

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for the 12 months ended 30 June 2010

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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 global economic performance, stability of financial markets and government policy.

The following is a discussion and analysis of our results of operations for the twelve months ended 30 June 2010 (FY10). It also includes a discussion of our financial condition as at 30 June 2010.

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for the financial year ended 30 June 2010.

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

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.

Overview

The macro-economic conditions in the 2010 financial year improved significantly over the previous year, which underpinned stronger equity and credit markets. Perpetual was able to improve its operating leverage to the markets by preserving the benefits of the cost savings initiatives undertaken in 2009 financial year. This ensured the more positive market environment had a beneficial impact on the Group's financial results. However, investor sentiment remained cautious throughout the year, particularly in the final quarter of the financial year, when markets were volatile.

Net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders was \$90.5m for the year ended 30 June 2010 (FY10), up 140% compared to \$37.7m for the year ended 30 June 2009 (FY09). The improvement in NPAT was mainly attributable to:

- the increase in operating revenue in line with improved equity and credit markets;
- cost management, offset by targeted investment in business initiatives;
- the recovery of prior period losses in relation to the Exact Market Cash Fund (EMCF); and
- the absence of any material restructuring expenses.

A final FY10 fully franked dividend of 105 cents per share was declared, payable on 28 September 2010 and bringing total fully franked dividends in respect of FY10 to 210 cents per share, up 110 cents per share or 110% on FY09.

FY10 underlying profit after tax (UPAT) was \$72.8m, an 11% improvement on FY09. This progress was the result of the Group maintaining much of the fixed cost saving initiatives implemented in FY09 and increased operating revenues.

The Group's financial strength improved in FY10, with net tangible assets per share increasing by 13% to \$3.95 compared to \$3.51 at the end of FY09. At the end of FY10, the Group increased its holdings of cash, cash equivalents and liquid investments by 30% to \$237.4m, compared to \$182.8m at the end of FY09.

Segment results summary

| For the period ended | Operating Revenue | | EBITDA ⁽¹⁾ | | Profit before/ after tax | |
|--|-------------------|-------------|-----------------------|-------------|-----------------------------|-------------|
| | FY09 \$m | FY10 \$m | FY09 \$m | FY10 \$m | FY09 \$m | FY10 \$m |
| Perpetual Investments | 203.0 | 216.9 | 84.9 | 102.4 | 59.0 | 72.1 |
| Private Wealth | 85.7 | 111.6 | 33.5 | 37.7 | 29.1 | 32.6 |
| Corporate Trust | 80.3 | 87.5 | 39.6 | 35.6 | 36.1 | 32.3 |
| Group & Support Services | 6.1 | 10.3 | (22.3) | (23.7) | (26.0) | (29.3) |
| Totals before tax and significant items | 375.1 | 426.3 | 135.7 | 152.0 | 98.2 | 107.7 |
| Income tax expense | | | | | (32.5) | (34.9) |
| Underlying profit after tax (UPAT)⁽²⁾ before significant items | | | | | 65.7 | 72.8 |
| Significant items after tax: | | | | | | |
| › EMCF gains/(losses) | | | | | (13.8) | 20.3 |
| › Gain/(loss) on sale/impairment of investments | | | | | (6.1) | (2.6) |
| › Restructuring costs | | | | | (8.1) | - |
| Net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders | | | | | 37.7 | 90.5 |

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

¹ The Group's DRP Rules can be found at [http://shareholders.perpetual.com.au/Shareholder services/Dividend Reinvestment Plan](http://shareholders.perpetual.com.au/Shareholder%20services/Dividend%20Reinvestment%20Plan).

(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 the six months ended 30 June 2010 (2H10) compared to the six months ended 30 June 2009 (2H09), and the six months ended 31 December 2009 (1H10); and FY10 compared to FY09.

| Change in Underlying Profit Before Tax | 2H10 v 2H09 | 2H10 v 2H09 | 2H10 v 1H10 | 2H10 v 1H10 | FY10 v FY09 | FY10 v FY09 |
|--|-------------|-------------|--------------|-------------|-------------|-------------|
| | \$m | % change | \$m | % change | \$m | % change |
| Perpetual Investments | 11.9 | +51% | (1.7) | -5% | 13.1 | +22% |
| Private Wealth | 6.4 | +55% | 3.6 | +25% | 3.5 | +12% |
| Corporate Trust | (1.6) | -10% | (3.3) | -19% | (3.8) | -11% |
| Group & Support Services | 0.9 | +6% | 1.1 | +7% | (3.3) | -13% |
| Total | 17.6 | +49% | (0.3) | -1% | 9.5 | +10% |

From the above table, the Group's operating leverage to Australian equity market performance is apparent. The 49% improvement in the Group's 2H10 underlying profit before tax compared to 2H09 was mainly driven by improved equity market performance. Underlying performance in FY10 improved by around 10% compared to FY09, whilst performance between 1H10 and 2H10 was broadly unchanged.

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 27% of the Group's revenues are charged on a per transaction or time basis, however, this is expected to change over time as the Group expands its fee for service activities in Private Wealth and Corporate Trust.

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.

Movements in key revenue drivers and operating environment

| At end of | FY08 | FY09 | Net flows | Other | FY10 | FY10 v FY08 | FY10 v FY09 |
|--|-------|-------|-----------|-------|-------|-------------|-------------|
| | \$b | \$b | \$b | \$b | \$b | % variance | % variance |
| Perpetual Investments FUM (including Direct) | 30.3 | 26.2 | (1.9) | 2.6 | 26.9 | -11% | +3% |
| Private Wealth FUA | 7.7 | 6.8 | - | 1.5 | 8.3 | +8% | +22% |
| Corporate Trust FUA | 222.9 | 241.4 | (30.9) | - | 210.5 | -6% | -13% |

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 FY10, Perpetual Investments' FUM and Private Wealth's FUA was around 75% and 55% exposed to domestic and international equity markets, respectively.

The key asset classes managed by the Group are equities and cash and fixed interest. Average Group FUM increased by 7% in FY10 due to improving equity markets in the first three quarters of the year. However, the year-on-year increase in Group FUM for FY10 was limited to 3% as a result of the sharp decline in markets in the last quarter of the year.

In FY10, there was \$1.9b of net outflows in Perpetual Investments, composed as follows:

- the equities asset class experienced an aggregate \$0.4b of net outflow - a net \$0.3b improvement on FY09. Whilst aggregate flow in equities was negative, our higher fee earning actively managed equity strategies enjoyed net inflows of \$0.6b in FY10 compared to \$0.6b of net outflows in FY09.

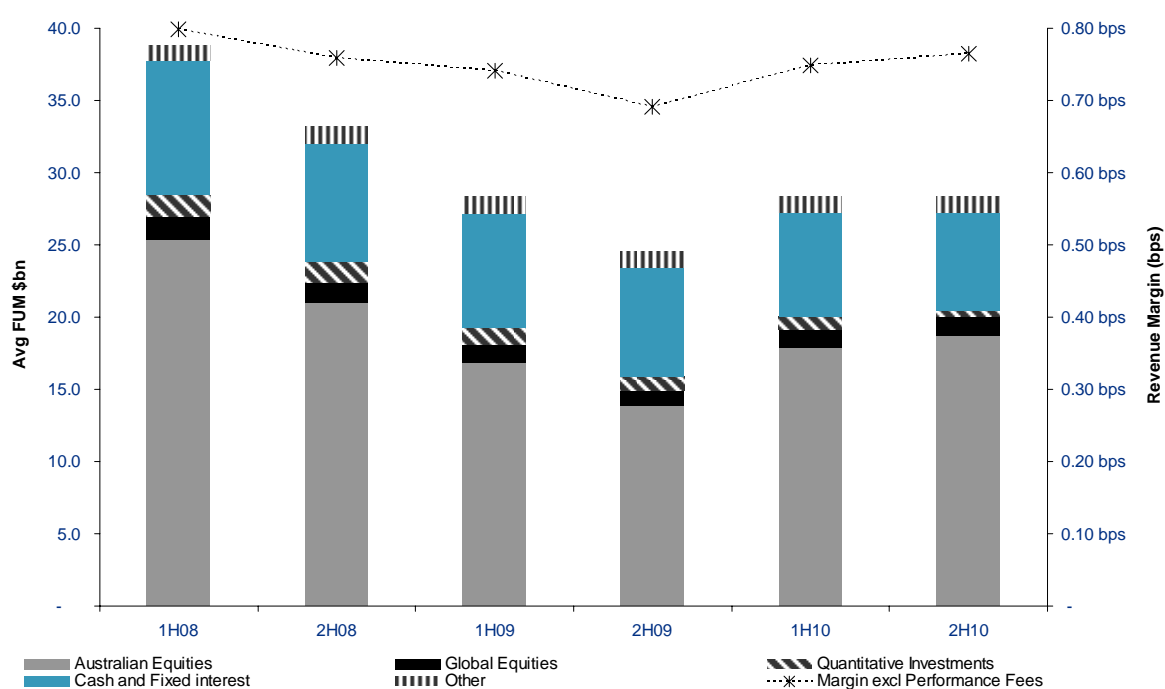
Quantitative investment strategies, which typically earn a lower fee, had net outflow of around \$1.0b in FY10 compared to \$0.1b of net outflow in FY09;

- the cash and fixed interest asset class experienced net outflows of around \$1.4b, versus \$100m of net inflow in FY09, as investors sought exposure to other investment strategies; and
- a \$0.1b reduction in investment assets backing Perpetual Protected Investments (PPI) in response to loan repayments by investors.

Private Wealth FUA increased by 22% over FY10, driven by a combination of improved equity and credit markets and two acquisitions: Grosvenor Financial Services and Fordham Business Advisors.

Corporate Trust FUA decreased by 13% over FY10 in response to the lower levels of RMBS issuance by the industry during the year when compared to levels prior to the Global Financial Crisis (“GFC”) and increased run off rates, in excess of historical levels. The Group continued to grow its mortgage services business in FY10 with volumes doubling compared to FY09.

The following chart shows the Group’s average FUM and revenue margin over the last three years:



| Average Group FUM | 1H08 \$b | 2H08 \$b | 1H09 \$b | 2H09 \$b | 1H10 \$b | 2H10 \$b | FY09 \$b | FY10 \$b |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Perpetual Investments | 36.9 | 31.3 | 26.8 | 23.2 | 26.8 | 26.8 | 25.0 | 26.8 |
| Private Wealth | 1.9 | 1.9 | 1.6 | 1.4 | 1.6 | 1.6 | 1.5 | 1.6 |
| Total Average FUM | 38.8 | 33.2 | 28.4 | 24.6 | 28.4 | 28.4 | 26.5 | 28.4 |
| Average FUM revenue margin | 82 bps | 82 bps | 74 bps | 77 bps | 75 bps | 78 bps | 75 bps | 76 bps |
| Average FUM revenue margin excluding performance fees | 80 bps | 76 bps | 74 bps | 69 bps | 75 bps | 76 bps | 72 bps | 76 bps |

The Group reports the majority of the above FUM-related revenue in the Perpetual Investments business segment. In addition, revenue attributable to the Group’s retail customers who invest directly in Perpetual Investments’ range of products is reported as part of Private Wealth’s revenue.

