing purposes. At the end of FY11, the carrying value of EMCF2 assets was $516.2 million (compared to $497.8 million at the end of FY10), which exceeded their liabilities by $3.4 million, compared to an excess of $2.6 million at the end of FY10. The financial performance of EMCF2 is reported as UPAT in the cash & fixed interest asset class in Perpetual Investments.

2. Gain/(loss) on sale/impairment of investments

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Profit on sale of part of investment portfolio/seed funds	2.8	0.8	2.8	2.8	3.6	5.6
Impairment of available for sale securities	(0.3)	(6.8)	(0.6)	(0.8)	(7.1)	(1.4)
Total profit/(loss) before tax on sale/impairment of investments	2.5	(6.0)	2.2	2.0	(3.5)	4.2
Income tax benefit/(expense)	(0.8)	1.7	(0.6)	(0.1)	0.9	(0.7)
Total profit/(loss) after tax on sale/impairment of investments	**1.7**	**(4.3)**	**1.6**	**1.9**	**(2.6)**	**3.5**

Profit on sale/impairment of investments in FY11 was $3.5 million after tax, a $6.1 million improvement on FY10. FY10 incurred a $7.1 million impairment charge compared to $1.4 million in FY11.

3. Private equity proposal response costs

On 18 October 2010, the Company advised that it had received a takeover approach in the form of an indicative, incomplete, conditional, and non-binding proposal (Proposal) from the private equity firm Kohlberg, Kravis Roberts & Co. (KKR) to acquire all of the Company's shares via a scheme of arrangement at a price between $38.00 and $40.00 per share.

On 25 October 2010, the Company responded that after initial consideration of the Proposal, it had determined that the proposed price did not reflect the Company's value but that shareholders' interests would be best served by conducting exploratory discussions and providing limited financial information to KKR in order to establish if an offer that would deliver acceptable value was likely to be formulated.

On 21 December 2010, the Company announced that discussions with KKR had ended after mutually acceptable terms were unable to be developed in relation to the Proposal and as a result, KKR's Proposal would not be proceeding.

The Company incurred response costs totalling $4.4 million before tax ($3.1 million after tax) in relation to the Proposal. These costs are disclosed as a significant item outside UPAT as they were one-off and unrelated to the ongoing business of the Group.

4. Impairment of assets

Management conducted a review of the carrying value of assets at the end of 1H11 and 2H11.

Following a review of the smartsuper business in 1H11, the Group assessed the recoverable amount of the cash generating unit that comprises that business. As a result of this assessment, an impairment charge of $10.6 million after tax was recognised. The impairment loss was allocated to goodwill, reducing the goodwill included in the smartsuper business to zero.

In 2H11, as part of its ongoing portfolio review, the Group formed the view that the inclusion of smartsuper in its business portfolio was no longer warranted and initiated an active program to locate a buyer for the business. Accordingly, in 2H11 the business ceased to be carried as a non-current asset and was reclassified as a current asset held for sale. The impact of this decision to exit the smartsuper business gave rise to an additional impairment charge of $4.1 million.

Of the total $14.7 million of impairment charges incurred in FY11, $13.6 million relates to the impairment of intangible assets.

In August 2011, the smartsuper business was sold on terms in line with its revised carrying value. Proceeds from the sale were not material.

Management determined that no other impairment charges were required.

5. Restructuring costs

In 2H11, the Group commenced a business review with the objective of improving both revenue and profitability.

In FY11, restructuring costs totalling $9.1 million before tax ($6.4 million after tax) were incurred to implement these initiatives and were disclosed as a significant item outside UPAT. This restructuring expense was greater than the $4.7 million after tax restructuring expense foreshadowed by the Group in its 26 May 2011 announcement.

This increase of $1.7 million after tax in restructuring costs was in response to the decision to sell the smartsuper business and capacity adjustments in the Mortgage Services business in line with its operational environment, including the impact of a major bank client's decision to reduce the scope of their outsourced services and consolidate the remaining outsourced services with another provider.

The annualised net benefit before tax from the restructuring is expected to be around $9 million.

No restructuring costs were incurred in FY10.

Capital Management

The Group manages its capital and liquidity to sustain a strong and flexible balance sheet. It has adopted a conservative and prudent policy to ensure the Group:

- can efficiently support all of its businesses;
- retains sufficient surplus capital to provide for uncertainty and operational risk that resides within the businesses;
- can maintain adequate liquidity to ensure financial flexibility; and
- has capital resources to take advantage of inorganic growth opportunities as they arise.

