

Financial Statements of Perpetual Limited and its controlled entities for the year ended 30 June 2010

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Statement of Comprehensive Income for the year ended 30 June 2010

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Revenue from the provision of services		407,923	365,528
Income from structured products		83,595	107,440
Investment income		14,422	9,570
	3	505,940	482,538
Staff related expenses excluding equity remuneration expense	4	(195,441)	(168,584)
Occupancy expenses		(18,734)	(17,019)
Administrative and general expenses		(60,076)	(61,423)
Distributions and expenses relating to structured products		(50,606)	(127,169)
Earnings before interest, tax, depreciation, amortisation, equity remuneration expense, profit/(loss) on disposal of investments, impairment of available-for-sale securities and share of profit/(loss) of equity accounted investees		181,083	108,343
Financing costs		(2,772)	(2,507)
Equity remuneration expense	4	(26,755)	(25,930)
Depreciation and amortisation expense	4	(14,857)	(13,163)
		(44,384)	(41,600)
Proceeds from sale of investments		36,977	60,328
Cost of investments disposed		(33,064)	(67,001)
Profit/(loss) on disposal of investments	5	3,913	(6,673)
Impairment of available-for-sale securities	5	(7,085)	(1,065)
Share of profit/(loss) of equity accounted investees, net of income tax		(16)	111
Net profit before tax		133,511	59,116
Income tax expense		(43,573)	(23,082)
Income tax benefit on disposal of investments		784	1,657
Income tax expense	8	(42,789)	(21,425)
Net profit after tax		90,722	37,691
(Profit)/loss after tax attributable to non-controlling interests		(216)	58
Net profit after tax attributable to equity holders of Perpetual Limited		90,506	37,749

The Statement of Comprehensive Income is to be read in conjunction with the 'Notes to the Financial Statements' set out on pages 7 to 76.

Statement of Comprehensive Income for the year ended 30 June 2010 (continued)

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Net profit after tax		90,722	37,691
Other comprehensive income/(expense), net of tax			
Available-for-sale reserve			
Reclassification of available-for-sale financial assets upon impairment		5,259	1,065
Reclassification of previously impaired available-for-sale financial assets upon disposal		(423)	(2,279)
Net change in fair value of available-for-sale financial assets		2,051	(7,709)
Cash flow hedge reserve			
Effective portion of changes in fair value of cash flow hedges		301	(3,599)
Foreign currency reserve			
Foreign exchange translation differences		(2,856)	197
Other comprehensive income/(expense), net of income tax		4,332	(12,325)
Total comprehensive income		<u>95,054</u>	<u>25,366</u>
Total comprehensive income is attributable to:			
Non-controlling interests		216	(58)
Equity holders of Perpetual Limited		94,838	25,424
Total comprehensive income		<u>95,054</u>	<u>25,366</u>
Basic earnings per share attributable to ordinary equity holders – cents per share	11	<u>227.1</u>	<u>96.0</u>
Diluted earnings per share attributable to ordinary equity holders – cents per share	11	<u>210.5</u>	<u>89.4</u>

The Statement of Comprehensive Income is to be read in conjunction with the 'Notes to the Financial Statements' set out on pages 7 to 76.

Balance Sheet as at 30 June 2010

		Consolidated	
	Note	2010 \$'000	2009 \$'000
Current assets			
Cash and cash equivalents	12	187,539	146,138
Receivables	13	86,843	78,148
Other financial assets	14	100	100
Structured products – EMCF assets	29	1,191,066	1,495,790
Structured products – receivable from investors	29	26,157	108,935
Derivative financial instruments	16	11	145
Prepayments	19	7,447	11,820
Total current assets		1,499,163	1,841,076
Non-current assets			
Receivables	13	3,648	4,200
Interest in associates using the equity method	15	-	6,924
Shares in other companies, investments in unlisted unit trusts and other financial assets	14	49,949	36,709
Structured products – loans receivable	29	162,675	210,716
Property, plant and equipment	17	27,796	27,730
Intangibles	18	163,508	112,660
Deferred tax assets	9	33,219	30,381
Prepayments	19	858	-
Total non-current assets		441,653	429,320
Total assets		1,940,816	2,270,396
Current liabilities			
Payables	20	40,661	35,442
Structured products – EMCF liabilities	29	1,190,342	1,498,254
Structured products – interest-bearing liabilities	29	24,818	107,683
Structured products – income received in advance	21	13,918	13,563
Derivative financial instruments	16	662	821
Current tax liabilities		16,736	150
Employee benefits	26	35,880	29,296
Provisions	23	7,670	6,796
Total current liabilities		1,330,687	1,692,005
Non-current liabilities			
Payables	20	6,206	1,819
Interest-bearing liabilities	22	45,000	45,000
Structured products – interest-bearing liabilities	29	164,807	211,065
Deferred tax liabilities	9	7,198	2,137
Employee benefits	26	2,894	2,371
Provisions	23	23,000	25,958
Total non-current liabilities		249,105	288,350
Total liabilities		1,579,792	1,980,355
Net assets		361,024	290,041
Equity			
Contributed equity	24	206,017	174,222
Reserves	25	56,861	43,298
Retained earnings		96,494	72,413
Total equity attributable to holders of Perpetual Limited		359,372	289,933
Non-controlling interest		1,652	108
Total equity		361,024	290,041

The Balance Sheet is to be read in conjunction with the 'Notes to the Financial Statements' set out on pages 7 to 76