The Group’s main source of revenue is from its funds under management. Average FUM revenue margin for FY10 was broadly in line with FY09 at 76 and 75 bps respectively. Excluding the impact of performance fees, the Group’s average FUM revenue margin increased by 4 bps to 76 bps in FY10 from 72 bps in FY09.

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 FY10, a 1% movement in the market changes annualised revenue by approximately \$2.0m to \$2.5m. 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 market-sensitive asset classes.

Operating environment

FY10 has been characterised by a recovery in the global economy and the financial markets since the equity market low point of March 2009.

After a sharp contraction in demand during the latter part of 2008 and early 2009, the global economy started to stabilise and resume growth in response to the substantial economic stimulus provided by governments around the world. Growth has been led by the emerging world, particularly China, impacting other economies in the region and commodity markets. Economic expansion in major established economies has been more modest due to a more prolonged impact of the GFC.

During FY10, the functioning of global financial markets improved, allowing a gradual winding back of the extraordinary support from many governments and central banks around the world.

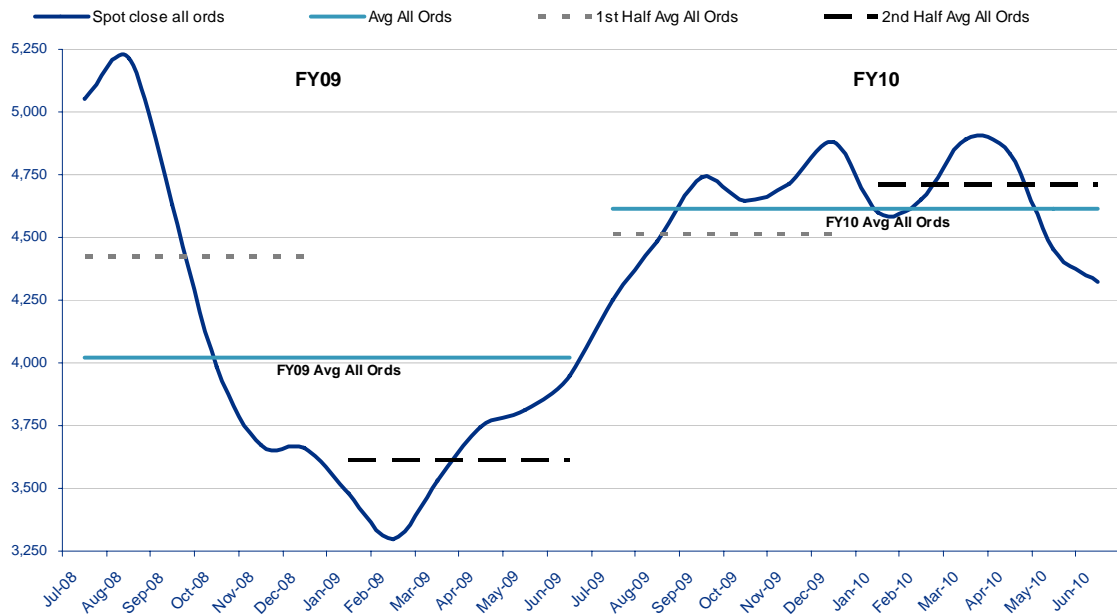
In line with this, sentiment in global financial markets improved considerably in FY10. This general improvement came despite periodic setbacks leading to periods of heightened risk aversion. The most recent incident in this regard occurred in the June 2010 quarter, when investors became concerned about the fiscal position and creditworthiness of some European countries, particularly Greece. This credit threat appeared to pose a new challenge for the global economy at the precise point where its recovery is transitioning between the fading impact of rebound factors such as fiscal stimuli and a more mature phase during which GDP gains will increasingly depend on a recovery in private investment and consumption. Global equity markets fell significantly in the June 2010 quarter in response to these mounting concerns.

In Australia, economic conditions were better than anticipated in the previous year. After contracting in the December quarter of 2008, the economy expanded at a reasonable pace throughout calendar 2009, with activity supported by the stimulatory settings of monetary and fiscal policy, Australia's strong trade links with a rapidly recovering Asia, a relatively high rate of population growth and a sound financial system. Unemployment peaked at around 5.8% at the beginning of FY10, and was at 5.1% by the end of the period.

As the risk of a serious economic contraction in Australia subsided, the Reserve Bank of Australia (RBA) in October 2009 decided to reduce the level of monetary stimulus by increasing the overnight cash rate from 3.0%, initially to 3.25%. Since then, the overnight cash rate has been raised by 0.25% five more times, most recently in May 2010, taking it to 4.5%.

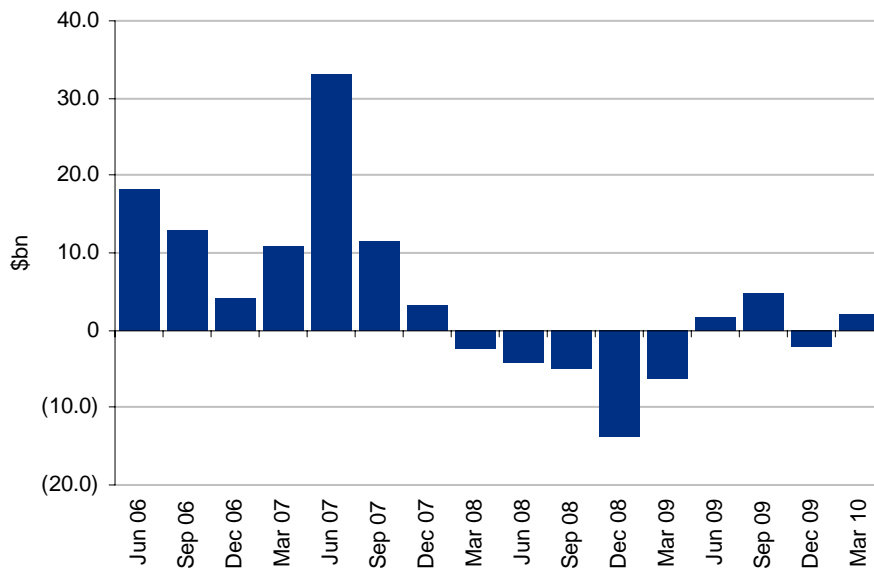
The ASX All Ordinaries Index (All Ords) increased in value during FY10 by around 10%, closing at 4,324.8 at the end of the period, compared to 3,947.8 at the end of FY09.

The following chart shows the movement in both the All Ords and average index for FY09 and FY10:



The Australian funds management industry has been experiencing a return of net inflows as investors continued to transition assets out of low yielding risk-averse bank deposit and cash management style products into a greater variety of investment strategies. Based on the most recent market data, the industry returned to a net inflow of around \$6.2bn in the 12 months to March 2010, compared to a net outflow of around \$29.0bn in the previous year. Consistent with experience in other countries, there was an increase in fund flow to index managers, away from active managers such as Perpetual.

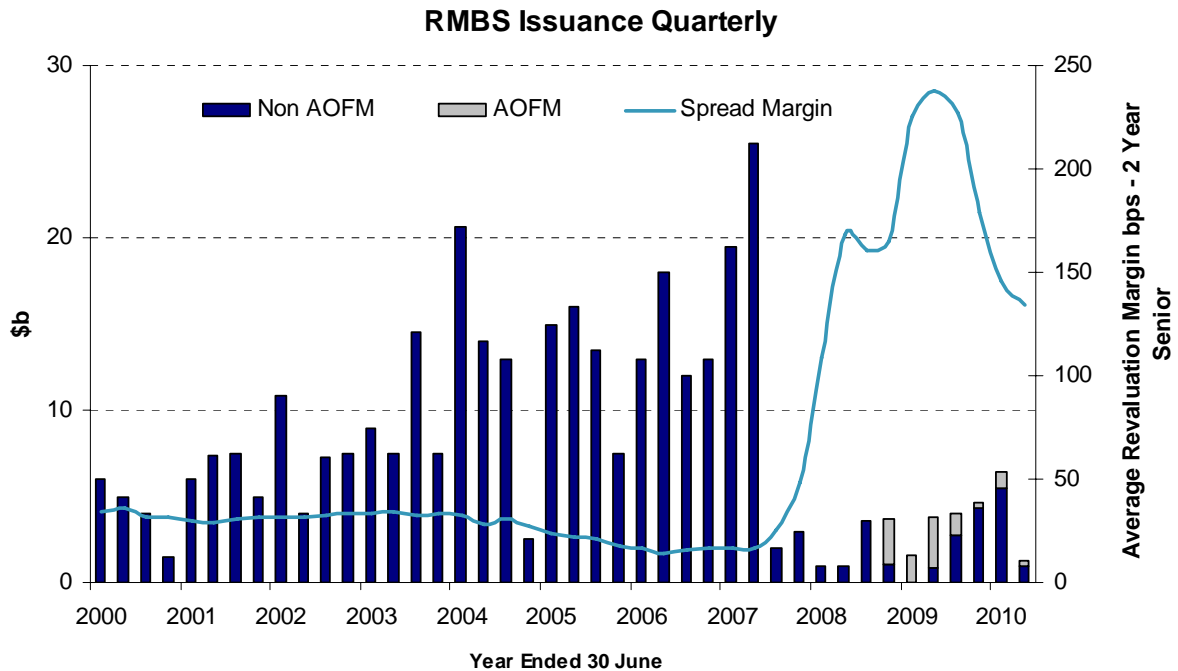
Total market quarterly net flows since June 2006



Source: Plan for Life March 2010

The above chart demonstrates the recovery of inflows into the Australian funds management industry. However, investor confidence remains fragile with net inflows still well below pre-GFC levels.

The improvement in credit market conditions in FY10 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 FY10, both issuance and pricing improved, with increased participation from real money investors amid reduced reliance on the Federal Government's AOFM support programme. These trends are apparent from the above chart.

Regulatory environment

The past financial year has been characterised by significant regulatory review. In particular, four areas of possible regulatory reform have the potential to influence the operating environment of Perpetual:

- The Government's response to the Henry Review (a review of Australia's taxation system, including structural settings for superannuation) had a strong focus on measures to underpin the adequacy of Australia's superannuation savings. Most significantly, it expressed the intention to gradually increase compulsory superannuation contributions (the SGC) from the current 9% to 12% by 2020;
- The Government's Future of Financial Advice policy (which represents its response to the recommendations of the Ripoll Parliamentary Inquiry) is likely to impact directly on financial advisers and indirectly on payment structures for many participants in wealth management, including asset managers and providers of administration platforms and services;
- The Super System Review (Cooper Review) envisions substantial changes in the delivery of superannuation to members; and
- The Australian Financial Services Forum (Johnson Review) proposes changes aimed at positioning Australia as a financial services hub, including enhancing the international competitiveness of Australia's funds management sector.

These areas of proposed reform are at differing levels of development and have not been finalised. Significant implementation detail remains to be worked through. Therefore, the final impact of proposed changes will not be clarified until regulatory details and the exact form of legislative change is known.

Perpetual is well positioned to capitalise on the opportunities and respond to the challenges presented by regulatory change.

Its track record as a provider of fee-for-service financial advice, products and services to high net worth individuals, and its continued ability to generate above benchmark returns for its active management equity funds allow Perpetual to offer a sound value proposition to its target customer segments in any environment.