The Group uses a risk-based capital model based on the Basel II framework to assess its capital requirements. The model, revised during the year, requires capital to be set aside for operational, credit and market risk and any known capital commitments. At the end of FY11 the total amount of economic capital assessed by the model exceeds the Group's $62.6 million of regulatory capital needs by around 2.1 times. At the end of FY11, total economic capital requirements were $133 million, compared to $242 million of available liquid funds.

The Group maintains a conservative balance sheet, which has continued to be de-risked following the difficult trading environment experienced in prior periods. During FY11, the Group has continued to execute a number of strategies to strengthen its balance sheet, including:

- implementing a more disciplined approach to funding incubation strategies. This has released around $7 million of capital;
- satisfying the DRP demand for the FY10 final dividend and FY11 interim dividend by issuing new shares to participants;
- maintaining a committed debt facility from its long-term banking partner for $70.0 million, drawn to $45.0 million. $25.0 million remains undrawn as at 26 August 2011;
- continuing to improve the overall credit quality and liquidity of the Group's risk assets and continuing to reduce exposure to structured products on the balance sheet; and
- focusing on ensuring strong discretionary expense discipline across each business unit and support group.

Interest rate risk

Perpetual's balance sheet is subject to interest rate risk.

The Group generates positive cash flows from operations from a relatively light capital structure. Cash balances are held in high quality credit and highly liquid investment funds managed by the Group. These investments generally invest in short-term assets and earn a variable interest rate.

Perpetual has both corporate and operational debt facilities. The corporate facility has a variable interest rate. As at 26 August 2011, there are no interest rate hedges against the drawn portion ($45.0 million) of this facility.

Operational debt facilities are used to finance clients into capital protected investment products. The facilities are a combination of fixed and variable rate borrowings used to finance a combination of fixed and variable structured product loans. To minimise interest rate risk between these fixed rate assets and variable rate liabilities, management uses interest rate swaps to broadly match fixed rate assets to floating rate liabilities.

Credit risk

Credit risk is the risk of default and change in the credit quality of issuers of securities, counterparties and intermediaries to whom the Group has exposure.

The Group is subject to credit risk in the following areas:

- all cash and cash equivalent balances are subject to credit risk as they represent deposits made by the Group with external banks and other institutions. The Group primarily invests its corporate cash balances in cash funds managed by the Group;
- the Group is exposed to the performance of assets held in the EMCF products through a swap agreement, where the Group pays a return based on the UBS Bank Bill Index and receives the return on the underlying portfolio, which contains credit and market risks; and
- the Group is exposed to credit risk on its loan assets to PPI customers. This risk is generally limited to 6% of the outstanding loan book for Series 1 and 2, and 7% of the outstanding loan book for Series 3 as the borrowings used to fund these loans are limited recourse in nature.

The Group limits the number of counterparties upon which it is willing to take credit risk. This can lead to concentrations of credit risk. The Group does not expect any counterparties to fail to meet their obligations beyond what has been provided for in the carrying value of those assets.

Equity risk

Equity risk is the risk of change in value of an issued equity security to which the Group has an exposure.

The Group is subject to equity risk from its investments in managed funds. These investments 'seed' new investment funds for the Group to develop a track record and examine the viability of the fund to the investment community. If the investment fund is successful, the fund is opened to third party investors.

Market risk

The Group's revenue is significantly dependent on FUM and FUA, which are influenced by equity market movements. Management calculates the expected impact on revenue, across all of its businesses, for each 1% movement in the All Ords. Based on the level of the All Ords at the end of FY11, a 1% movement in the market changes annualised revenue by approximately $2.0 million to $2.5 million. It is worth noting that this movement is not linear to the overall movement in the market. This means that as the market reaches higher or lower levels, a 1% movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity market and non-equity market-sensitive asset classes. Note that the above revenue sensitivity is a guide only and may vary due to a number of factors, including but not limited to:

- equity funds under the Group's management and advice performing broadly in line with the All Ords;
- the impact of FUM and FUA flows, both inflows and outflows, and their timing; and
- changes in channel, product mix and pricing policy possibly affecting the level of revenue earned from the Perpetual Investments and Private Wealth businesses.

Operational risk

Operational risk is the risk arising from the daily functioning of the Group's businesses. Operational risk is mitigated through internal controls, active management overview and regular reviews by Perpetual's independent Risk Group function.

Each business and support head is responsible for identifying risks within their businesses and ensuring they are appropriately managed. The Risk Group assists the business by providing the framework, tools, advice and assistance to enable the business to effectively identify, assess and manage risk.

The Board of Directors oversees the risk management within the business, ensuring it is within an accepted risk tolerance range, and that all organic and inorganic business initiatives are consistent with the Group's strategy and conducted ethically, responsibly and with the highest degree of integrity. The Board's oversight of risk management is assisted by the Audit Risk and Compliance Committee (ARCC).