Statement of Changes in Equity for the year ended 30 June 2010

Consolidated	Gross contributed equity	Treasury share reserve	Total contributed equity	Available-for-sale reserve	General reserve	Foreign currency translation reserve	Equity compensation reserve	Cash flow hedge reserve	Total reserves	Retained earnings	Total	Non-controlling interest	Total
\$'000													
Balance at 1 July 2009	347,350	(173,128)	174,222	(4,016)	103	(491)	48,457	(755)	43,298	72,413	289,933	108	290,041
Total comprehensive income/(expense)	-	-	-	6,887	-	(2,856)	-	301	4,332	90,506	94,838	216	95,054
Issue of ordinary shares	19,864	-	19,864	-	-	-	-	-	-	-	19,864	-	19,864
Employee Share Purchase Plan loan repayments during the year	-	157	157	-	-	-	-	-	-	-	157	-	157
Treasury shares issued during the year	17,584	(17,584)	-	-	-	-	-	-	-	-	-	-	-
Treasury shares purchased on market	-	(1,271)	(1,271)	-	-	-	-	-	-	-	(1,271)	-	(1,271)
Treasury shares vested during the year	-	13,110	13,110	-	-	-	(13,110)	-	(13,110)	-	-	-	-
Fair value adjustment on recycled and vested TSR shares	(5,406)	5,406	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares used to purchase equity	-	(65)	(65)	-	-	-	65	-	65	-	-	-	-
Dividends paid to shareholders	-	-	-	-	-	-	-	-	-	(70,904)	(70,904)	-	(70,904)
Dividends paid on treasury shares	-	-	-	-	-	-	(4,479)	-	(4,479)	4,479	-	-	-
Equity remuneration expense	-	-	-	-	-	-	26,755	-	26,755	-	26,755	-	26,755
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	1,328	1,328
Balance at 30 June 2010	379,392	(173,375)	206,017	2,871	103	(3,347)	57,688	(454)	56,861	96,494	359,372	1,652	361,024

Consolidated	Gross contributed equity	Treasury share reserve	Total contributed equity	Available-for-sale reserve	General reserve	Foreign currency translation reserve	Equity compensation reserve	Cash flow hedge reserve	Total reserves	Retained earnings	Total	Non-controlling interest	Total
\$'000													
Balance at 1 July 2008	324,703	(160,892)	163,811	4,907	103	(688)	37,114	2,844	44,280	105,574	313,665	745	314,410
Total comprehensive income/(expense)	-	-	-	(8,923)	-	197	-	(3,599)	(12,325)	37,749	25,424	(58)	25,366
Options exercised	2,347	-	2,347	-	-	-	(1,250)	-	(1,250)	-	1,097	-	1,097
Employee Share Purchase Plan loan repayments during the year	-	394	394	-	-	-	-	-	-	-	394	-	394
Treasury shares issued during the year	26,153	(26,153)	-	-	-	-	-	-	-	-	-	-	-
Treasury shares purchased on market	-	(410)	(410)	-	-	-	-	-	-	-	(410)	-	(410)
Treasury shares vested during the year	-	8,534	8,534	-	-	-	(8,534)	-	(8,534)	-	-	-	-
Fair value adjustment on recycled and vested TSR shares	(5,853)	6,003	150	-	-	-	(150)	-	(150)	-	-	-	-
Dividends on treasury shares used to purchase equity	-	(604)	(604)	-	-	-	604	-	604	-	-	-	-
Dividends paid to shareholders	-	-	-	-	-	-	-	-	-	(76,167)	(76,167)	-	(76,167)
Dividends paid on treasury shares	-	-	-	-	-	-	(5,257)	-	(5,257)	5,257	-	-	-
Equity remuneration expense	-	-	-	-	-	-	25,930	-	25,930	-	25,930	-	25,930
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(579)	(579)
Balance at 30 June 2009	347,350	(173,128)	174,222	(4,016)	103	(491)	48,457	(755)	43,298	72,413	289,933	108	290,041

The Statement of Changes in Equity is to be read in conjunction with the "Notes to the Financial Statements" set out on pages 7 to 76

Cash Flow Statement for the year ended 30 June 2010

	Note	Consolidated	
		2010	2009
		\$'000	\$'000
Cash flows from operating activities			
Cash receipts in the course of operations		484,067	406,814
Cash payments in the course of operations		(310,896)	(312,969)
Dividends received		838	1,196
Interest received		12,386	5,898
Interest paid		(2,772)	(2,507)
Income taxes paid		(31,070)	(35,707)
Net cash from operating activities	35	<u>152,553</u>	<u>62,725</u>
Cash flows from investing activities			
Payments for property, plant, equipment and software		(11,816)	(14,035)
Payments for investments		(38,141)	(42,933)
Repayments of advances made under the Employee Share Purchase Plan		157	394
Acquisition of businesses, net of cash acquired		(35,449)	(19,173)
Proceeds from the sale of investments		36,977	60,328
Tax paid on sale of investments		-	(8,799)
Net cash used in investing activities		<u>(48,272)</u>	<u>(24,218)</u>
Cash flows from financing activities			
Proceeds from issue of shares		9,295	1,097
Payments for on market share purchase		(1,271)	(410)
Dividends paid		(70,904)	(76,167)
Net cash used in financing activities		<u>(62,880)</u>	<u>(75,480)</u>
Net increase / (decrease) in cash and cash equivalents		41,401	(36,973)
Cash and cash equivalents at 1 July		<u>146,138</u>	<u>183,111</u>
Cash and cash equivalents at 30 June	12	<u><u>187,539</u></u>	<u><u>146,138</u></u>

The Cash Flow Statement is to be read in conjunction with 'Notes to the Financial Statements' set out on pages 7 to 76.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 1. Reporting entity

Perpetual Limited (the Company) is domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2010 comprises the Company and its controlled entities (together referred to as the consolidated entity) and the consolidated entity's interests in associates.

The financial report was authorised for issue by the directors on 24th August 2010.

The consolidated annual report for the consolidated entity as of and for the year ended 30 June 2010 is available at www.perpetual.com.au.

Note 2. Summary of significant accounting policies

a. Statement of compliance

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report of the consolidated entity also complies with International Financial Reporting Standards and interpretations (IFRS) adopted by the International Accounting Standards Board (IASB).

b. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative financial instruments which are measured at fair value. Non-current assets are stated at the lower of carrying amount or fair value less selling costs.

The consolidated financial statements are presented in Australian dollars, which is the functional currency of the majority of the consolidated entity. Functional currency is the currency of the primary economic environment in which the company operates.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial report is disclosed in:

- Note 9. Deferred tax assets/(liabilities)
- Note 16. Derivative financial instruments
- Note 18. Intangibles
- Note 23. Provisions
- Note 26. Employee benefits
- Note 29. Structured products assets and liabilities
- Note 31. Contingencies
- Note 36. Business combinations

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

b. Basis of preparation (continued)

Starting as of 1 July 2009, the consolidated entity has changed its accounting policies in the following areas:

- Accounting for business combinations
- Determination and presentation of operating segments
- Presentation of financial statements

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by the consolidated entity, except as explained in accounting policy notes 2c(i), 2e(i), 2g and 2z(a), which address changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

c. Basis of consolidation

(i) Business combinations

Change in accounting policy

The consolidated entity has adopted revised *AASB 3 Business Combinations (2008)* and amended *AASB 127 Consolidated and Separate Financial Statements (2008)* for business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

The consolidated entity has applied the acquisition method for the business combination disclosed in note 36.