Perpetual believes that regulatory change is most likely to create challenges for wealth management models that focus on providing basic and standardised commission-based advice for mass market investors, a segment in which Perpetual does not operate.

Shareholder returns

| For the period ended ⁽¹⁾ ⁽²⁾ | | 1H09 | 2H09 | 1H10 | 2H10 | FY09 | FY10 |
|--|-------|------|------|-------|------|-------|-------|
| Diluted earnings per share (EPS) on UPAT | cents | 99.0 | 56.8 | 85.1 | 84.1 | 155.6 | 169.3 |
| Diluted EPS on NPAT | cents | 33.8 | 55.5 | 115.0 | 95.6 | 89.4 | 210.5 |
| Annualised return on average equity (ROE) on UPAT | % | 29.1 | 17.6 | 22.9 | 20.6 | 21.8 | 22.4 |
| Annualised ROE on NPAT | % | 9.9 | 17.2 | 30.9 | 23.4 | 12.5 | 27.9 |

⁽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 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 FY10, EPS and ROE based on UPAT both increased:

- Diluted EPS of 169.3 cents per share represented a 8.8% increase on FY09, in line with the improvement in underlying profitability; and
- ROE increased by 60 bps to 22.4% from 21.8% in FY09.

Both EPS and ROE on NPAT were substantially higher in FY10 compared to FY09, predominantly due to the recovery of prior period losses on the EMCF compared to losses incurred in FY09 and the absence of any restructuring expenditure in FY10.

During FY10, the number of shares on issue increased by 2% (+0.9m shares) to 43.4m shares due to:

- employee share plan related ordinary share issues;
- the acquisition of Grosvenor Financial Services within our Private Wealth business, which was partly financed by an issue of ordinary shares; and
- participation in the Group's dividend reinvestment plan (DRP) that accompanied the FY09 final dividend paid 30 September 2009 and the FY10 interim dividend paid 1 April 2010.

Average shareholders' equity for FY10 increased by 7.5% compared to FY09, due to:

- the final dividend for FY09 (paid 30 September 2009) and the interim dividend for FY10 (paid 1 April 2010) being lower than FY10 NPAT, which increased retained earnings;
- the issue of ordinary shares in relation to the acquisition of Grosvenor Financial Services, which increased contributed equity; and
- participation in the DRP, which increased contributed equity.

Dividends

| For the period ended | | 1H09 | 2H09 | 1H10 | 2H10 | FY09 | FY10 |
|--|-------|-------|-------|-------|--------------------|-------|--------------------|
| Fully franked dividend per ordinary share | cents | 40.0 | 60.0 | 105.0 | 105.0 | 100.0 | 210.0 |
| Dividend payout ratio ⁽¹⁾ | % | 118.3 | 108.1 | 91.3 | 109.8 | 111.9 | 99.8 |
| Proportion of NPAT paid/payable as dividend ⁽²⁾ | % | 119.6 | 108.5 | 92.3 | 110.4 ² | 112.7 | 100.5 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 FY10

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.

A FY10 final fully franked dividend of 105 cents per share will be payable on 28 September 2010 (ex-dividend date of 1 September 2010 and Record Date 7 September 2010).

This brings total fully franked dividends for FY10 to 210 cents per share, compared to total dividends of 100 cents per share in FY09.

The FY10 total dividend is derived from two components of profit:

- UPAT of \$72.8m which equates to 169 cents per share; and
- significant items of \$17.7m after tax which equates to 41 cents per share. Significant items, which include EMCF recoveries, are not considered to be maintainable earnings.

The DRP will be operational for the FY10 final dividend and will be met by issuing new shares to DRP participants. The issue price per share for the FY10 final dividend DRP will be the Average Market Price, as defined in the DRP terms², less a 2.5% discount.

The Pricing Period for the FY10 final dividend DRP will be the 10 Trading Days commencing 8 September 2010 and ending 21 September 2010.

The Group's franking credit balance as at the end of FY10 was \$62.5m, which will enable it to fully frank \$145.8m of cash dividends. After payment of the final dividend for FY10, the franking balance is capable of fully franking a further \$100.2m of 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.

We offer investors strong investment capabilities across a range of asset classes, including Australian and international equities, property securities, multi-sector and multi-manager funds, mortgages, fixed interest and cash.

Financial summary

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 105.4 | 97.6 | 105.9 | 111.0 | 203.0 | 216.9 |
| Operating expenses | (56.3) | (61.8) | (54.4) | (60.1) | (118.1) | (114.5) |
| EBITDA | 49.1 | 35.8 | 51.5 | 50.9 | 84.9 | 102.4 |
| Depreciation and amortisation | (2.3) | (3.1) | (2.9) | (2.4) | (5.4) | (5.3) |
| Equity remuneration expense | (11.1) | (9.4) | (11.7) | (13.3) | (20.5) | (25.0) |
| Profit before tax | 35.7 | 23.3 | 36.9 | 35.2 | 59.0 | 72.1 |
| Average FUM revenue margin (normalised FUM based revenues/ average FUM) | 70 bps | 74 bps | 71 bps | 74 bps | 72 bps | 73 bps |
| Average FUM revenue margin excluding performance fees | 70 bps | 66 bps | 71 bps | 73 bps | 68 bps | 72 bps |
| Average FUM (excludes Direct & AERF ¹) | \$26.8b | \$23.2b | \$26.8b | \$26.8b | \$25.0b | \$26.8b |

FY10 profit before tax of \$72.1m represented a 22% increase on FY09. 2H10 profit before tax of \$35.2m represented a decrease of 5% on 1H10 but a 51% increase on 2H09.

Average FUM in FY10 increased 7% on FY09. 2H10 average FUM was flat on 1H10 due to the downward movement in equity markets experienced during the June 2010 quarter. 2H10 average FUM was up 15% on 2H09 as a result of a strong recovery in equity markets in 1H10, offset by a sharp decline in these same markets in 2H10. These overall movements in FUM correlate with the movements in the equity markets over these periods but have also been impacted by net outflows across all asset classes.

The average FUM revenue margin in FY10 was 73 bps, slightly higher than in FY09. Margins in FY09 have been normalised for the \$5.1m of negative revenue adjustments that related to prior years. Revenues used to calculate the average FUM margin exclude non-FUM related revenue such as net interest earned on PPI loans and smartsuper revenue.

The margin in 2H10 improved on 1H10 as a result of the recognition of some performance fees, which aligns with the time period when performance fees are determined. Excluding the impact of performance fees, the average FUM revenue margin increased by 4 bps to 72 bps in FY10 from 68 bps in FY09.

Perpetual Investments manages investments across a number of asset classes, including equities, fixed interest and cash. It also manages a number of administrative businesses such as self managed superannuation fund (SMSF) administration and a platform business administering funds managed by Perpetual and other fund managers. Perpetual Investments' asset classes are categorised across a number of functional units as follows:

¹ Direct refers to the Group's retail customers who invest directly in Perpetual Investments range of products. This FUM and associated revenue is not included in this calculation of average FUM or Average Margin in the above table.

| Asset class | Functional units | | |
|-------------------------|------------------|-------------------------|---|
| | Equities | Income and Multi-Sector | Superannuation and Investment Solutions |
| Equities | ✓ | ✓ | ✓ |
| Cash and fixed interest | X | ✓ | ✓ |
| Other FUM related | X | ✓ | ✓ |
| Other non-FUM related | ✓ | ✓ | ✓ |

Revenue from equities is earned across each functional unit of Perpetual Investments, including multi-sector funds within Income and Multi-Sector, and from Perpetual funds offered via the WealthFocus platform within Superannuation and Investment Solutions.

Other FUM related revenue includes revenue earned on external funds hosted on the Group's platforms, smartsuper revenue and revenue generated from structured products funds under management.

Other non-FUM related revenue includes net interest margin on the structured products' loan book and interest revenue earned on operational bank accounts across all the functional units.

Revenue generally increases or decreases as FUM increases or decreases. Increases in FUM result from market appreciation, positive investment performance for customers or asset inflows from new and existing customers. Investment into our funds is generally through either institutional investors, from whom we generally receive lower margins, and from intermediary/retail investors, who typically invest small amounts but from whom we receive a higher margin.

We offer our investors an array of funds in which to invest. Some of these funds are tailored for both institutional and intermediary/retail investors, whilst some funds are available to intermediary/retail investors only. Funds that are offered exclusively for our intermediary/retail investors typically incur a higher fee. Decreases in FUM can result from market depreciation, negative investment performance or asset outflows due to redemptions by our customers. Performance fees will fluctuate from period to period and may not correlate with general market changes, since these fees are driven by relative performance to the respective benchmark rather than absolute performance.

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

| Revenue for the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|--|--------------|-------------|--------------|--------------|--------------|--------------|
| By asset class: | | | | | | |
| › Equities | 81.2 | 74.3 | 83.6 | 87.6 | 155.5 | 171.2 |
| › Cash and fixed interest | 10.9 | 11.1 | 13.3 | 13.4 | 22.0 | 26.7 |
| › Other FUM related | 6.5 | 5.6 | 5.4 | 5.9 | 12.1 | 11.3 |
| › Other non-FUM related | 6.8 | 6.6 | 3.6 | 4.1 | 13.4 | 7.7 |
| Perpetual Investments total revenue | 105.4 | 97.6 | 105.9 | 111.0 | 203.0 | 216.9 |

Equities – FY10 revenue from equities, comprising Australian and global equities, increased by \$15.7m or 10% on FY09 to \$171.2m, driven by favourable market movements. 2H10 revenue increased 5% or \$4.0m on 1H10 as a result of favourable market movements and net inflows into our higher revenue margin strategies. Partially offsetting this were net outflows from lower revenue margin strategies – in particular our quantitative investment strategy. In addition, 2H10 revenues benefited from performance fees, albeit at a lower level than in 2H09.

Cash and fixed interest – FY10 revenue increased by \$4.7m, or 21% on FY09 to \$26.7m, primarily due to operational errors that adversely affected FY09 revenue by \$3.8m. 2H10 revenues were relatively flat on 1H10, with higher fees received from EMCF2 offset by reduced revenue due to net outflows from mortgages, cash and credit funds.

Other FUM related – includes management fees for external funds on our WealthFocus platform and structuring fees on the PPI structured products. Revenue declined by \$0.8m in FY10 to \$11.3m compared to FY09 mainly due to lower PPI fees from the combination of continued run-off and the absence of new issues in the last 12 months.

Other non-FUM related – revenue decreased by \$5.7m to \$7.7m in FY10, primarily due to:

- reduced PPI loan interest income as the book continues to run off; and
- in FY10, responsibility for AERF and IDPS products was transferred to Private Wealth (i.e. no impact at Group level) to provide operational efficiency and alignment with advisors, reducing non-FUM revenue by \$5.1m.

Perpetual Investments manages the structured products loan book, where investors have borrowed funds to invest in a capital protected range of investments offered within the Perpetual Protected Investments (PPI) product range. In FY09, additional structured product lending was suspended as the Group determined that it will no longer use its balance sheet to finance this type of activity.