The ARCC's main responsibilities are to oversee Group accounting policies and practices; the integrity of financial statements and reports; the scope, quality and independence of external audit arrangements; the monitoring of the internal audit function; the effectiveness of risk management policies; and the adequacy of insurance.

Financial strength

At end of		1H10	2H10	1H11	2H11	FY10	FY11
Total equity	$m	347.5	361.0	371.8	376.1	361.0	376.1
Cash	$m	179.0	187.5	175.3	220.3	187.5	220.3
Corporate debt	$m	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)
Net cash	$m	134.0	142.5	130.3	175.3	142.5	175.3
Corporate debt to capital ratio (corporate debt/(corporate debt + equity)) [1]	%	11.5	11.1	10.8	10.7	11.1	10.7
Interest coverage calculation (EBITDA/interest expense) [2] for the period ended	times	63x	48x	48x	33x	54x	40x
Net tangible assets per share	$	3.80[3]	3.95	4.56	4.50	3.95	4.50

(1) Excludes structured product debt, which is operational debt used to fund PPI loans.
(2) EBITDA represents earnings before interest, taxation, depreciation, amortisation of intangible assets, equity remuneration expense and significant items.
(3) Net tangible assets per share of $3.80 at end of 1H10 includes an adjustment to reflect the purchase of Fordham, which was completed in 2H10.

At the end of FY11, Perpetual's gross corporate debt was $45.0 million. The Group's gearing ratio (corporate debt to capital ratio) remains low at 10.7% and is well within its stated risk appetite limit of 30%. FY11 interest coverage at 40 times was well in excess of financial covenant requirements. FY11 interest expense included a fair value discount unwind of $1.2 million in relation to deferred acquisition consideration (FY10: $0.8 million). Financial covenants under the debt facilities include minimum shareholders' funds, leverage and interest coverage ratios and caps on operational debt. At the end of FY11, the Group was in compliance with all of its debt covenants.

At the end of FY11, the Group has a committed bank corporate debt facility of $70.0 million. At 26 August 2011, $45.0 million was drawn under this facility.

Corporate debt is currently sourced solely from one long-term banking relationship with a domestic bank. The facility has greater than 12 months to expiry.

The Group actively manages liquidity risk by preparing cash flow forecasts for future periods, reviewing them regularly with senior management, maintaining a committed credit facility and engaging regularly with its debt providers.

Net tangible assets per share increased from $3.95 at the end of FY10 to $4.50 at the end of FY11.

Cash flow

For the period ended	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Net cash from operating activities	65.6	87.0	25.1	89.4	152.6	114.5
Net cash provided by/(used in) investing activities	(9.5)	(38.8)	0.9	(16.9)	(48.3)	(16.0)
Net cash used in financing activities	(23.3)	(39.6)	(38.2)	(27.5)	(62.9)	(65.7)
Net increase/(decrease) in cash and cash equivalents	**32.8**	**8.6**	**(12.2)**	**45.0**	**41.4**	**32.8**

FY11 operating cash flows of $114.5 million, versus $152.6 million in FY10, represent the underlying cash flows from the operating businesses, including significant items. Operating cash flows decreased in FY11 by around $38 million compared to FY10 primarily due to:

- a $15 million decrease in revenue from the recovery of EMCF losses and
- $13 million in restructuring, private equity proposal response costs, increase in registry fees and CEO transition costs.

Cash flows used in investing activities include seed fund investments, capital expenditure within the Group, mainly on software, and the acquisition of new businesses such as Grosvenor in 1H10 and Fordham in 2H10. In FY11 $9.7 million was paid to the selling stakeholders of two Private Wealth

acquisitions as certain predetermined targets were achieved. No additional businesses were acquired in FY11, resulting in a decrease of $32.3 million in net cash used in investing activities compared to FY10.

Cash used in financing activities principally relates to the payment of the Group's dividends and share transactions involving cash. Cash flow analysis captures the dividend in the reporting period in which it is paid, not the period in which the profit was earned. Cash used in financing activities increased by $2.8 million to $65.7 million in FY11 in comparison to FY10. This was principally driven by an increase of $12.2 million in cash dividends paid during FY11 compared to FY10 in response to the improved financial performance of the Group in FY10 versus FY09, offset by a $8.1 million inflow from the sale of seed funds to other investors.