For every business combination, the consolidated entity identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the consolidated entity takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The consolidated entity measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the consolidated entity to the previous owners of the acquiree, and equity interests issued by the consolidated entity. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the consolidated entity and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

c. Basis of consolidation (continued)

(i) Business combinations (continued)

Share-based payment awards

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If the replacement awards require future services, then the difference between the amount included in consideration transferred and the market based measure of the replacement awards is treated as post-combination compensation cost.

Contingent liabilities

A contingent liability of the acquiree is recognised in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The consolidated entity measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the consolidated entity incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights presently exercisable are taken into account. Financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(iii) Share plan entities

The consolidated entity has established a number of share plan entities (SPE) in relation to the administration of employee share plans rather than for trading and investment purposes. A SPE is consolidated if, based on an evaluation of the substance of its relationships within the consolidated entity and the SPE's risks and rewards, the consolidated entity concludes that it controls the SPE. SPEs controlled by the consolidated entity were established under terms that impose strict limitations on the decision making powers of the SPE's management and that result in the consolidated entity receiving the majority of the benefits related to the SPE operations and net assets, being exposed to risks incidental to the SPE's activities and retaining the majority of the residual or ownership risks related to the SPE or their assets.

(iv) Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the consolidated entity holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method. The consolidated financial statements include the consolidated entity's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the consolidated entity, from the date significant influence commences until the date significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations to make payments on behalf of an associate.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

c. Basis of consolidation (continued)

(v) Transactions eliminated on consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the consolidated entity's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the associates or, if not consumed or sold, when the consolidated entity's interest in such entities is disposed of.

d. Foreign currency translation

(i) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on financial assets and liabilities carried at fair value are reported as part of their fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in profit and loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the available for sale reserve in equity.

(ii) Foreign operations

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into Australian dollars as follows:

- Assets and liabilities for each Balance Sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign currency differences are recognised in other comprehensive income. Since 1 July 2004, the consolidated entity's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss or to non-controlling interest as part of the profit or loss on disposal.

e. Intangible assets

(i) Goodwill

Change in accounting policy

As from 1 July 2009, the consolidated entity has adopted the revised *AASB 3 Business Combinations (2008)* and the amended *AASB 127 Consolidated and Separate Financial Statements (2008)*. Revised *AASB 3* and amended *AASB 127* have been applied prospectively to business combinations with an acquisition date on or after 1 July 2009. The change in accounting policy had no material impact on earnings per share.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

e. Intangible assets (continued)

(i) Goodwill (continued)

Measurement

Goodwill represents the excess of acquisition cost over the fair value of the consolidated entity's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisition of subsidiaries is presented with intangible assets and on acquisition of associates is included in investment in associates. Goodwill is allocated to cash-generating units and is not amortised, but tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. When impaired, goodwill is carried at cost less accumulated impairment losses (see accounting policy u).

For details on the initial recognition and measurement of goodwill related to business combinations that occurred during the financial year ended 30 June 2010, see note 36.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised directly in profit or loss on the Statement of Comprehensive Income.

(ii) Software

Certain internal and external costs directly incurred in acquiring and developing software have been capitalised and are amortised over their useful life. Development costs include only those costs directly attributable to the development phase and are only recognised following completion of a technical feasibility study and where the consolidated entity has an intention and ability to use the asset. Costs incurred on software maintenance are expensed as incurred.

(iii) Other intangible assets

Other intangible assets acquired by the consolidated entity, which have finite useful lives, are stated at cost less accumulated amortisation (refer to accounting policy e (v)) and impairment losses (see accounting policy u).

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

Amortisation is recognised in profit and loss on a straight-line basis over the period the benefits from the assets arise, unless these assets are indefinite life assets. Goodwill and other intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date or more frequently if events or changes in circumstances indicate that they might be impaired. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives in the current and comparative periods are as follows:

- capitalised software costs: 2.5 - 7 years
- funds under management acquired: 5 years
- customer contracts and relationships acquired: 5 - 10 years.

The useful life of Talisman, our core unit registry system, was amended to 7 years from 1 January 2010 (2009: 4 years). This resulted in a reduction in amortisation of \$566,000 in the financial year.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

f. Revenue and income recognition

Revenue is recognised at fair value of consideration received or receivable net of goods and services tax payable to the taxation authority.

(i) Revenue from the provision of services

Revenue is earned from provision of services to customers outside the consolidated entity. Revenue is recognised when services are provided.

(ii) Income from structured products

Refer to accounting policy (l) for details on income from structured products.

(iii) Investment income

Interest income is recognised as it accrues taking into account the effective yield of the financial asset.

Dividend income is recognised in profit or loss on the date the entity's right to receive payment is established which, in the case of quoted securities, is the ex-dividend date.

Unit trust distributions are recognised in profit or loss as they are received.

(iv) Proceeds from sale of investments

Net gains or losses on disposal of non-current assets are included in profit or loss. The gain or loss arising from disposal of an item of property, plant and equipment is determined as the difference between net disposal proceeds, being the cash price equivalent where payment is deferred, and the carrying amount of the item.

Profit or loss on disposal of assets is brought to account at the date an unconditional contract of sale is signed.

g. Segment reporting

As of 1 July 2009, the consolidated entity determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (CEO), who is the consolidated entity's chief operating decision maker. The change in accounting policy is due to the adoption of *AASB 8 Operating Segments*. Previously operating segments were determined and presented in accordance with *AASB 114 Segment Reporting*. The new accounting policy in respect of operating segment disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of *AASB 8*. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. All operating segments' operating results are regularly reviewed by the consolidated entity's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax expenses, assets and liabilities.

h. Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between initial carrying amount and redemption value being recognised in the profit or loss over the period of the borrowings using the effective interest method.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

h. Interest-bearing borrowings (continued)

Interest-bearing borrowings are removed from the Balance Sheet when the obligation specified in the contract is discharged, cancelled or expired.

i. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the net profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of goodwill
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit
- differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(i) Tax consolidation

The Company and its wholly owned Australian resident entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Perpetual Limited.

Current tax expense, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'group allocation' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

i. Income tax (continued)

(i) Tax consolidation (continued)

Current tax liabilities or assets and deferred tax assets arising from unused tax losses and tax credits of subsidiaries are assumed by the Company in the tax-consolidated group and are recognised as amounts payable to or receivable from other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer accounting policy i (ii)). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out funding obligations of members of the tax-consolidated group in respect of tax amounts.