The capital protection provided to investors is based on constant proportion portfolio insurance (CPPI) technology, which involves rebalancing the customer's portfolio of investments during the term of the product between equity style investments and less volatile assets. Due to the sharp declines in equity markets in FY09, all of the investors in Series 1 and 2 and some of the investors in Series 3 were entirely invested in less volatile assets and no longer had any exposure to equity markets, up or down. In FY10, the Group presented 'cash locked' investors in Series 1, 2 and 3 with an offer that would enable their underlying investment to regain exposure to equity markets. These offers were taken up by many investors, which required them to invest additional funds.

In FY10, the outstanding loan book declined by \$130.8m from \$319.6m at the end of FY09 to \$188.8m, broadly in line with the Group's expectations, given that around \$108m of repayments in 1H10 were already advised in June 2009. At the end of FY10, the Group received loan repayment and product redemption notifications from clients to the value of around \$23m.

Loans in arrears are actively managed and the total of the doubtful debts reserve at the end of FY10 was \$2.6m (FY09: \$1.0m).

The Group's credit exposure is limited to a loss of 6% of the loan book for Series 1 and 2 and 7% for the Series 3 loan book, given the limited recourse terms of the borrowings used to fund these portfolios. The Group's total loss exposure to the PPI portfolios at the end of FY10 was \$11.4m, versus \$16.1m at the end of FY09.

FY10 operating expenses of \$114.5m were 3% lower than FY09 expenses of \$118.1m, reflecting:

- the maintenance of cost saving initiatives implemented in FY09 relating to reductions of staff and discretionary expenditure;
- a stronger AUD/EUR exchange rate (the average AUD/EUR rate was 17% stronger than in the prior year) as well as a reduction in costs, resulting in lower expenses incurred in the Group's overseas operation;
- the transfer of the IDPS and AERF products to Private Wealth (i.e. no impact at Group level); and
- FY09 included the negative impact from \$3.3m of unit pricing errors.

This was partially offset by:

- an increase in PPI loan doubtful debt provisions and a full year of smartsuper costs against nine months of expense in FY09, as the business was acquired in September 2008;
- increase in registry fees from our custodian in FY10; and
- FY10 included a higher level of variable compensation payments for staff in line with improved performance of the Group, as well as an increased likelihood of equity-based remuneration vesting.

Funds under management (FUM)

The table below details the closing FUM for the last three fiscal years. In FY10, total FUM grew by around 3% to \$26.9b. Equities FUM grew by around 9% in FY10 to \$18.9b. However, growth in average FY10 equities FUM was 15% over average FY09 equities FUM (detailed in Appendix B), in line with the average All Ords, which was 15% higher in FY10.

| FUM at end of | FY08 \$b | FY09 \$b | Net flows \$b | Other ⁽¹⁾ \$b | FY10 \$b |
|-------------------------------------|-------------|-------------|------------------|-----------------------------|-------------|
| Institutional | 8.3 | 8.5 | (1.2) | 0.8 | 8.1 |
| Intermediary (master fund and wrap) | 14.8 | 11.9 | (0.3) | 1.3 | 12.9 |
| Retail (including Direct) | 7.2 | 5.8 | (0.4) | 0.5 | 5.9 |
| All channels | 30.3 | 26.2 | (1.9) | 2.6 | 26.9 |
| Australian equities | 19.7 | 16.0 | (0.4) | 1.9 | 17.5 |
| Global equities | 1.5 | 1.4 | - | - | 1.4 |
| Equities | 21.2 | 17.4 | (0.4) | 1.9 | 18.9 |
| Cash and fixed interest | 7.5 | 7.5 | (1.4) | 0.6 | 6.7 |
| Other | 1.6 | 1.3 | (0.1) | 0.1 | 1.3 |
| All asset classes | 30.3 | 26.2 | (1.9) | 2.6 | 26.9 |

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

For most of FY10, there were marked improvements in both equity and credit markets globally and this resulted in investors increasing their appetite for risk assets. The resulting movement away from cash triggered inflows into a variety of investment strategies.

In FY10, the equities asset class experienced \$0.4b of net outflows, comprising \$0.6b of net inflows into our actively managed equity funds, offset by \$1.0b of net outflows from our quantitative investments strategies.

Whilst investors appear to have chosen to increase their domestic equity market allocations to index and multi-manager funds in preference to active single fund managers, we enjoyed net inflows of \$0.6b into our actively managed equity funds in FY10, underpinned by our long-term record of delivering market outperformance for our investors. This represented a \$1.2b improvement on FY09, when we recorded \$0.6b of net outflows.

In FY10, we experienced net outflows of around \$1.0b from our institutional quantitative investments strategies, compared to a net outflow of \$0.1b in FY09 as investors redeployed funds into other strategies.

This total net outflow of \$0.4b of FUM from the equities asset class in FY10 did not translate into an absolute fall in revenue as the Group earns higher fees from its active funds management activities in comparison to the revenue earned from institutional quantitative strategies, which earn lower base fees.

The previous table shows the movement in closing FUM over the last 12 months. The move away from cash was reflected in FY10 net outflows of \$1.4b in the Group's cash and fixed interest asset class, which includes the Group's mortgage funds¹.

Perpetual's active management investment style has generated strong relative performance against their respective benchmarks (known as alpha) in virtually all of our funds over the long term. Positive alpha benefits the Group in three primary ways:

- it demonstrates our expertise in actively managing our customers' funds and we expect that this will be a positive factor in retaining funds and attracting future inflows;

¹ In October 2008, the Group moved to a quarterly redemption process in response to the introduction of guarantees on bank deposits which prompted a sharp increase in redemptions from mortgage funds across the industry. Whilst some other fund managers have either frozen redemptions or are in the process of winding up their mortgage funds, the Group continues to offer investors access to their funds via a quarterly redemption process.

- it keeps FUM higher; and
- a number of institutional client mandates include performance fee incentives based upon the level of alpha generated.

The table below highlights the consistent outperformance against benchmark of our main funds over the short and long-term periods.

| Excess investment performance p.a. – gross as at end June 2010 | | | | | |
|--|--------------------------|--------------------------|-------------------------|-----------------------------|-----------------------------|
| Annualised returns (ex 3 months) | Industrial Share Fund | Australian Share Fund | Small Companies Fund | Concentrated Equity Fund | International Share Fund |
| 3 months | +2.29% | +2.39% | +5.03% | +1.80% | -0.07% |
| 1 year | +0.07% | +5.90% | +14.64% | +2.80% | -0.36% |
| 3 years | +4.07% | +4.13% | +6.13% | +5.83% | +2.43% |
| 5 years | +2.57% | +2.53% | +4.17% | +3.76% | +1.20% |
| 7 years | +2.40% | +2.66% | +2.49% | +2.68% | N/A |
| 10 years | +4.46% | +4.21% | +8.28% | +5.06% | N/A |

Net flows of funds by distribution channel and asset class for the last 24 months are detailed in the following table:

| For the period ended | 1H09 Net flows \$b | 2H09 Net flows \$b | 1H10 Net flows \$b | 2H10 Net flows \$b | FY09 Net flows \$b | FY10 Net flows \$b |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Institutional | 0.5 | 0.5 | (0.9) | (0.3) | 1.0 | (1.2) |
| Intermediary (master fund and wrap) | (0.9) | (0.2) | 0.1 | (0.4) | (1.1) | (0.3) |
| Retail (including Direct) | (0.4) | (0.2) | (0.3) | (0.1) | (0.6) | (0.4) |
| All distribution channels | (0.8) | 0.1 | (1.1) | (0.8) | (0.7) | (1.9) |
| Australian equities | (0.4) | (0.3) | - | (0.4) | (0.7) | (0.4) |
| Global equities | (0.1) | 0.1 | - | - | - | - |
| Equities | (0.5) | (0.2) | - | (0.4) | (0.7) | (0.4) |
| Cash and fixed interest | (0.2) | 0.3 | (1.0) | (0.4) | 0.1 | (1.4) |
| Other | (0.1) | - | (0.1) | - | (0.1) | (0.1) |
| All asset classes | (0.8) | 0.1 | (1.1) | (0.8) | (0.7) | (1.9) |

The Group sources FUM through three primary distribution channels:

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

In FY10, the institutional channel experienced \$1.2b of net outflows, principally from our cash investment products, with net outflows from equities of \$0.1b on the back of strong inflows of \$0.9b into our active style funds, offset by outflows of \$1.0b from our quantitative investment strategies.

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

FY10 intermediary net flows improved \$0.8b on FY09, with net outflows of \$0.3b in FY10. In FY10, we experienced net inflows across our range of equities funds, with some of the Group's newer funds, which appeal to high net worth investors, finding good support from this channel. Outflows experienced were mainly concentrated through our Industrial Share Fund and our diversified investment funds and mortgage products. This compares with FY09, where investors moved into more defensive assets, consistent with the broader industry.

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

In FY10, our retail flows improved by \$0.2b on FY09. This channel experienced net outflows of \$0.4b in FY10, spread across both equities and cash asset classes.

Relative share of FUM and underlying revenue by each of the above channels has remained relatively stable over the last 18 months. The institutional channel also benefits from the potential to earn performance fees.

The previous table also compares net flows by asset class across the last 24 months. As noted previously, there has been a period-to-period improvement in net flows in equities, with net outflows reducing from \$0.5 billion in 1H09 to neutral in 1H10. Whilst 2H10 shows \$0.4 billion in net outflow in equities, this is not reflective of the Group's strong performance in actively managed equities. As discussed previously, these funds recorded net inflows of \$0.3 billion in both 1H10 and 2H10, offset by net outflows of \$0.3b and \$0.7b in quantitative style managed funds over 1H10 and 2H10 respectively.

Net flows in cash and fixed interest generally reflect the sentiment of investors as they move to and from cash style products depending on prevailing conditions in equity markets.

Private Wealth

Private Wealth is the Group's specialist financial services business, which provides holistic financial solutions for high net worth individuals. It aims to be the leading provider of wealth management services to financially successful Australians and their families.

Private Wealth also services the Group's retail customers who invest directly in Perpetual Investments' range of products.

Financial solutions range from strategic advice, ongoing investment advice and management, DIY superannuation services, custodial solutions, estate planning, estate administration, executorial services and trustee services, including charitable trusts. Following the acquisition of Grosvenor Financial Services and Fordham Business Advisors in FY10, the Group has further increased its capabilities in specialist accounting and taxation advice.

Each client receives highly individualised attention, customised to his or her needs and based on a long-term plan focused on wealth creation and protection.

Private Wealth manages financial assets for over 6,800 private clients, estates, trusts and charitable trusts, with funds under advice of \$8.3b at the end of FY10, up 22% from \$6.8b at the end of FY09.

The Group is one of the largest managers of private charitable foundations in Australia, with over \$1.1b in funds under management as at the end of FY10. Perpetual is trustee to more than 450 charitable trusts, supporting cultural, medical, social, environmental, religious and educational causes.

In FY10, the Group continued to execute on its growth strategy through a combination of organic and inorganic initiatives.

Organic initiatives undertaken during the year have increased our competency and capability in the following core activities:

- Investment and strategic advice – investment teams have been strengthened and a new direct equities investment process has been deployed;
- Fiduciary – improved quality and consistency of services;
- Philanthropy – increased transparency and simplified processes to make applications to the 450 philanthropic trusts we manage; and
- Customer service offerings – an increase in the number of client facing staff, including senior financial consultants and continued improvements to the client management system, which now delivers more efficient processes and an increased focus on quality and risk management.