Summary Consolidated Balance Sheet

At end of	1H10 (1) $m	FY010 (1) $m	1H11 (1) $m	FY11 (1) $m
Assets				
Cash and cash equivalents	179.0	187.5	175.3	220.3
Liquid investments	47.6	49.9	56.8	53.7
Assets held for sale	-	-	-	0.8
Structured products – PPI loans to customers	199.4	188.8	160.1	151.1
Goodwill and other intangibles	104.4	134.9	122.3	117.6
Software intangibles	27.4	28.6	30.2	30.7
Other assets	145.1	160.8	152.5	143.5
Total assets	**702.9**	**750.5**	**697.2**	**717.7**
Liabilities				
Corporate loan facility	45.0	45.0	45.0	45.0
Liabilities held for sale	-	-	-	0.9
Structured products – PPI finance facilities	202.7	189.6	162.8	151.5
Other liabilities	107.7	154.9	117.6	144.2
Total liabilities	**355.4**	**389.5**	**325.4**	**341.6**
Net assets	**347.5**	**361.0**	**371.8**	**376.1**
Shareholder funds				
Contributed equity	199.0	206.0	224.3	245.1
Reserves	49.6	56.9	53.5	44.2
Retained earnings	97.8	96.5	88.7	76.7
Total shareholder funds	**346.4**	**359.4**	**366.5**	**366.0**
Non-controlling interest	1.1	1.6	5.3	10.1
Total equity	**347.5**	**361.0**	**371.8**	**376.1**

(1) Note: excludes the offsetting asset and liability for the EMCF structured product. At 1H10 the EMCF asset was $1,285.3 million, with the liability being $1,281.2 million. At FY10, the EMCF asset was $1,191.1 million, with the liability being $1,190.3 million. At 1H11 the EMCF asset was $1,020.0 million, with the liability being $1,018.9 million. At FY11 the EMCF asset was $899.1 million, with the liability being $896.4 million. The net asset of $4.1 million at 1H10, $0.8 million at FY10, $1.1 million at 1H11 and $2.7 million at FY11 has been included with Other assets.

Cash and cash equivalents increased during FY11 due to operating cash flows exceeding cash used in investing and financing activities. No new acquisitions were completed in FY11.

Liquid investments increased due to the combination of the rise in equity markets and an increase in investment by minority interests in funds controlled by the Group.

Structured product loans to customers declined in FY11 due to loan repayments from customers. This, in turn, has reduced the PPI finance facility liability by a similar amount.

Goodwill and other intangibles have decreased during FY11, primarily due to the impairment charge of $10.6 million and the reclassification of $3.0 million of other intangibles to assets held for sale in relation to smartsuper (which in turn was written down to its realisable value). Other intangibles are amortised over their useful life.

The expected amortisation for the next four financial years of existing identifiable intangible assets that have arisen in recent acquisitions is as follows:

	FY12 $m	FY13 $m	FY14 $m	FY15 $m
Amortisation of identifiable intangibles (1)	2.4	1.8	1.8	1.7

(1) Based on $14.7m net book value at end of FY11.

As the Group continues to acquire businesses in line with its strategic goals, the level of identifiable intangible assets carried on the balance sheet is likely to increase, which in turn will increase the amortisation of identifiable intangible assets.

Contributed equity increased during FY11 due to shares being issued under the DRP on the FY10 final dividend and the FY11 interim dividend and the vesting of shares under employee share plans.

The non-controlling interest comprises third party interests in consolidated funds managed by the Group.

Events subsequent to balance date

On 15 August 2011, the Company announced the following:

- the closure of its Dublin-based in-house manufacturing capability for the international equity asset class, and
- the sale of the smartsuper business.

International Share funds

In line with its stated intention to redefine its approach to the international equity asset class, Perpetual reviewed its Dublin-based international investment capabilities, taking into account market demand, profitability and alignment to strategy.

Perpetual remains strongly committed to the asset class and to delivering international investment management capabilities to the Australian market. However, it determined that its current manufacturing capability for this asset class would not meet its business expectations.

The outcome of this review has been the decision to close, effective 15 August 2011, the Dublin-based in-house manufacturing capability of Perpetual's International Share funds product and to transfer the funds management to Boston-based investment manager Wellington Management Company, LLP (Wellington Management). Perpetual Investment Management Limited, a wholly owned subsidiary of Perpetual, will remain as the responsible entity for the product.

The strategy employed by Wellington Management shares a similar investment philosophy with Perpetual, has delivered consistent active returns for its investors over a number of years and enjoys strong investment ratings from asset consultants and research houses.

The transfer of funds management to Wellington Management is expected to generate around $7 million in after tax annualised savings, based on the current level of funds under management. FY12 net savings are estimated to be $4 million after tax due to the timing of the closure of the Dublin office.

The closure will result in a $10 million after tax restructuring charge in the FY12 financial year.