The tax funding arrangements require payments to or from the head entity equal to the current tax liability or asset assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-company receivable or payable equal to the tax liability or asset assumed. The inter-company receivable or payable is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity, in conjunction with other members of the tax consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

j. Goods and services tax

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

Receivables and payables are stated with GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statements on a gross basis. GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

k. Investments

(i) Held-to-maturity investments

Investments are classified as held-to-maturity if the consolidated entity has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

k. Investments (continued)

(ii) Available-for-sale financial assets

The consolidated entity's investments in equity securities and unlisted unit trusts are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy u), are recognised in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

The fair value of financial instruments classified as available-for-sale is their quoted bid price at the reporting date.

(iii) Investments at fair value through profit or loss

Investments are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. The consolidated entity's derivative instruments within asset management incubation funds are classified as held for trading financial assets. On initial recognition, attributable transaction costs are recognised in profit or loss when incurred.

Financial instruments designated at fair value through profit or loss are measured at fair value and changes recognised in profit or loss.

l. Structured products

Structured products comprise products sold to investors where there is residual risk taken by the Company. Currently, structured products comprise products such as the Exact Market Cash Funds (the EMCF product) and Perpetual Protected Investments (PPI).

(i) Exact Market Cash Funds

The EMCF product consisting of two Funds (EMCF 1 and EMCF 2) is consolidated as the consolidated entity is deemed to control the EMCF Funds since it retains the residual risks and benefits through the swap agreements. The swap agreements result in the benchmark rate of return being paid to the unit holders in the Fund. The swap agreements are inter-company transactions between a subsidiary of the Company and the Funds and are eliminated on consolidation.

Assets and liabilities of the EMCF product are disclosed separately on the face of the Balance Sheet as structured product assets and structured product liabilities. The benchmark return generated by the EMCF product and distributions to unit holders are shown separately on the Statement of Comprehensive Income as distributions and expenses related to structured products.

The financial assets represented by the structured products assets balance are accounted for in accordance with the underlying accounting policies of the consolidated entity. These consist of investments accounted for at fair value as available-for-sale financial assets.

(ii) Perpetual Protected Investments

Loans to investors which are held as non-current assets at amortised cost on the Balance Sheet (refer to structured products - loan receivables) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans to investors are subject to recurring review and assessment for possible impairment. Provisions for loan losses are based on an incurred loss model, which recognises a provision where there is objective evidence of impairment at each balance sheet date, and are calculated based on the discounted values of expected future cash flows.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

I. Structured products (continued)

(ii) Perpetual Protected Investments (continued)

The incurred loss model makes specific provision where specific loan impairment is identified. For individual loans not impaired, assets with similar risk profiles are pooled and collectively assessed for losses that may have been incurred but not yet identified. Bad debts are written off in the period in which they are identified.

Management makes judgements whether there is any observable data indicating that there is a significant decrease in the estimated future cash flows from a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrowers in a group, or national or local economic conditions that correlate with defaults on assets in that group.

m. Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses (see accounting policy u).

Cost includes expenditures that are directly attributable to the acquisition of the asset. Cost of self-constructed assets includes cost of materials, direct labour, an appropriate proportion of overheads and where relevant, the initial estimate of the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The consolidated entity recognises the cost of replacing part of an item of property, plant and equipment in the carrying amount of that item when the cost is incurred, it is probable that future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

(iii) Depreciation

Depreciation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

- plant and equipment: 4 - 10 years
- leasehold improvements: 3 - 15 years.

The residual value, useful life and depreciation method applied to an asset are reassessed at least annually.

n. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method less impairment losses (see accounting policy u).

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

n. Loans and receivables (continued)

Loans and receivables comprise trade and other receivables. Refer to accounting policy l(ii) for structured-products loan receivables.

o. Expenses

(i) Operating leases

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the lease. Incentives received by the consolidated entity on entering a lease agreement are recognised on a straight-line basis over the term of the lease.

The difference between the cash amount paid and the amount recognised as an expense is recognised as a lease provision in the Balance Sheet (see accounting policy q). The provision is expected to be realised over the term of the underlying leases.

(ii) Financing costs

Financing costs comprise interest payments on borrowings and derivative financial instruments calculated using the effective interest method, and unwinding of discounts on provisions.

p. Payables

Payables are non-interest bearing and are stated at amortised cost, with the exception of contingent consideration which is recorded at fair value at the acquisition date.

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

q. Provisions

A provision is recognised in the Balance Sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Management exercise judgement in estimating provision amounts. It may be possible, based on existing knowledge, that outcomes in the next annual reporting period differ from amounts provided and may require adjustment to the carrying amount of the liability affected.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(i) Onerous leases and make good

A provision for onerous leases is recognised when the expected benefits to be derived by the consolidated entity from a lease contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the consolidated entity recognises any impairment loss on the assets associated with that contract. A provision for make good is recognised when the consolidated entity is responsible for the make good of leased premises on termination of operating leases.

ii) Operational process review

A provision for operational process reviews is recognised when operational errors in relation to unit pricing are identified and represents the cost that the consolidated entity expects to incur in rectification and restitution costs.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

q. Provisions (continued)

(iii) Self-insurance

Provision for self-insurance recognises incurred but not reported claims. These provisions are measured at the cost that the consolidated entity expects to incur in settling the claim, discounted using a government bond rate with a maturity date approximating the term of the obligation.

(iv) Legal provision

A provision for litigation is recognised when reported litigation claims arise and are measured at the cost that the consolidated entity expects to incur in settling the claim.

(v) Lease expense

A provision for lease expense represents the difference between the cash amount paid and the amount recognised as an expense. The provision is expected to be realised over the term of the underlying lease.

(vi) Employee benefits

Refer to accounting policy (x) for details on employee benefits provisions.

r. Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

s. Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased or held by employee share plans and subject to vesting conditions, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity.

(iii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

t. Cash and cash equivalents

Cash and cash equivalents comprise bank balances, deposits at call and short-term deposits.

u. Impairment

(i) Financial assets (including receivables)

A financial asset is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the consolidated entity on terms that the consolidated entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in fair value below its cost is objective evidence of impairment.