The Group also continued to implement its inorganic growth strategy with the acquisition of two complementary businesses that specialise in the high net worth segment of the advice market:

- In September 2009, the Group acquired a 100% interest in Grosvenor Financial Services, a Sydney-based advisory firm specialising in medical, dental and legal professions. Grosvenor provides clients with strategic financial and taxation advice and investment management. Consideration was \$20.1m and comprised a combination of cash and shares subject to earn-outs. Acquired FUA was around \$0.4b; and
- In January 2010, the Group acquired 100% of Fordham Business Advisors, a Melbourne-based advisory firm specialising in private business owners and their families. Fordham provides clients with accounting, taxation and strategic financial advice and investment management. Consideration was \$34.8m, comprising cash and deferred consideration subject to earn-outs. Acquired FUA was around \$0.5b. In FY09, wealth management fees comprised 25% of Fordham's revenue.

Financial summary

Private Wealth's FY10 profit before tax increased by 12% to \$32.6m compared to \$29.1m in FY09, reflecting the improvement in investment markets, partially offset by increased investment in the core business activities.

FY10 profit before tax included acquisition and integration costs plus amortisation of identifiable intangibles associated with recent acquisitions of \$3.3m before tax versus \$0.4m in FY09.

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 45.0 | 40.7 | 47.4 | 64.2 | 85.7 | 111.6 |
| Operating expenses | (25.3) | (26.9) | (30.6) | (43.3) | (52.2) | (73.9) |
| EBITDA | 19.7 | 13.8 | 16.8 | 20.9 | 33.5 | 37.7 |
| Depreciation and amortisation | (1.1) | (1.3) | (1.4) | (2.5) | (2.4) | (3.9) |
| Equity remuneration expense | (1.2) | (0.8) | (0.9) | (0.3) | (2.0) | (1.2) |
| Profit before tax | 17.4 | 11.7 | 14.5 | 18.1 | 29.1 | 32.6 |
| Closing Funds under Advice (FUA) | \$6.5b | \$6.8b | \$8.1b | \$8.3b | \$6.8b | \$8.3b |
| Average Funds under Advice (FUA) | \$7.1b | \$6.6b | \$7.8b | \$8.5b | \$6.9b | \$8.1b |

The main source of Private Wealth revenue is FUA, which accounted for 78% of FY10 revenue, versus 81% in FY09.

FY10 revenues increased by \$25.9m or 30%, to \$111.6m, compared to \$85.7m in FY09. This increase in revenue was primarily attributable to the following:

- \$12.4m from increased FUA, of which \$5.6m related to acquired businesses;
- \$10.0m increase in fee revenue for accounting and tax services and other advisory services, mainly from the acquired businesses;
- \$5.1m from AERF and IDPS business, which was transferred from Perpetual Investments (i.e. nil impact at Group level); offset by a
- \$1.6m reduction in interest income from operational cash flows.

In FY10, revenue of \$15.4m was earned from the following recently acquired businesses:

- Grosvenor Financial Services, acquired in September 2009 (nine months revenue of \$4.6m in FY10 versus nil in FY09); and
- Fordham Business Advisors, acquired in January 2010 (six months revenue of \$10.8m in FY10 versus nil in FY09).

Around \$13.7m or 90% of the revenue from the acquired businesses was earned in 2H10, versus \$1.7m or 10% in 1H10, reflecting both the timing and size of each of the acquisitions. Around \$9.8m or 65% of the FY10 acquired revenue was non-FUA related. The main source for this non-FUA revenue was the Fordham Business Advisors acquisition which accounted for around 95%, predominantly accounting and tax services revenue.

Operating expenses increased in FY10 by \$21.7m or 42%, to \$73.9m. This increase was attributable to the following:

- \$12.9m from recently acquired businesses, predominantly personnel costs, of which around \$1.1m was incurred in 1H10 and \$11.8m was incurred in 2H10;
- \$2.0m of integration and acquisition costs for the recently acquired businesses, of which around \$0.9m and \$1.1m were incurred in 1H10 and 2H10 respectively; and
- \$6.8m relating mainly to increased personnel costs as the business continued to invest in organic growth initiatives. This included increasing the number of client facing staff and strengthening our advisory teams. In addition, the improved financial performance of the Group in FY10 compared to FY09 led to higher variable compensation.

Depreciation and amortisation expense of \$3.9m was incurred in FY10, compared to \$2.4m in FY09. This increase of \$1.5m was primarily due to \$1.3m of amortisation of identifiable intangibles due to the Group's recent acquisitions.

Equity remuneration expense of \$1.2m was incurred in FY10 compared to \$2.0m in FY09. The key driver for this decrease was the resignation of personnel whose unvested entitlements to shares and options under long-term incentive plans were forfeited, giving rise to a write-back of expense recognised in prior periods.

In FY10, the Grosvenor and Fordham acquisitions both made a small positive contribution to the Group's financial performance after taking into account acquisition, integration, amortisation and depreciation charges.

Funds under advice (FUA)

| FUA at end of | FY08 \$b | FY09 \$b | Net flows \$b | Acquired ⁽¹⁾ \$b | Other ⁽²⁾ \$b | FY10 \$b |
|---------------------------------|-------------|-------------|------------------|--------------------------------|-----------------------------|-------------|
| Financial advisory: | | | | | | |
| › superannuation | 2.7 | 2.4 | - | 0.7 | 0.2 | 3.3 |
| › non-superannuation | 2.0 | 1.8 | - | 0.2 | 0.2 | 2.2 |
| | 4.7 | 4.2 | - | 0.9 | 0.4 | 5.5 |
| Fiduciary services: | | | | | | |
| › philanthropic | 1.1 | 1.0 | - | - | 0.1 | 1.1 |
| › trust and estates | 1.9 | 1.6 | - | - | 0.1 | 1.7 |
| | 3.0 | 2.6 | - | - | 0.2 | 2.8 |
| Total funds under advice | 7.7 | 6.8 | - | 0.9 | 0.6 | 8.3 |

(1) Includes FUA acquired through the purchase of Grosvenor Financial Services in September 2009 and Fordham Business Advisors in January 2010.

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

Private Wealth's FUA increased by 22% in FY10, driven by a combination of improved investment markets, FUA acquired from businesses purchased during the year and an improvement in net flows. At the end of FY10, around 55% of Private Wealth's FUA was linked to equity market movements.

Net flows improved in FY10, with neutral net flows compared to net outflows of around \$0.2b in FY09. In FY10, there was an increase in gross inflows and a reduction in gross outflows compared to FY09. This improvement was driven by a combination of improved investor confidence and higher inflows from referrals from existing clients and leads generated through an enhanced alliance partner network.

Private Wealth has continued to focus on executing initiatives to deliver on our vision of being the leading provider of wealth management services to financially successful Australians and their families. Inorganic initiatives are designed to deliver both scale and capability to Private Wealth. The businesses that we have acquired have allowed us to increase our capacity and ability to provide holistic service offerings to the high net worth client market.

The Sydney-based Grosvenor acquisition in 1H10 enhanced the Group's knowledge, capability and understanding of the financial needs of the medical, dental and legal professions. The acquisition of the Melbourne-based Fordham has added significant scale to our presence in Victoria and enhanced our national capability in the private business owner market, as well as our tax and accounting services.

Our organic initiatives aim to improve the quality of our service to clients and allow continued development of our processes and systems to increase efficiency levels and scalability. Our investment in client facing staff has resulted in increased personnel costs, with limited growth in revenues in FY10. However, as new client facing staff become familiar with the Group's diverse product and service offerings as well as introduce new clients to the Group, we expect to see increased revenue.

In FY10, there were a number of regulatory reviews related to the financial services industry. We believe our Private Wealth business remains especially well positioned given our holistic advisory offering, together with our focus on high net worth clients. Our fiduciary duties to our clients have always been paramount, evidenced by the delivery of impartial advice. In addition, our revenues are based on a fee for service model and not on trail commissions.

We believe the organic investment in the business during FY10, together with our recent acquisitions, has improved the Group's capabilities and has enhanced the future prospects of the business.

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 processing services for financial institutions.

Financial summary

Corporate Trust's profit before tax decreased 11% to \$32.3m for FY10 compared to FY09. The \$3.8m decrease in profit has been caused by:

- the \$2.8m reduction of revenue within Trust and Fund Services, primarily as a result of a decline in RMBS FUA; and
- the investment to support the rapid growth of our Mortgage Services business, primarily incurred in 2H10.

Our Mortgage Services business, which operates at a lower margin than the Trust and Fund Services business unit, has grown significantly during FY10. In order to support this revenue growth, Corporate Trust incurred significant one-off costs associated with establishing and rolling out initiatives to meet the substantial increase in demand for its service proposition.

In 2H10, profit before tax decreased by 19% against 1H10 due to the aforementioned investment and client on-boarding costs associated with the Mortgage Services business unit to service the significant increase in volume. This increased investment in Mortgage Services, along with the decline in revenue of Trust and Fund Services, unfavourably impacted 2H10 earnings.

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 41.0 | 39.3 | 41.6 | 45.9 | 80.3 | 87.5 |
| Operating expenses | (19.3) | (21.4) | (22.2) | (29.7) | (40.7) | (51.9) |
| EBITDA | 21.7 | 17.9 | 19.4 | 16.2 | 39.6 | 35.6 |
| Depreciation and amortisation | (1.6) | (1.7) | (1.5) | (1.6) | (3.3) | (3.1) |
| Equity remuneration expense | (0.1) | (0.1) | (0.1) | (0.1) | (0.2) | (0.2) |
| Profit before tax | 20.0 | 16.1 | 17.8 | 14.5 | 36.1 | 32.3 |

FY10 revenues increased 9% on FY09, to \$87.5m, with 2H10 revenues up 17% on 2H09. Trust and Fund Services revenue declined due to the continued run-off of securitisation FUA. This was partially

mitigated by new business growth within the Fund Services business and increased revenue in our Mortgage Services business as volumes increased through the year.

| Revenue for the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Trust and Fund Services | 29.9 | 28.5 | 27.9 | 27.7 | 58.4 | 55.6 |
| Mortgage Services | 11.1 | 10.8 | 13.7 | 18.2 | 21.9 | 31.9 |
| Revenues | 41.0 | 39.3 | 41.6 | 45.9 | 80.3 | 87.5 |

FY10 operating expenses increased 28% to \$51.9m from FY09 and were up 34% from 1H10 to 2H10, largely due to expansion within the Mortgage Services business to support new business volumes. Expenses also included approximately \$2m in non-recurring costs as a result of taking on a number of new clients. The improved financial performance of the Group in FY10 compared to FY09 led to higher variable compensation expense. Cost savings achieved within prior years have been largely maintained through strong expense discipline.