Perpetual believes that this decision should deliver benefits to investors in its International Share funds, both current and potential, and that it constitutes a positive outcome for its shareholders.

Sale of smartsuper

In August 2011, the smartsuper business was sold on terms in line with its revised carrying value. Proceeds from the sale were not material.

Off-market Buy-Back

On 26 August 2011 the Company announced its intention to return up to approximately $70 million of surplus capital to shareholders through an off-market buy-back tender process.

Appendix A: Segment results

For the period ended	Operating revenue						EBITDA (1)						Profit before/after tax					
	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m	1H10 $m	2H10 $m	1H11 $m	2H11 $m	FY10 $m	FY11 $m
Perpetual Investments	111.5	116.2	112.8	112.2	227.7	225.0	49.4	50.3	47.6	46.4	99.7	94.0	34.5	34.3	38.1	35.2	68.8	73.3
Private Wealth	41.8	59.0	56.9	59.3	100.8	116.2	9.1	14.3	11.8	10.0	23.4	21.8	6.4	11.0	7.7	5.6	17.4	13.3
Corporate Trust	41.6	45.9	52.3	44.9	87.5	97.2	15.8	13.2	16.9	12.2	29.0	29.1	13.8	11.3	15.3	10.0	25.1	25.3
Group Support Services	5.2	5.1	5.1	5.2	10.3	10.3	1.2	(1.3)	0.2	(1.9)	(0.1)	(1.7)	(0.7)	(2.9)	(2.0)	(4.5)	(3.6)	(6.5)
Underlying profit before tax and significant items	200.1	226.2	227.1	221.6	426.3	448.7	75.5	76.5	76.5	66.7	152.0	143.2	54.0	53.7	59.1	46.3	107.7	105.4
Income tax expense													(17.6)	(17.3)	(18.1)	(14.4)	(34.9)	(32.5)
Underlying profit after tax (UPAT)(2) before significant items													**36.4**	**36.4**	**41.0**	**31.9**	**72.8**	**72.9**
Significant items:																		
› EMCF gains													11.1	9.2	6.0	3.8	20.3	9.8
› Gain/(loss) on sale/impairment of investments													1.7	(4.3)	1.6	1.9	(2.6)	3.5
› Private equity proposal response costs													-	-	(3.0)	(0.1)	-	(3.1)
› Impairment of intangible assets													-	-	(10.6)	(4.1)		(14.7)
› Restructuring expenses													-	-	-	(6.4)		(6.4)
Net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders													**49.2**	**41.3**	**35.0**	**27.0**	**90.5**	**62.0**

(1) EBITDA represents earnings before interest, taxation, depreciation, amortisation of intangible assets, equity remuneration expense and significant items.

(2) Underlying profit after tax (UPAT) excludes certain items that are either significant by virtue of their size and impact on net profit after tax, or are 'one-off' in nature. UPAT has been calculated in accordance with the guidelines issued by the AICD and Finsia.

Analysis of segment results

	1H11					2H11					FY11				
	Perpetual Investments $m	Private Wealth $m	Corporate Trust $m	Group Support Services $m	Total $m	Perpetual Investments $m	Private Wealth $m	Corporate Trust $m	Group Support Services $m	Total $m	Perpetual Investments $m	Private Wealth $m	Corporate Trust $m	Group Support Services $m	Total $m
Operating revenue	112.8	56.9	52.3	5.1	227.1	112.2	59.3	44.9	5.2	221.6	225.0	116.2	97.2	10.3	448.7
Operating expenses	(65.2)	(45.1)	(35.4)	(4.9)	(150.6)	(65.8)	(49.3)	(32.7)	(7.1)	(154.9)	(131.0)	(94.4)	(68.1)	(12.0)	(305.5)
EBITDA	**47.6**	**11.8**	**16.9**	**0.2**	**76.5**	**46.4**	**10.0**	**12.2**	**(1.9)**	**66.7**	**94.0**	**21.8**	**29.1**	**(1.7)**	**143.2**
Depreciation & amortisation	(2.7)	(3.0)	(1.3)	(0.4)	(7.4)	(2.7)	(3.3)	(1.9)	(0.4)	(8.3)	(5.4)	(6.3)	(3.2)	(0.8)	(15.7)
Equity remuneration	(6.8)	(1.1)	(0.3)	(0.2)	(8.4)	(8.5)	(1.1)	(0.3)	(0.2)	(10.1)	(15.3)	(2.2)	(0.6)	(0.4)	(18.5)
EBIT	**38.1**	**7.7**	**15.3**	**(0.4)**	**60.7**	**35.2**	**5.6**	**10.0**	**(2.5)**	**48.3**	**73.3**	**13.3**	**25.3**	**(2.9)**	**109.0**
Interest expense	-	-	-	(1.6)	(1.6)	-	-	-	(2.0)	(2.0)	-	-	-	(3.6)	(3.6)
UPBT	**38.1**	**7.7**	**15.3**	**(2.0)**	**59.1**	**35.2**	**5.6**	**10.0**	**(4.5)**	**46.3**	**73.3**	**13.3**	**25.3**	**(6.5)**	**105.4**