The consolidated entity considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the consolidated entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the available-for-sale reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

u. Impairment (continued)

(ii) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than deferred tax assets (see accounting policy i), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each balance sheet date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or CGU). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The consolidated entity's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

v. Derecognition of financial assets and liabilities

The consolidated entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the consolidated entity becomes a party to the contractual provisions of the instrument.

The consolidated entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the consolidated entity is recognised as a separate asset or liability.

Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the consolidated entity becomes a party to the contractual provisions of the instrument. The consolidated entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the consolidated entity has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

w. Derivative financial instruments

The consolidated entity holds derivative financial instruments within structured products and incubation funds to hedge its interest rate, foreign exchange and market risk exposures.

On initial designation of the hedge, the consolidated entity formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The consolidated entity makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Cash flow hedges

To the extent that the hedge is effective, changes in the fair value of a derivative hedging instrument designated as a cash flow hedge are recognised in the cash flow hedge reserve. To the extent that the hedge is ineffective, changes in fair value are recognised in the net profit and loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the net profit or loss in the same period that the hedged item affects profit and loss.

(ii) Other derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship, any changes in fair value are recorded in profit and loss.

x. Employee benefits

(i) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the periods during which services are rendered by employees.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

x. Employee benefits (continued)

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date. These liabilities are calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating benefits, such as sick leave, are not provided for but are expensed as the benefits are taken by the employees.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term bonus or profit-sharing plans if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee.

y. Share-based payment transactions

(i) Employee share purchase and option plans

Share option and share incentive programs allow employees to acquire shares in the Company. The fair value of shares and/or options granted under these programs is recognised as an employee expense with a corresponding increase in equity. Fair value is measured at grant date and amortised over the period during which employees become unconditionally entitled to the shares and/or options.

The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due to share prices not achieving their threshold for vesting.

(ii) Deferred staff incentives

The Company grants certain employees shares under long-term incentive and retention plans. Under these plans, shares vest to employees over relevant vesting periods. To satisfy the long-term incentives granted, the Company purchases or issues shares under the Executive Share Plan, Deferred Share Plan or the Global Employees Share Trust.

The fair value of the shares granted is measured by the share price adjusted for the terms and conditions upon which the shares were granted. This fair value is amortised on a straight-line basis over the applicable vesting period.

The consolidated entity make estimates on the number of shares that are expected to vest. Where appropriate, revised estimates are reflected in profit or loss with the corresponding adjustment to the equity compensation reserve. Where shares containing a market linked hurdle do not vest, due to total shareholder return not achieving the threshold for vesting, an adjustment is made to contributed equity and equity compensation reserve.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 2. Summary of significant accounting policies (continued)

z. Earnings per share

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for shares held by the Company's employee share plan trust. Diluted EPS is determined by dividing the net profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for shares held by Company's sponsored employee share plan trust and for the effects of all dilutive potential ordinary shares, which comprise shares and options granted to employees under long-term incentive and retention plans.

z(a). Presentation of financial statements

The consolidated entity applies revised *AASB 101 Presentation of Financial Statements (2007)*, which became effective as of 1 July 2009. As a result, the consolidated entity presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

z(b). New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the consolidated entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- *AASB 9 Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace *AASB 139 Financial Instruments : Recognition and Measurement*. *AASB 9* will become mandatory for the consolidated entity's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the consolidated entity adopts the standard for the year ended 30 June 2012 or earlier. The consolidated entity has not yet determined the potential effect of the standard.
- *AASB 124 Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government - related entities. The amendments, which will become mandatory for the consolidated entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- *AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* that affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have a significant impact on the consolidated entity's financial statements.
- *AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments *AI 8 Scope of AASB 2* and *AI 11 AASB 2 - Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the consolidated entity's 30 June 2011 financial statements, are not expected to have a significant impact on the consolidated entity's financial statements.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 3. Revenue		
Revenue from the provision of services		
Gross revenue from fees and commissions	407,923	365,528
Total revenue from the provision of services	<u>407,923</u>	<u>365,528</u>
Other income		
Income from structured products	83,595	107,440
Total other income	<u>83,595</u>	<u>107,440</u>
Investment income		
Dividends	901	1,075
Interest	13,213	5,741
Unit trust distributions	308	2,754
Total investment income	<u>14,422</u>	<u>9,570</u>
	<u>505,940</u>	<u>482,538</u>

Note 4. Net profit before tax

Net profit before tax has been arrived at after charging/(crediting) the following items:

Depreciation of property, plant and equipment:		
– Leasehold improvements	2,750	2,500
– Plant and equipment	2,996	2,345
	<u>5,746</u>	<u>4,845</u>
Amortisation of intangible assets:		
– Capitalised software	5,783	6,718
– Other intangible assets	3,328	1,600
	<u>9,111</u>	<u>8,318</u>
Depreciation and amortisation expense	<u>14,857</u>	<u>13,163</u>
Rental charges – operating leases	14,729	13,558
Net loss on sale of property, plant and equipment	78	470
Net movements in provision for:		
– Employee benefits	7,107	(7,580)
– Bad and doubtful debts	251	182
– Credit losses on structured products	1,644	991
Net foreign exchange gain	2,421	1,731

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 4. Net profit before tax (continued)		
Total staff related expenses:		
– Staff related expenses	195,441	168,584
– Equity remuneration expense	26,755	25,930
	222,196	194,514
Note 5. Individually significant items included in profit for the year		
Loss on disposal and impairment of investments:		
– Profit/(loss) on sale of part of investment portfolio	3,913	(6,673)
– Impairment of available-for-sale securities	(7,085)	(1,065)
Total loss on disposal of investments	(3,172)	(7,738)
Income tax benefit applicable	784	1,657
Total loss on disposal and impairment of investments after tax	(2,388)	(6,081)
Exact Market Cash Fund profit/(loss)	29,024	(19,729)
Income tax (expense)/benefit applicable	(8,707)	5,919
	20,317	(13,810)
Restructuring costs	-	(11,593)
Income tax benefit applicable	-	3,478
	-	(8,115)