Funds under administration (FUA)

| At end of | 1H09 \$b | FY09 \$b | 1H10 \$b | FY10 \$b |
|---|--------------|--------------|--------------|--------------|
| CMBS and ABS | 52.2 | 42.3 | 31.8 | 30.4 |
| RMBS – non-bank | 71.0 | 62.8 | 57.7 | 55.2 |
| RMBS – repos | 29.2 | 76.8 | 81.2 | 74.6 |
| RMBS – bank | 70.5 | 59.5 | 51.7 | 50.3 |
| Total funds under administration | 222.9 | 241.4 | 222.4 | 210.5 |

Corporate Trust's FUA at the end of FY10 decreased 13% to \$210.5 billion compared to the end of FY09, with declines across all asset classes. The largest decline was seen in the CMBS and ABS markets, which still remain largely closed to new issuance.

During FY10, Australian RMBS market conditions continued to improve, although they still remained subdued relative to the issuance levels experienced pre-GFC. The Australian Government's decision in November 2009 to extend its AOFM cornerstone investment programme with an additional \$8.0b has had a positive influence on the market. Since the extension of the cornerstone investment programme, the AOFM's level of support via investment in new issuance has reduced in line with increased participation by other end investors.

The other factor influencing the revival in the securitisation market in FY10 has been the contraction in credit spreads, particularly for RMBS, which is making RMBS a more affordable source of term funding for non-bank and regional bank lenders. This was evident by the upsizing of a number of deals, and the fact that in some cases AOFM support was not required.

Run-off rates across existing RMBS still remained relatively high during FY10 as historically low interest rates have allowed borrowers to pay down more principal on their mortgages. However, with the RBA increasing the overnight cash rate from 3.0% in October 2009 to 4.5% in May 2010, there was a slow-down in run-off rates in 2H10.

Our Mortgage Services business consists of two primary service offerings: Perpetual Lenders Mortgage Services (PLMS) and loan servicing. Revenue from Mortgage Services has increased from \$10.8m and \$13.7m in 2H09 and 1H10 respectively to \$18.2m in 2H10, driven by the growth in business volumes within PLMS. This strong growth is evidenced by 2H10 volumes exceeding FY09 volumes, as shown in the table below.

| Number of matters | 1H09 | 2H09 | 1H10 | 2H10 | FY09 | FY10 |
|-------------------|--------|--------|--------|---------|--------|---------|
| PLMS volumes | 45,176 | 50,511 | 81,329 | 117,928 | 95,687 | 199,257 |

PLMS has continued to focus its growth strategy on the banking sector. Rapid operational expansion in PLMS has been necessary to deliver this strategy nationally, with FY10 incurring a number of expenses to allow for the expansion.

| PLMS revenue split by customer | 1H09 % | 2H09 % | 1H10 % | 2H10 % | FY09 % | FY10 % |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Bank | 54 | 65 | 72 | 82 | 59 | 77 |
| Non-bank | 46 | 35 | 28 | 18 | 41 | 23 |

PLMS' primary strategy is to continue to attract new clients, and deliver cost efficiencies and increased EBITDA margins through economies of scale. Delivering on this strategy has seen the revenue mix attributable to bank clients continue to grow as a proportion of total PLMS revenue, driven by new business. Regional and foreign banks as well as the non-bank sector remain important client bases for the PLMS business.

Group and Support Services

Group and Support Services includes the CEO and Board and covers functions that provide support to the broader Group, including Group Finance, Strategy, Operations, Risk, People and Culture, Group Marketing, Media and Investor Relations, and Company Secretariat.

Financial summary

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues | 3.2 | 2.9 | 5.2 | 5.1 | 6.1 | 10.3 |
| Operating expenses | (12.7) | (15.7) | (17.4) | (16.6) | (28.4) | (34.0) |
| EBITDA | (9.5) | (12.8) | (12.2) | (11.5) | (22.3) | (23.7) |
| Depreciation and amortisation | (1.1) | (1.0) | (1.2) | (1.2) | (2.1) | (2.4) |
| Equity remuneration expense | 1.2 | (0.3) | (0.6) | 0.2 | 0.9 | (0.4) |
| Interest expense | (1.6) | (0.9) | (1.2) | (1.6) | (2.5) | (2.8) |
| Profit/(loss) before tax | (11.0) | (15.0) | (15.2) | (14.1) | (26.0) | (29.3) |

Revenue from the Group's cash and principal investments increased in FY10 compared to FY09, predominantly due to the tightening of credit spreads within the Group's cash enhanced credit investments and additional interest revenue associated with rising short-term rates and increased cash balances.

Expenses increased in FY10 against FY09, primarily due to the current period accruing a higher level of variable compensation payments for staff in response to the improved financial performance in FY10. The FY10 expense base also includes an increase in costs to support business development in Private Wealth and Corporate Trust and the cost associated with the brand marketing campaign undertaken in FY10.

Total Group Expenses

Total Group expenses increased by 15% to \$318.6m in FY10 compared to FY09.

The increase was led by investment in new business initiatives and acquisitions. The Group has made several acquisitions in FY09 and FY10, namely smartsuper, Financial Pursuit, Grosvenor Financial Services and Fordham Business Associates. These have increased the FY10 cost base as well as operating revenues. Business development within Corporate Trust via its PLMS business increased in response to higher demand for its mortgage services. Private Wealth also increased the number of client facing staff and investment specialists in addition to its acquisitions.

Movement in Group expenses

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Employment | (87.3) | (95.5) | (100.0) | (122.2) | (182.8) | (222.2) |
| Occupancy | (8.5) | (8.5) | (8.2) | (10.5) | (17.0) | (18.7) |
| Administration & general | (36.0) | (39.5) | (36.7) | (37.7) | (75.5) | (74.4) |
| Other intangibles | (0.7) | (0.9) | (1.2) | (2.1) | (1.6) | (3.3) |
| Total expenses | (132.5) | (144.4) | (146.1) | (172.5) | (276.9) | (318.6) |

The key drivers of this increase in Group expenses in FY10 are set out in the following table.

| | \$m |
|---|--------------|
| FY09 expenses | 276.9 |
| Private Wealth acquisitions – including \$2.0m of acquisition and integration costs | 14.8 |
| Increased costs associated with uplift in Mortgage Services – including around \$2m of one-off costs | 11.1 |
| Increase in variable remuneration as a result of improved Group financial performance and increase in base remuneration | 9.8 |
| Increase in organic Private Wealth initiatives | 4.7 |
| Brand marketing | 1.9 |
| Increase in registry fees | 1.8 |
| Increase in amortisation of other identifiable intangibles | 1.7 |
| Increase in various other expenses | 1.4 |
| Net reduction in operational errors | (5.5) |
| FY10 expenses | 318.6 |

Increased employment costs in FY10 reflect the growth in employees resulting from acquisitions and business initiatives, as well as an increase in variable compensation. Increases to base remuneration were limited to approximately 1% in FY10.

Increased occupancy costs in FY10 reflect the impact of acquisitions and additional premises required to support new business initiatives.

Administration and general expenses were broadly unchanged in FY10. FY09 expenses were adversely impacted by net unit pricing errors totalling \$6.5m, compared to a net \$1.0m in FY10.

Amortisation expense related to other intangibles increased in FY10 as a result of recently completed acquisitions that gave rise to an increase in identifiable intangible assets carried on the Group's balance sheet that are subject to amortisation.

Tax expense

Perpetual's average tax rate in FY10 was 32.4% (FY09: 33.1%), calculated from UPBT. 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 | | | | | |
|--|--------------------------|-------------|-------------|-------------|---------------|-------------|
| | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
| Significant items: | | | | | | |
| 1. EMCF gains/(losses) | (21.3) | 1.6 | 15.8 | 13.2 | (19.7) | 29.0 |
| 2. Gain/(loss) on sale/impairment of investments | (5.9) | (1.8) | 2.5 | (6.0) | (7.7) | (3.5) |
| 3. Restructuring costs | (12.0) | 0.4 | - | - | (11.6) | - |
| Total significant items | (39.2) | 0.2 | 18.3 | 7.2 | (39.0) | 25.5 |

| For the period ended | Profit/(Loss) After Tax | | | | | |
|--|-------------------------|--------------|-------------|-------------|---------------|-------------|
| | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
| Significant items: | | | | | | |
| 1. EMCF gains/(losses) | (14.9) | 1.1 | 11.1 | 9.2 | (13.8) | 20.3 |
| 2. Gain/(loss) on sale/impairment of investments | (4.1) | (2.0) | 1.7 | (4.3) | (6.1) | (2.6) |
| 3. Restructuring costs | (8.4) | 0.3 | - | - | (8.1) | - |
| Total significant items | (27.4) | (0.6) | 12.8 | 4.9 | (28.0) | 17.7 |

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 6 months ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|--|---------------|-------------|-------------|-------------|---------------|-------------|
| EMCF1 impact on financial performance ⁽¹⁾ : | | | | | | |
| › realised losses | (3.0) | (1.0) | - | - | (4.0) | - |
| › hedging gains/(losses) | 0.1 | 3.9 | - | - | 4.0 | - |
| › mark-to-market losses versus benchmark | (18.4) | (9.0) | - | - | (27.4) | - |
| › hold to maturity gains versus benchmark | - | 7.7 | 15.8 | 13.2 | 7.7 | 29.0 |
| Profit/(loss) before tax | (21.3) | 1.6 | 15.8 | 13.2 | (19.7) | 29.0 |
| Tax benefit/(expense) | 6.4 | (0.5) | (4.7) | (4.0) | 5.9 | (8.7) |
| Profit/(loss) after tax | (14.9) | 1.1 | 11.1 | 9.2 | (13.8) | 20.3 |

⁽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 currently being 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 reduction in assets in EMCF1 has been partially offset by the increase in assets in EMCF2.

The majority of the unrealised mark-to-market losses from prior periods in the EMCF1 portfolio are expected to be recovered as the portfolio matures, particularly in the remainder of calendar 2010 and 2011, as the average maturity of the portfolio is around 1.7 years. The recovery rate is expected to decline over time based on the maturity profile.

| EMCF liabilities at end of | 1H09 \$m | FY09 \$m | 1H10 \$m | FY10 \$m |
|-------------------------------|----------------|----------------|----------------|----------------|
| EMCF1 | 1,753.9 | 1,089.3 | 808.4 | 695.1 |
| EMCF2 | 338.0 | 409.0 | 472.8 | 495.2 |
| Total EMCF liabilities | 2,091.9 | 1,498.3 | 1,281.2 | 1,190.3 |

Total funds invested in the EMCF products have reduced over the last 12 months by around 26% and by 43% over the last 18 months. Since the end of 1H09, The EMCF1 has reduced by over 60%, whilst the EMCF2 has experienced growth of around 47%.

At the end of FY10, the carrying value of EMCF1 assets was \$693.2m (compared to \$1,086.0m at the end of FY09) and was a deficit to the fair value of its liabilities by \$1.9m, compared to a deficit of \$3.3m at the end of FY09.

EMCF2 was established in July 2008. It has a similar structure to EMCF1 but, in addition, there are specific rules that govern the withdrawal of funds. EMCF2 assets are held on a hold-to-maturity basis for unit pricing purposes. There has been no change since its inception. At the end of FY10, the carrying value of EMCF2 assets was \$497.8m (compared to \$409.8m at the end of FY09), which exceeded their liabilities by \$2.6m, compared to an excess of \$0.8m at the end of FY09. The financial performance of EMCF2 is reported in the cash and fixed interest asset class in Perpetual Investments.