	1H10					2H10					FY10				
	Perpetual Investments $m	Private Wealth $m	Corporate Trust $m	Group Support Services $m	Total $m	Perpetual Investments $m	Private Wealth $m	Corporate Trust $m	Group Support Services $m	Total $m	Perpetual Investments $m	Private Wealth $m	Corporate Trust $m	Group Support Services $m	Total $m
Operating revenue	111.5	41.8	41.6	5.2	200.1	116.2	59.0	45.9	5.1	226.2	227.7	100.8	87.5	10.3	426.3
Operating expenses	(62.1)	(32.7)	(25.8)	(4.0)	(124.6)	(65.9)	(44.7)	(32.7)	(6.4)	(149.7)	(128.0)	(77.4)	(58.5)	(10.4)	(274.3)
EBITDA	**49.4**	**9.1**	**15.8**	**1.2**	**75.5**	**50.3**	**14.3**	**13.2**	**(1.3)**	**76.5**	**99.7**	**23.4**	**29.0**	**(0.1)**	**152.0**
Depreciation & amortisation	(3.1)	(1.7)	(1.8)	(0.4)	(7.0)	(2.8)	(2.9)	(1.8)	(0.2)	(7.7)	(5.9)	(4.6)	(3.6)	(0.6)	(14.7)
Equity remuneration	(11.8)	(1.0)	(0.2)	(0.3)	(13.3)	(13.2)	(0.4)	(0.1)	0.2	(13.5)	(25.0)	(1.4)	(0.3)	(0.1)	(26.8)
EBIT	**34.5**	**6.4**	**13.8**	**0.5**	**55.2**	**34.3**	**11.0**	**11.3**	**(1.3)**	**55.3**	**68.8**	**17.4**	**25.1**	**(0.8)**	**110.5**
Interest expense	-	-	-	(1.2)	(1.2)	-	-	-	(1.6)	(1.6)	-	-	-	(2.8)	(2.8)
UPBT	**34.5**	**6.4**	**13.8**	**(0.7)**	**54.0**	**34.3**	**11.0**	**11.3**	**(2.9)**	**53.7**	**68.8**	**17.4**	**25.1**	**(3.6)**	**107.7**

Appendix B: Business segment reclassification table

Original disclosure

	Perpetual Investments				Private Wealth				Corporate Trust				Group Support Services				Total			
	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total Revenue	105.9	111.0	216.9	112.8	47.4	64.2	111.6	56.9	41.6	45.9	87.5	52.3	5.2	5.1	10.3	5.1	200.1	226.2	426.3	227.1
Operating Expenses	(54.4)	(60.1)	(114.5)	(60.7)	(30.6)	(43.3)	(73.9)	(41.7)	(22.2)	(29.7)	(51.9)	(32.2)	(17.4)	(16.6)	(34.0)	(16.0)	(124.6)	(149.7)	(274.3)	(150.6)
Amortisation & Depreciation	(2.9)	(2.4)	(5.3)	(2.6)	(1.4)	(2.5)	(3.9)	(2.6)	(1.5)	(1.6)	(3.1)	(1.0)	(1.2)	(1.2)	(2.4)	(1.2)	(7.0)	(7.7)	(14.7)	(7.4)
Equity Remuneration Amortisation	(11.7)	(13.3)	(25.0)	(6.6)	(0.9)	(0.3)	(1.2)	(1.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.6)	0.2	(0.4)	(0.6)	(13.3)	(13.5)	(26.8)	(8.4)
Interest Operating Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.2)	(1.6)	(2.8)	(1.6)	(1.2)	(1.6)	(2.8)	(1.6)
Total Expenses	(69.0)	(75.8)	(144.8)	(69.9)	(32.9)	(46.1)	(79.0)	(45.3)	(23.8)	(31.4)	(55.2)	(33.4)	(20.4)	(19.2)	(39.6)	(19.4)	(146.1)	(172.5)	(318.6)	(168.0)
Underlying Profit Before Tax	36.9	35.2	72.1	42.9	14.5	18.1	32.6	11.6	17.8	14.5	32.3	18.9	(15.2)	(14.1)	(29.3)	(14.3)	54.0	53.7	107.7	59.1