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 6. Segment information

	Perpetual Investments ¹ \$'000	Private Wealth \$'000	Corporate Trust \$'000	Total \$'000
30 June 2010				
External revenues	284,603	122,807	85,628	493,038
Inter-segment revenue/(expense)	11,240	(11,240)	-	-
Interest revenue	759	6	1,840	2,605
Total revenue for reportable segment	296,602	111,573	87,468	495,643
Depreciation and amortisation	(5,471)	(3,944)	(3,064)	(12,479)
Reportable segment net profit before tax	101,027	32,581	32,349	165,957
Reportable segment assets	1,472,485	128,990	48,989	1,650,464
Reportable segment liabilities	(1,422,994)	(25,134)	(5,380)	(1,453,508)
Capital expenditure	1,006	3,702	766	5,474
30 June 2009				
External revenues	299,605	95,808	79,911	475,324
Inter-segment revenue/(expense)	10,062	(10,062)	-	-
Interest revenue	758	-	354	1,112
Total revenue for reportable segment	310,425	85,746	80,265	476,436
Depreciation and amortisation	(5,340)	(2,376)	(3,262)	(10,978)
Reportable segment net profit before tax	39,314	29,136	36,084	104,534
Reportable segment assets	1,915,684	63,079	43,553	2,022,316
Reportable segment liabilities	(1,867,083)	(14,093)	(7,643)	(1,888,819)
Capital expenditure	7,301	4,651	588	12,540

¹ Segment information for Perpetual Investments includes the Exact Market Cash Funds.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 6. Segment information (continued)		
Reconciliations of reportable segment revenues, net profit before tax, total assets and liabilities		
Revenues		
Total revenue for reportable segments	495,643	476,436
Group and Support Services revenue	10,297	6,102
Total group revenue	505,940	482,538
Net profit before tax		
Total net profit before tax for reportable segments	165,957	104,534
Financing costs	(2,772)	(2,507)
Profit/(loss) on disposal of investments	3,913	(6,673)
Impairment of available-for-sale securities	(7,085)	(1,065)
Share of (loss)/profit of equity accounted investees	(16)	111
Group and Support Services expenses	(26,486)	(35,284)
Net profit before tax	133,511	59,116
Total assets		
Total assets for reportable segments	1,650,464	2,022,316
Group and Support Services assets	290,352	241,156
Investments in equity accounted investees	-	6,924
Total assets	1,940,816	2,270,396
Total liabilities		
Total liabilities for reportable segments	1,453,508	1,888,819
Group and Support Services liabilities	126,284	91,536
Total liabilities	1,579,792	1,980,355

The consolidated entity has identified three operating segments based on the internal reports that are reviewed and used by the consolidated entity's CEO in assessing performance and in determining the allocation of resources. For each of the reportable segments, the consolidated entity's CEO reviews internal management reports on a monthly basis. The following summary describes the operations in each of the reportable segments:

a. Services provided

The consolidated entity operates in the financial services industry in Australia and provides wealth management and corporate trust services. The major services from which the reportable segments derive revenue are:

Perpetual Investments	Manufacturer of financial products, management and investment of monies on behalf of private, corporate, superannuation and institutional clients.
Private Wealth	Private Wealth provides a wide range of investment and non-investment products and services. These include a comprehensive advisory service, portfolio management, philanthropic, executorial and trustee services to high net worth and emerging high net worth Australians. Private Wealth also provides many of these services to charities, not for profit and other philanthropic organisations.
Corporate Trust	The Corporate Trust division provides fiduciary services incorporating safe-keeping and recording of assets and transactions as custodian, trustee, registrar or agent for corporate and financial services clients and mortgage processing services.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 6. Segment information (continued)

Reconciliations of reportable segment revenues, net profit before tax, total assets and liabilities (continued)

a. Services provided (continued)

Comparative segment information has been prepared in conformity with the requirement of AASB 8 *Operating Segments*.

b. Geographical segments

The consolidated entity operates predominantly in Australia. More than 90 per cent of revenue and non-current assets relate to operations in Australia.

c. Major customers

The consolidated entity does not rely on any major customer.

Note 7. Auditor's remuneration

Audit Services

Auditors of the Company

KPMG Australia:

Audit and review of the consolidated and subsidiary financial statements	595,568	549,500
Audit and review of managed funds and superannuation funds for which the consolidated entity acts as responsible entity ¹	2,777,303	2,307,136
Audit services in accordance with regulatory requirements	298,680	241,000
Other assurance services	20,000	20,000

Overseas KPMG firms:

Audit and review of financial statements	63,800	50,000
Other assurance services	2,400	2,000
	<u>3,757,751</u>	<u>3,169,636</u>

Other assurance services paid to KPMG are in accordance with the Company's auditor independence policy as outlined in Perpetual's Corporate Responsibility Statement.

¹ These fees were paid for the audit of 145 managed funds (2009: 138 managed funds) and 1,171 (2009: 1,114) DIY superannuation funds and which contained assets totalling \$26.9 billion (2009: \$26.2 billion).

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 8. Income tax expense		
a. Income tax expense		
Current tax expense	48,022	20,058
Deferred tax expense	(4,798)	2,018
Over provided in prior years	(435)	(651)
Total	<u>42,789</u>	<u>21,425</u>
Deferred tax included in income tax expense comprises:		
Increase/(decrease) in deferred tax assets	5,316	(651)
Increase in deferred tax liabilities	(518)	(1,367)
Total	<u>4,798</u>	<u>(2,018)</u>
The above movements in deferred tax assets and deferred tax liabilities are net of movements in these balances recognised directly in other comprehensive income.		
b. Reconciliation of income tax expense to prima facie income tax payable		
Prima facie income tax expense calculated at 30% (2009: 30%) on profit for the year	<u>40,053</u>	<u>17,735</u>
Increase in income tax expense due to:		
– Taxable profit on disposal of investments	1,117	-
– Accounting write down on available-for-sale assets	2,125	-
– Accounting loss on credit funds	-	723
– Accounting loss on disposal of investments	-	2,321
– Imputation gross-up on dividends received	60	138
– Foreign source loss – effect of lower tax rate	1,338	2,007
– Foreign source loss not recognised as a deferred tax asset	956	1,433
– Other expenditure	1,702	787
	<u>7,298</u>	<u>7,409</u>
Decrease in income tax expense due to:		
– Franking credits on dividends received	(199)	(461)
– Accounting profit on disposal of investments	(1,174)	-
– Realised net capital losses	-	(1,734)
– Unrealised net capital losses on available-for-sale assets	(1,895)	(645)
– Write back deferred tax liability arising from business combinations	(361)	-
– Sundry items	(498)	(228)
	<u>(4,127)</u>	<u>(3,068)</u>
Income tax expense attributable to profit for the year before tax	43,224	22,076
Less: Income tax over provided in prior years	(435)	(651)
Income tax expense attributable to profit for the year	<u>42,789</u>	<u>21,425</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