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

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|--|--------------|--------------|-------------|--------------|--------------|--------------|
| Profit/(loss) on sale of part of investment portfolio/seed funds | (5.2) | (1.4) | 2.8 | 0.8 | (6.6) | 3.6 |
| Impairment of available for sale securities | (0.7) | (0.4) | (0.3) | (6.8) | (1.1) | (7.1) |
| Total profit/(loss) before tax on sale/impairment of investments | (5.9) | (1.8) | 2.5 | (6.0) | (7.7) | (3.5) |
| Income tax benefit/(expense) | 1.8 | (0.2) | (0.8) | 1.7 | 1.6 | 0.9 |
| Total profit/(loss) after tax on sale/impairment of investments | (4.1) | (2.0) | 1.7 | (4.3) | (6.1) | (2.6) |

Loss on sale/impairment of investments in FY10 was \$2.6m after tax, comparing favourably to a \$6.1m loss in FY09. In FY10, certain assets classified as available for sale became impaired. This resulted in a cumulative loss of \$7.1m before tax, previously recognised in the available for sale reserve to be transferred to the profit and loss statement, offset by a credit to the available for sale reserve. These losses primarily related to seed investments from discontinued businesses. Some of these assets have been subsequently disposed of post 30 June 2010 at a price equal to the FY10 mark-to-market valuation.

3. Restructuring costs

No restructuring costs were incurred in FY10.

In FY09, the Group responded to falling revenues and declining profitability by reducing its largely fixed cost base. In FY09, costs totalling \$8.1m after tax to implement the restructure were disclosed as a significant item outside UPAT.

Capital Management

The Group manages its capital and liquidity to sustain a strong and flexible balance sheet. We have adopted this conservative and prudent policy to ensure we:

- can efficiently support all of our businesses;
- can hold capital to provide for uncertainty and operational risk that resides within our businesses;
- can maintain adequate liquidity to ensure financial flexibility, such as not being reliant and restricted by capital supplied by debt financiers; and
- have sufficient 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 requires capital to be set aside for operational, credit and market risk and any known capital commitments. The amount of economic capital assessed by the model exceeds the Group's \$62.6m of regulatory capital needs by more than two times. At the end of FY10, total economic capital requirements were \$141m, compared to \$212m 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 FY10, the Group has continued to execute a number of strategies to strengthen its balance sheet, including:

- Finalisation of the transition to a policy of paying dividends within a range of 80–100% of NPAT on an annualised basis, with a goal to maximise fully franked dividends. This policy ensures that dividends do not exceed current year earnings. The FY10 dividend payout ratio was 99.8%.
- Initiation of a new DRP, commencing with the payment of the final dividend of FY09 in 1H10 and satisfying of the DRP demand of around 13% of the total dividend through the issue of new shares.
- Satisfying of the DRP demand for the FY10 interim dividend by issuing new shares to participants.
- Increase of the committed debt facility from our long-term banking partner from \$45.0m to \$70.0m in July 2009. The additional \$25.0m remains undrawn as at 24 August 2010.
- Continued improvement of the overall credit quality and liquidity of the Group's risk assets and continued reduction of exposure to structured products on the balance sheet.
- Focus 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 24 August 2010, there are no interest rate hedges against the drawn portion (\$45.0m) of this facility.

Operational debt facilities are used to finance customers 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 of its business:

- 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. We primarily invest our 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 we are willing to take credit risk. This can lead to concentrations of credit risk. We do 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 FY10, a 1% movement in the market changes annualised revenue by approximately \$2.0m to \$2.5m. 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 market-sensitive asset classes.

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 our 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).

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.

During FY09, the Group identified a number of operational errors. The Group has strengthened its Operations functions to enhance its fund accounting team and created a policies and procedures team whose function is to review all existing operational processes, implement control and procedural changes as required and ensure robust controls are established for new products. In FY10, the Group continued its review of all existing operational processes and controls and it identified some further operational errors to the value of approximately \$5.5m. However, this was offset by a \$4.5m reduction in the FY09 errors, leaving net operational errors in FY10 of \$1.0m. In addition, the review process discovered some additional revenue items of \$0.8m, which further reduced the profit before tax impact to a net \$0.2m. This compared to \$12.8m of total errors reported in FY09.

Financial strength

| At end of | | 1H09 | 2H09 | 1H10 | 2H10 | FY09 | FY10 |
|--|-------|--------|--------|--------|--------|--------|--------|
| Total equity | \$m | 261.0 | 290.0 | 347.5 | 361.0 | 290.0 | 361.0 |
| Cash | \$m | 107.7 | 146.1 | 179.0 | 187.5 | 146.1 | 187.5 |
| Corporate debt | \$m | (45.0) | (45.0) | (45.0) | (45.0) | (45.0) | (45.0) |
| Net cash | \$m | 62.7 | 101.1 | 134.0 | 142.5 | 101.1 | 142.5 |
| Corporate debt to capital ratio (corporate debt/(corporate debt + equity)) ⁽¹⁾ | % | 14.7 | 13.4 | 11.5 | 11.1 | 13.4 | 11.1 |
| Interest coverage calculation (EBITDA/interest expense) ⁽²⁾ for the period ended | times | 51x | 61x | 63x | 48x | 54x | 54x |
| Net tangible assets per share | \$ | 3.15 | 3.51 | 4.52 | 3.95 | 3.51 | 3.95 |

⁽¹⁾ Excludes structured product funding, 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.

At the end of FY10, Perpetual's gross corporate debt was \$45.0m. The Group's corporate debt to capital ratio remains low at 11.1% and is well within its stated risk appetite limit of 30%. FY10 interest coverage at 54 times, unchanged from FY09, was also well in excess of financial covenant requirements. Financial covenants under the debt facilities include minimum shareholders' funds, leverage and interest coverage ratios and caps on operational debt. At the end of FY10, we were in compliance with all of our debt covenants.

Corporate debt of \$45.0m is currently sourced solely from domestic banks and is presently limited to one provider, a long-term banking relationship.

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.

The Group increased its existing committed bank corporate debt facility during July 2009 to \$70.0m from \$45.0m to further strengthen its liquidity position. At 24 August 2010, \$25.0m remains undrawn.

Net tangible assets per share increased from \$3.51 at the end of FY09 to \$3.95 at the end of FY10.

Cash flow

| For the period ended | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Net cash from operating activities | 9.4 | 53.3 | 65.6 | 87.0 | 62.7 | 152.6 |
| Net cash provided by/(used in) investing activities | (26.3) | 2.1 | (9.5) | (38.8) | (24.2) | (48.3) |
| Net cash used in financing activities | (58.5) | (17.0) | (23.3) | (39.6) | (75.5) | (62.9) |
| Net increase/(decrease) in cash and cash equivalents | (75.4) | 38.4 | 32.8 | 8.6 | (37.0) | 41.4 |

FY10 operating cash flows of \$152.6m, versus \$62.7m in FY09, represent the underlying cash flows from the operating businesses, including significant items. Operating cash flows increased in FY10 in line with the overall improvement in the Group's financial performance, reflecting both the improved operating environment and the recovery of prior year losses of the EMCF.

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 smartsuper in 1H09, Financial Pursuit in 2H09, Grosvenor Financial Services in 1H10 and Fordham Business Advisors in 2H10. Net cash used in investing activities increased by \$24.1m in FY10, primarily reflecting the additional cash resources used to fund business acquisitions in Private Wealth.

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, i.e. the FY08 final dividend of \$59.2m was paid in 1H09, the FY09 interim dividend of \$17.0m was paid in 2H09, the FY09 final net cash dividend¹ of \$22.2m was paid in 1H10, and the FY10 net cash interim dividend² of \$39.4m was paid in 2H10. Cash used in financing activities declined by \$12.6m to \$62.9m in comparison to FY09. This reduction was principally driven by a reduction in cash dividends paid during the year in response to the transition to the revised dividend policy and the Group issuing new shares to satisfy demand from DRP participants.

Summary Consolidated Balance Sheet

| At end of | 1H09 ⁽¹⁾ \$m | FY09 ⁽¹⁾ \$m | 1H10 ⁽¹⁾ \$m | FY10 ⁽¹⁾ \$m |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Assets | | | | |
| Cash and cash equivalents | 107.7 | 146.1 | 179.0 | 187.5 |
| Liquid investments | 60.5 | 36.7 | 47.6 | 49.9 |
| Structured products – PPI loans to customers | 340.6 | 319.7 | 199.4 | 188.8 |
| Goodwill and other intangibles | 81.3 | 86.2 | 104.4 | 134.9 |
| Software intangibles | 23.2 | 26.5 | 27.4 | 28.6 |
| Other assets | 153.2 | 159.4 | 145.1 | 160.8 |
| Total assets | 766.5 | 774.6 | 702.9 | 750.5 |
| Liabilities | | | | |
| Corporate loan facility | 45.0 | 45.0 | 45.0 | 45.0 |
| Structured products – PPI finance facilities | 330.7 | 318.7 | 202.7 | 189.6 |
| Other liabilities | 129.8 | 120.9 | 107.7 | 154.9 |
| Total liabilities | 505.5 | 484.6 | 355.4 | 389.5 |
| Net assets | 261.0 | 290.0 | 347.5 | 361.0 |
| Shareholder funds | | | | |
| Contributed equity | 168.8 | 174.2 | 199.0 | 206.0 |
| Reserves | 24.6 | 43.3 | 49.6 | 56.9 |
| Retained earnings | 64.6 | 72.4 | 97.8 | 96.5 |
| Total shareholder funds | 258.0 | 289.9 | 346.4 | 359.4 |
| Minority interest | 3.0 | 0.1 | 1.1 | 1.6 |
| Total equity | 261.0 | 290.0 | 347.5 | 361.0 |

⁽¹⁾ Note: excludes the offsetting asset and liability for the EMCF structured product, which was \$2,091.9m in 1H09. At 2H09, the EMCF asset was \$1,495.8m, with the liability being \$1,498.3m. At 1H10, the EMCF asset was \$1,285.3m, with the liability being \$1,281.2m. At 2H10, the EMCF asset was \$1,191.1m, with the liability being \$1,190.3m. The net liability of \$2.5m at FY09 has been included above within other liabilities and \$4.1m at 1H10 and \$0.7m at FY10 with other assets.

Cash and cash equivalents continued to increase during FY10, with increased cash flows from operations and EMCF profits offset by the acquisitions of Grosvenor Financial Services and Fordham Business Advisors.

Liquid investments increased due to the combination of the rise in equity markets and the seeding of new managed fund investments.

Structured product loans to customers declined in FY10 due to loan repayments from customers. Most repayments occurred in August 2009. This, in turn, has reduced the PPI finance facility liability by a similar amount.

Goodwill and other intangibles have increased during FY10 with the acquisition of Grosvenor Financial Services and Fordham Business Advisors. Other intangibles are amortised over their useful life.

¹ Total dividend paid was \$25.5m; however, \$3.3m was paid in the form of new shares issued to shareholders who elected to participate in the Company's Dividend Reinvestment Plan.

² Total dividend paid was \$45.4m; however \$6.0m was paid in the form of new shares issued to shareholders who elected to participate in the Company's Dividend Reinvestment Plan.