Direct Channel reclassification

	Perpetual Investments				Private Wealth				Total			
	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total Revenue	5.6	5.2	10.8	0.0	(5.6)	(5.2)	(10.8)	0.0	0.0	0.0	0.0	0.0
Operating Expenses	(1.8)	(1.6)	(3.4)	0.0	1.8	1.6	3.4	0.0	0.0	0.0	0.0	0.0
Underlying Profit Before Tax	3.8	3.6	7.4	0.0	(3.8)	(3.6)	(7.4)	0.0	0.0	0.0	0.0	0.0

Support Services Allocations

	Perpetual Investments				Private Wealth				Corporate Trust				Group Support Services				Total			
	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Operating Expenses	(5.9)	(4.2)	(10.1)	(4.5)	(3.9)	(3.0)	(6.9)	(3.4)	(3.6)	(3.0)	(6.6)	(3.2)	13.4	10.2	23.6	11.1	0.0	0.0	0.0	0.0
Amortisation & Depreciation	(0.2)	(0.4)	(0.6)	(0.1)	(0.3)	(0.4)	(0.7)	(0.4)	(0.3)	(0.2)	(0.5)	(0.3)	0.8	1.0	1.8	0.8	0.0	0.0	0.0	0.0
Equity Remuneration Amortisation	(0.1)	0.1	0.0	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	0.0	(0.1)	(0.1)	0.3	0.0	0.3	0.4	0.0	0.0	0.0	0.0
	(6.2)	(4.5)	(10.7)	(4.8)	(4.3)	(3.5)	(7.8)	(3.9)	(4.0)	(3.2)	(7.2)	(3.6)	14.5	11.2	25.7	12.3	0.0	0.0	0.0	0.0

Revised disclosure

	Perpetual Investments				Private Wealth				Corporate Trust				Group Support Services				Total			
	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11	1H10	2H10	FY10	1H11
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total Revenue	111.5	116.2	227.7	112.8	41.8	59.0	100.8	56.9	41.6	45.9	87.5	52.3	5.2	5.1	10.3	5.1	200.1	226.2	426.3	227.1
Operating Expenses	(62.1)	(65.9)	(128.0)	(65.2)	(32.7)	(44.7)	(77.4)	(45.1)	(25.8)	(32.7)	(58.5)	(35.4)	(4.0)	(6.4)	(10.4)	(4.9)	(124.6)	(149.7)	(274.3)	(150.6)
Amortisation & Depreciation	(3.1)	(2.8)	(5.9)	(2.7)	(1.7)	(2.9)	(4.6)	(3.0)	(1.8)	(1.8)	(3.6)	(1.3)	(0.4)	(0.2)	(0.6)	(0.4)	(7.0)	(7.7)	(14.7)	(7.4)
Equity Remuneration Amortisation	(11.8)	(13.2)	(25.0)	(6.8)	(1.0)	(0.4)	(1.4)	(1.1)	(0.2)	(0.1)	(0.3)	(0.3)	(0.3)	0.2	(0.1)	(0.2)	(13.3)	(13.5)	(26.8)	(8.4)
Interest Operating Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.2)	(1.6)	(2.8)	(1.6)	(1.2)	(1.6)	(2.8)	(1.6)
Total Expenses	(77.0)	(81.9)	(158.9)	(74.7)	(35.4)	(48.0)	(83.4)	(49.2)	(27.8)	(34.6)	(62.4)	(37.0)	(5.9)	(8.0)	(13.9)	(7.1)	(146.1)	(172.5)	(318.6)	(168.0)
Underlying Profit Before Tax	34.5	34.3	68.8	38.1	6.4	11.0	17.4	7.7	13.8	11.3	25.1	15.3	(0.7)	(2.9)	(3.6)	(2.0)	54.0	53.7	107.7	59.1

Appendix C: Average FUM

Average FUM	1H09 $b	2H09 $b	1H10 $b	2H10 $b	1H11 $b	2H11 $b	FY10 $b	FY11 $b	% change
Australian equities	16.9	13.8	17.8	18.7	18.9	19.8	18.3	19.4	+6%
Global equities	1.2	1.1	1.3	1.3	1.1	1.0	1.3	1.0	-23%
Quantitative investments	1.2	1.0	0.9	0.4	0.1	0.0	0.6	0.1	-83%
Equities	**19.3**	**15.9**	**20.0**	**20.4**	**20.1**	**20.8**	**20.2**	**20.5**	**1%**
Cash and fixed interest	7.9	7.6	7.3	6.8	6.2	6.0	7.0	6.1	-13%
Other	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2	0
Total	**28.4**	**24.6**	**28.4**	**28.4**	**27.5**	**28.0**	**28.4**	**27.8**	**-2%**