Note 8. Income tax expense (continued)

b. Reconciliation of income tax expense to prima facie income tax payable (continued)

The realisation of the deferred tax assets relating to the realised and unrealised capital losses is dependent on future capital gains being in excess of the losses shown in note 9 below.

c. Current tax liabilities

The current tax liability for the consolidated entity represents income taxes payable in respect of the current and prior financial year. In accordance with tax consolidation legislation, the Company, as head entity of the Australian tax-consolidated group, has assumed the current tax liability recognised by members in the tax consolidated group.

d. Income tax recognised in other comprehensive income

Cash flow hedges	(227)	-
Available-for-sale financial assets	2,705	(3,311)
	<u>2,478</u>	<u>(3,311)</u>

Note 9. Deferred tax assets / (liabilities)

The balance comprises temporary differences attributable to:

Property, plant and equipment	1,819	4,181
Intangible assets	-	(3,685)
Employee benefits	10,970	8,102
Provisions and accruals	11,589	10,288
Structured products-interest received in advance	4,175	4,281
Realised net capital losses	1,433	1,734
Unrealised net capital losses	2,636	5,157
Other items	597	323
Total deferred tax assets	<u>33,219</u>	<u>30,381</u>
Intangible assets	(6,845)	-
Structured products-interest paid in advance	-	(1,575)
Other items	(353)	(562)
Total deferred tax liabilities	<u>(7,198)</u>	<u>(2,137)</u>
Net deferred tax assets	<u>26,021</u>	<u>28,244</u>

At 30 June 2010, the consolidated entity had carried forward realised net capital losses of \$4,778,000 (30 June 2009: \$5,781,000) which had a tax benefit of \$1,433,000 (30 June 2009: \$1,734,000); the tax benefit of these capital losses has been recognised in deferred tax assets.

As at 30 June 2010, the consolidated entity had carried forward unrealised net capital losses of \$8,787,000 (30 June 2009: \$17,190,000) which had a tax benefit of \$2,636,000 (30 June 2009: \$5,157,000). Of this amount \$8,732,000 (30 June 2009: \$8,876,000) which had a tax benefit of \$2,620,000 (30 June 2009: \$2,663,000) has been recognised in profit and loss in the current and prior periods, and \$55,000 (30 June 2009: \$8,314,000) which had a tax benefit of \$16,000 (30 June 2009: \$2,494,000) has been recognised in other comprehensive income in the current and prior periods. The tax benefit of these capital losses has been recognised in deferred tax assets.

The consolidated entity had unrealised net capital gains recognised in profit or loss for the year ended 30 June 2010 of \$144,000 (2009: loss of \$8,876,000) which had a tax expense of \$43,000 (2009: tax benefit of \$2,663,000). The tax expense has reduced the tax benefit attributable to the unrealised net capital losses in deferred tax assets.

At 30 June 2010, the consolidated entity has carried forward foreign tax losses of \$58,311,000 (30 June 2009: \$50,666,000) which had a tax benefit of \$7,289,000 (30 June 2009: \$6,333,000) at 12.5 per cent that was not recognised in the Balance Sheet.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Balance 1 July 2009 \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Acquired in business combinations \$'000	Balance 30 June 2010 \$'000
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Note 9. Deferred tax assets / (liabilities) (continued)

Movement in temporary differences during the year

Consolidated

Deferred tax assets

Property, plant and equipment	4,181	(2,362)	-	-	1,819
Intangible assets	(3,685)	3,685	-	-	-
Employee benefits	8,102	2,868	-	-	10,970
Provisions and accruals	10,288	1,301	-	-	11,589
Structured products-interest received in advance	4,281	(106)	-	-	4,175
Realised net capital losses	1,734	(301)	-	-	1,433
Unrealised net capital losses	5,157	(43)	(2,478)	-	2,636
Other items	323	274	-	-	597
	<u>30,381</u>	<u>5,316</u>	<u>(2,478)</u>	<u>-</u>	<u>33,219</u>

Deferred tax liabilities

Intangible assets	-	(2,302)	-	(4,543)	(6,845)
Structured products-interest paid in advance	(1,575)	1,575	-	-	-
Other items	(562)	209	-	-	(353)
	<u>(2,137)</u>	<u>(518)</u>	<u>-</u>	<u>(4,543)</u>	<u>(7,198)</u>
	<u>28,244</u>	<u>4,798</u>	<u>(2,478)</u>	<u>(4,543)</u>	<u>26,021</u>

	Balance 1 July 2008 \$'000	Recognised in profit or loss \$'000	Recognised in other comprehensive income \$'000	Acquired in business combinations \$'000	Balance 30 June 2009 \$'000
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Consolidated

Deferred tax assets

Property, plant and equipment	1,737	2,444	-	-	4,181
Intangible assets	(1,696)	(1,989)	-	-	(3,685)
Employee benefits	11,682	(3,580)	-	-	8,102
Provisions and accruals	9,519	769	-	-	10,288
Structured products-interest received in advance	6,354	(2,073)	-	-	4,281
Realised net capital losses	-	1,734	-	-	1,734
Unrealised net capital losses	-	2,663	2,494	-	5,157
Other items	942	(619)	-	-	323
	<u>28,538</u>	<u>(651)</u>	<u>2,494</u>	<u>-</u>	<u>30,381</u>

Deferred tax liabilities

Structured products-interest paid in advance	-	(1,575)	-	-	(1,575)
Shares in other companies, investments in unlisted unit trusts and other financial assets	(817)	-	817	-	-
Other items	(770)	208	-	-	(562)
	<u>(1,587)</u>	<u>(1,367)</u>	<u>817</u>	<u>-</u>	<u>(2,137)</u>
	<u>26,951</u>	<u>(2,018)</u>	<u>3,311</u>	<u>-</u>	<u>28,244</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 10. Dividends

a. Dividends paid

Dividends paid or provided for in the current and comparative year are as follows:

	Cents per share	Total amount \$'000	Franked ¹ / Unfranked	Date of payment
2010				
Final 2009 ordinary	60	25,506	Franked	30 Sep 2009
Interim 2010 ordinary	105	45,398	Franked	1 Apr 2010
	165	70,904		
2009				
Final 2008 ordinary	141	59,181	Franked	12 Sep 2008
Interim 2009 ordinary	40	16,986	Franked	13 Mar 2009
Total amount	181	76,167		

¹ All franked dividends declared or paid during the year were franked at a tax rate of 30 per cent and paid out of retained earnings.