Net tangible assets increased from \$149.1m at the end of FY09 to \$171.5m at the end of FY10, reflecting an increase in issued capital, total comprehensive income in excess of dividends paid and favourable movements in reserves less increases in net intangible assets that occurred through the year.

Management conducted an impairment review of all non-financial assets at the end of FY10 and determined that no impairment charges were required.

The expected amortisation for FY11 and the next three financial years of existing identifiable intangible assets that have arisen in recent acquisitions is as follows:

| | FY11 \$m | FY12 \$m | FY13 \$m | FY14 \$m |
|---|-------------|-------------|-------------|-------------|
| Amortisation of identifiable intangibles ⁽¹⁾ | 3.7 | 3.1 | 2.4 | 2.4 |

⁽¹⁾ Based on \$21.3m net book value at end FY10.

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 FY10 due to shares being issued under the DRP on the FY09 final dividend and the FY10 interim dividend, the acquisition of Grosvenor Financial Services and the issue of shares as employee share plans have vested.

The minority interest comprises third party interests in consolidated funds managed by the Group.

Appendix A: Segment results

| For the period ended | Operating Revenue | | | | | | EBITDA ⁽¹⁾ | | | | | | Profit before/ after tax | | | | | |
|--|-------------------|-------------|-------------|-------------|-------------|-------------|-----------------------|-------------|-------------|-------------|-------------|-------------|--------------------------|-------------|-------------|-------------|-------------|-------------|
| | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m | 1H09 \$m | 2H09 \$m | 1H10 \$m | 2H10 \$m | FY09 \$m | FY10 \$m |
| Perpetual Investments | 105.4 | 97.6 | 105.9 | 111.0 | 203.0 | 216.9 | 49.1 | 35.8 | 51.5 | 50.9 | 84.9 | 102.4 | 35.7 | 23.3 | 36.9 | 35.2 | 59.0 | 72.1 |
| Private Wealth | 45.0 | 40.7 | 47.4 | 64.2 | 85.7 | 111.6 | 19.7 | 13.8 | 16.8 | 20.9 | 33.5 | 37.7 | 17.4 | 11.7 | 14.5 | 18.1 | 29.1 | 32.6 |
| Corporate Trust | 41.0 | 39.3 | 41.6 | 45.9 | 80.3 | 87.5 | 21.7 | 17.9 | 19.4 | 16.2 | 39.6 | 35.6 | 20.0 | 16.1 | 17.8 | 14.5 | 36.1 | 32.3 |
| Group and Support Services | 3.2 | 2.9 | 5.2 | 5.1 | 6.1 | 10.3 | (9.5) | (12.8) | (12.2) | (11.5) | (22.3) | (23.7) | (11.0) | (15.0) | (15.2) | (14.1) | (26.0) | (29.3) |
| Underlying profit before tax and significant items | 194.6 | 180.5 | 200.1 | 226.2 | 375.1 | 426.3 | 81.0 | 54.7 | 75.5 | 76.5 | 135.7 | 152.0 | 62.1 | 36.1 | 54.0 | 53.7 | 98.2 | 107.7 |
| Income tax expense | | | | | | | | | | | | | (20.5) | (12.0) | (17.6) | (17.3) | (32.5) | (34.9) |
| Underlying profit after tax (UPAT)⁽²⁾ before significant items | | | | | | | | | | | | | 41.6 | 24.1 | 36.4 | 36.4 | 65.7 | 72.8 |
| Significant items: | | | | | | | | | | | | | | | | | | |
| › EMCF gains/ (losses) | | | | | | | | | | | | | (14.9) | 1.1 | 11.1 | 9.2 | (13.8) | 20.3 |
| › Gain/(loss) on sale/impairment of investments | | | | | | | | | | | | | (4.1) | (2.0) | 1.7 | (4.3) | (6.1) | (2.6) |
| › Restructuring costs | | | | | | | | | | | | | (8.4) | 0.3 | - | - | (8.1) | - |
| Net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders | | | | | | | | | | | | | 14.2 | 23.5 | 49.2 | 41.3 | 37.7 | 90.5 |

⁽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

| | 1H10 | | | | | 2H10 | | | | | FY10 | | | | |
|-----------------------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|---------------|-------------|--------------|-------------|-------------|---------------|--------------|
| | PI | PW | CT | Group & SS | Total | PI | PW | CT | Group & SS | Total | PI | PW | CT | Group & SS | Total |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Operating revenue | 105.9 | 47.4 | 41.6 | 5.2 | 200.1 | 111.0 | 64.2 | 45.9 | 5.1 | 226.2 | 216.9 | 111.6 | 87.5 | 10.3 | 426.3 |
| Operating expenses | (54.4) | (30.6) | (22.2) | (17.4) | (124.6) | (60.1) | (43.3) | (29.7) | (16.6) | (149.7) | (114.5) | (73.9) | (51.9) | (34.0) | (274.3) |
| EBITDA | 51.5 | 16.8 | 19.4 | (12.2) | 75.5 | 50.9 | 20.9 | 16.2 | (11.5) | 76.5 | 102.4 | 37.7 | 35.6 | (23.7) | 152.0 |
| Depreciation & amortisation | (2.9) | (1.4) | (1.5) | (1.2) | (7.0) | (2.4) | (2.5) | (1.6) | (1.2) | (7.7) | (5.3) | (3.9) | (3.1) | (2.4) | (14.7) |
| Equity remuneration | (11.7) | (0.9) | (0.1) | (0.6) | (13.3) | (13.3) | (0.3) | (0.1) | 0.2 | (13.5) | (25.0) | (1.2) | (0.2) | (0.4) | (26.8) |
| EBIT | 36.9 | 14.5 | 17.8 | (14.0) | 55.2 | 35.2 | 18.1 | 14.5 | (12.5) | 55.3 | 72.1 | 32.6 | 32.3 | (26.5) | 110.5 |
| Interest expense | - | - | - | (1.2) | (1.2) | - | - | - | (1.6) | (1.6) | - | - | - | (2.8) | (2.8) |
| UPBT | 36.9 | 14.5 | 17.8 | (15.2) | 54.0 | 35.2 | 18.1 | 14.5 | (14.1) | 53.7 | 72.1 | 32.6 | 32.3 | (29.3) | 107.7 |

| | 1H09 | | | | | 2H09 | | | | | FY09 | | | | |
|-----------------------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|---------------|--------------|
| | PI | PW | CT | Group & SS | Total | PI | PW | CT | Group & SS | Total | PI | PW | CT | Group & SS | Total |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Operating revenue | 105.4 | 45.0 | 41.0 | 3.2 | 194.6 | 97.6 | 40.7 | 39.3 | 2.9 | 180.5 | 203.0 | 85.7 | 80.3 | 6.1 | 375.1 |
| Operating expenses | (56.3) | (25.3) | (19.3) | (12.7) | (113.6) | (61.8) | (26.9) | (21.4) | (15.7) | (125.8) | (118.1) | (52.2) | (40.7) | (28.4) | (239.4) |
| EBITDA | 49.1 | 19.7 | 21.7 | (9.5) | 81.0 | 35.8 | 13.8 | 17.9 | (12.8) | 54.7 | 84.9 | 33.5 | 39.6 | (22.3) | 135.7 |
| Depreciation & amortisation | (2.3) | (1.1) | (1.6) | (1.1) | (6.1) | (3.1) | (1.3) | (1.7) | (1.0) | (7.1) | (5.4) | (2.4) | (3.3) | (2.1) | (13.2) |
| Equity remuneration | (11.1) | (1.2) | (0.1) | 1.2 | (11.2) | (9.4) | (0.8) | (0.1) | (0.3) | (10.6) | (20.5) | (2.0) | (0.2) | 0.9 | (21.8) |
| EBIT | 35.7 | 17.4 | 20.0 | (9.4) | 63.7 | 23.3 | 11.7 | 16.1 | (14.1) | 37.0 | 59.0 | 29.1 | 36.1 | (23.5) | 100.7 |
| Interest expense | - | - | - | (1.6) | (1.6) | - | - | - | (0.9) | (0.9) | - | - | - | (2.5) | (2.5) |
| UPBT | 35.7 | 17.4 | 20.0 | (11.0) | 62.1 | 23.3 | 11.7 | 16.1 | (15.0) | 36.1 | 59.0 | 29.1 | 36.1 | (26.0) | 98.2 |

PI = Perpetual Investments

PW = Private Wealth

CT = Corporate Trust

Group & SS = Group & Support Services

Appendix B: Average FUM

| Average FUM | 1H08 \$b | 2H08 \$b | 1H09 \$b | 2H09 \$b | 1H10 \$b | 2H10 \$b | FY09 \$b | FY10 \$b | % change |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Australian equities | 25.4 | 21.0 | 16.9 | 13.8 | 17.8 | 18.7 | 15.3 | 18.3 | 20% |
| Global equities | 1.7 | 1.4 | 1.2 | 1.1 | 1.3 | 1.3 | 1.2 | 1.3 | 8% |
| Quantitative investments | 1.4 | 1.4 | 1.2 | 1.0 | 0.9 | 0.4 | 1.1 | 0.6 | -45% |
| Equities | 28.5 | 23.8 | 19.3 | 15.9 | 20.0 | 20.4 | 17.6 | 20.2 | 15% |
| Cash and fixed interest | 9.3 | 8.2 | 7.9 | 7.6 | 7.3 | 6.8 | 7.7 | 7.0 | -9% |
| Other | 1.0 | 1.2 | 1.2 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 | 0% |
| Total | 38.8 | 33.2 | 28.4 | 24.6 | 28.4 | 28.4 | 26.5 | 28.4 | 7% |

Glossary

| | | | |
|------|---|--------|---|
| 1H08 | Six months ended 31 December 2007 | 2H08 | Six months ended 30 June 2008 |
| 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 |
| ABS | Asset backed securities | ADI | Approved deposit-taking institution |
| AICD | Australian Institute of Company Directors | AERF | Australian Eligible Rollover Fund, which is a superannuation fund that accepts member benefits from other superannuation funds for people who may have been lost by that fund or are no longer eligible for membership of that fund |
| AOFM | Australian Office of Financial Management | APRA | Australian Prudential Regulation Authority |
| ARCC | Audit Risk and Compliance Committee | ASX | Australian Securities Exchange |
| AUD | Australian dollar | b | Billion |
| bps | Basis point (0.01 of 1%) | CMBS | Commercial mortgage backed securities |
| CPPI | Constant proportion portfolio insurance | 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 |
| EUR | Euro currency unit | Finsia | Financial Services Institute of Australasia |
| FTE | Full time equivalent | FUA | Funds under advice or funds under administration |
| FUM | Funds under management | FY08 | 12 months ended 30 June 2008 |
| FY09 | 12 months ended 30 June 2009 | FY10 | 12 months ended 30 June 2010 |
| FY11 | 12 months ended 30 June 2011 | Group | Perpetual Limited and its controlled entities (the consolidated entity) and the consolidated entity's interests in associates |
| GFC | Global Financial Crisis | IDPS | Investor Direct Portfolio Services |
| LTI | Long-term incentive | m | Million |
| MTM | Mark-to-market | 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 | SAF | Small APRA fund |
| SMSF | Self managed superannuation fund | TSR | Total shareholder return |
| UPAT | Underlying profit after tax | | |