Appendix D: Recent ASX announcements

Full text of these announcements can be found at:
http://shareholders.perpetual.com.au/phoenix.zhtml?c=171717&p=irol-news&nyo=0

23 July 2010	Peter Scott to succeed Bob Savage as Perpetual Chairman
29 July 2010	Funds under Management as at 30 June 2010
17 August 2010	Funds under Management as at 31 July 2010
24 August 2010	Preliminary Final Report (Appendix 4E) for the year ended 30 June 2010 Media release – Perpetual delivers solid increase in full year profit and dividend MD&A to 30 June 2010 Financial Statements for the year ended 30 June 2010 Directors' Report to 30 June 2010 Market briefing presentation – Full year results for the year ended 30 June 2010
15 September 2010	Funds under Management as at 31 August 2010
20 September 2010	2010 Annual Report
22 September 2010	Dividend Reinvestment Plan 2010 Final Dividend Notice of Annual General Meeting / Proxy Form
18 October 2010	Notification of approach
21 October 2010	Funds under Management as at 30 September 2010
25 October 2010	Response to approach
26 October 2010	Annual General Meeting media release Annual General Meeting addresses by Chairman, CEO and Chairman Elect Results of Annual General Meeting
27 October 2010	Letter to shareholders – KKR approach
16 November 2010	Funds under Management as at 31 October 2010
15 December 2010	Funds under Management as at 30 November 2010
20 December 2010	Discussions ended
22 December 2010	Letter to shareholders – Perpetual and KKR end discussions
23 December 2010	Policy re trading in Perpetual securities by directors and employees
11 January 2011	Appointment of new Managing Director and CEO
20 January 2011	Funds under Management as at 31 December 2010
11 February 2011	Funds under management as at 31 January 2011
15 February 2011	Market update

11 January 2011	Appointment of new Managing Director and CEO
20 January 2011	Funds under Management at 31 December 2010
11 February 2011	Funds under Management at 31 January 2011
23 February 2011	Preliminary Final Report (Appendix 4D) for the period ended 31 December 2010 Media release – Perpetual reports 13% increase in Underlying Profit After Tax / Chris Ryan takes over from David Deverall as CEO & MD MD&A to 31 December 2010 Financial Statements for the half year ended 31 December 2010 Market briefing presentation – Half year results for the six months ended 31 December 2010
16 March 2011	Funds under Management at 28 February 2011
24 March 2011	Dividend Reinvestment Plan 2011 Interim Dividend
19 April 2011	Funds under Management at 31 March 2011
17 May 2011	Funds under Management at 30 April 2011
26 May 2011	Perpetual announces first series of initiatives targeting improved focus and performance Market briefing presentation
1 June 2011	Shareholder update from the Chief Executive Officer
15 June 2011	Funds under Management at 31 May 2011
28 June 2011	Response to ASX price query
27 July 2011	Funds under Management at 30 June 2011
15 August 2011	Market Update
17 August 2011	Reclassification of financial disclosure

Glossary

1H09	Six months ended 31 December 2008	2H09	Six months ended 30 June 2009
1H10	Six months ended 31 December 2009	2H10	Six months ended 30 June 2010
1H11	Six months ended 31 December 2010	2H11	Six months ended 30 June 2011
ABS	Asset backed securities	AICD	Australian Institute of Company Directors
AOFM	Australian Office of Financial Management	APRA	Australian Prudential Regulation Authority
ARCC	Audit Risk and Compliance Committee	ASX	Australian Securities Exchange
b	Billion	bps	Basis point (0.01 of 1%)
CMBS	Commercial mortgage backed securities	DPS	Dividend(s) per share
DRP	Dividend Reinvestment Plan	EBITDA	Earnings before tax, depreciation and amortisation of intangible assets, equity remuneration expense and significant items
EMCF	Perpetual Exact Market Cash Fund	EPS	Earnings per share
Finsia	Financial Services Institute of Australasia	FUA	Funds under advice or funds under administration
FUM	Funds under management	FY09	12 months ended 30 June 2009
FY10	12 months ended 30 June 2010	FY11	12 months ended 30 June 2011
FY12	12 months ended 30 June 2012	Group	Perpetual Limited and its controlled entities (the consolidated entity) and the consolidated entity's interests in associates
GFC	Global Financial Crisis	LTI	Long-term incentive
m	Million	NPAT	Net profit after tax
PLMS	Perpetual Lenders Mortgage Services	PPI	Perpetual Protected Investments
RBA	Reserve Bank of Australia	RMBS	Residential mortgage backed securities
ROE	Return on equity	SMSF	Self managed superannuation fund
UPAT	Underlying profit after tax	US	United States of America