The Company introduced a Dividend Reinvestment Plan (DRP) in May 2009. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs. The shares may also be issued at a discount to the market price, which the directors may determine from time to time. The discount applied to the DRP for the interim and proposed final 2010 dividend is 2.5%. A shareholder can elect to participate in or terminate their involvement in the DRP at any time.

b. Subsequent events

Since the end of the financial year, the directors declared the following dividend. The dividends have not been provided for and there are no tax consequences.

	Cents per share	Total amount ² \$'000	Franked ¹ / Unfranked	Date of payment
Final 2010 ordinary	105	45,588	Franked	28 Sep 2010

¹ All franked dividends declared or paid during the year were franked at a tax rate of 30 per cent and paid out of retained earnings.

² Calculation based on the ordinary shares on issue as at 30 June 2010.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2010 and will be recognised in subsequent financial reports.

c. Dividend franking account

30% franking credits available to shareholders for subsequent financial years

	2010 \$'000	2009 \$'000
	62,474	44,876

The above available amounts are based on the balance of the dividend franking account at 30 June 2010 adjusted for franking credits that will arise from the payment of the current tax liabilities, and franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date, but not recognised as a liability, is to reduce it to \$42,936,000 (2009: \$33,945,000).

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
Note 11. Earnings per share	Cents per share	
Basic earnings per share	227.1	96.0
Diluted earnings per share	210.5	89.4
The following reflects the income and share information used in calculating the basic and diluted earnings per share:	\$'000	\$'000
Net profit after tax attributable to equity holders of Perpetual Limited	90,506	37,749
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	39,855,523	39,312,579
Effect of dilutive securities:		
Share options	27,893	7,206
Weighted average number of treasury shares on issue	3,115,243	2,912,403
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	42,998,659	42,232,188

Subsequent to the reporting date, no options were exercised by employees who have left the Company (2009: nil).

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 12. Cash and cash equivalents		
Bank balances	54,345	67,270
Deposits at call	79,462	29,415
Short-term deposits	53,732	49,453
	187,539	146,138

Bank balances include cash held by employee share trusts of \$664,000 (2009: \$230,000) which are not available for general operating use and are offset by a liability to employees in current payables.

Deposits at call are invested in a cash management trust operated by the consolidated entity. Short-term deposits represent investments in the Perpetual Credit Income Fund and Perpetual Credit Enhanced Cash Fund. These funds have a Standard & Poor's fund credit quality rating of 'A+' and invest in high grade credit products with the intention of generating a return in excess of the UBS Bank Bill Index and are generally available at seven days' notice.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 13. Receivables		
Current		
Trade debtors	70,699	65,312
Less: Provision for doubtful debts	(522)	(271)
	<u>70,177</u>	<u>65,041</u>
Other debtors	16,666	13,107
	<u>86,843</u>	<u>78,148</u>
Non-current		
Other debtors	3,648	4,200
	<u>3,648</u>	<u>4,200</u>

Movements in the provision for bad and doubtful debts are as follows :

Balance as at 1 July 2009	271	89
Provision for impairment recognised during the year	770	375
Receivables written off during the year as uncollectible	(214)	(94)
Unused amount reversed	(305)	(99)
Balance as at 30 June 2010	<u>522</u>	<u>271</u>

The creation and release of the provision for bad and doubtful debts has been included in administrative and general expenses in the Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

This note should be read in conjunction with Note 28(a) (iii).

Note 14. Other financial assets

Current

Government, municipal and other public securities held to maturity	100	100
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Non-current

Listed equity securities available-for-sale – at fair value	36,030	22,060
Unlisted unit trusts available-for-sale – at fair value	13,538	14,295
Government, municipal and other public securities held-to-maturity	122	122
Secured loans	259	232
	<u>49,949</u>	<u>36,709</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

Consolidated	
2010	2009
\$'000	\$'000

Note 15. Interest in associates using the equity method

Investment in associate	-	6,924
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Name of Entity	Country of Incorporation	Reporting Date	Ownership Interest 2010	Ownership Interest 2009
Perpetual Wholesale Geared International Share Fund (PIWGIF)	Australia	30 June	92%	46%
Perpetual Pure Value Share Fund (PIBIAS)	Australia	30 June	-	11%

PIWGIF was previously accounted for in the consolidated financial statements using the equity method of accounting until redemption of units by external unit holders increased the consolidated entity's interests above 50%. It is now consolidated in the financial statements.

PIBIAS was accounted for in the consolidated financial statements using the equity method of accounting and was fully disposed in August 2009.

Consolidated	
2010	2009
\$'000	\$'000

Note 16. Derivative financial instruments

Assets

Current

Forward foreign exchange contracts	11	21
Interest rate swap contracts	-	124
	<u>11</u>	<u>145</u>

Liabilities

Current

Interest rate swap contracts	<u>662</u>	<u>821</u>
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This note should be read in conjunction with Note 29 (b).

Instruments used by incubation funds

As part of the consolidated entity's asset management incubation fund strategy and to diversify its investment portfolio, seed capital was invested in various incubation funds. These funds may be party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates, interest rates, equity indices and to trade from their movements in accordance with the funds' financial risk management policy.

Forward foreign exchange contracts

The consolidated entity has entered into forward exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are subject to the same risk management policies as other derivative contracts outlined. Accordingly, they are accounted for as held for trading financial instruments.

These contracts are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Any changes in fair values are recorded in profit or loss.

Interest rate swap contracts

Interest rate swap contracts held for hedging purposes associated with the PPI structured product are disclosed in Note 29 (b).

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 17. Property, plant and equipment		
Plant and equipment – at cost	19,276	17,678
Accumulated depreciation	(12,653)	(10,464)
	6,623	7,214
Leasehold improvements – at cost	30,820	27,955
Accumulated depreciation	(10,186)	(7,439)
	20,634	20,516
Project work in progress – at cost	539	-
	27,796	27,730

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	Plant and equipment \$'000	Leasehold improvements \$'000	Project work in progress \$'000	Total \$'000
Consolidated				
Balance as at 1 July 2009	7,214	20,516	-	27,730
Acquisitions through business combinations	289	2,271	-	2,560
Additions	2,223	214	1,211	3,648
Transfers from work in progress	289	383	(672)	-
Depreciation and amortisation	(2,996)	(2,750)	-	(5,746)
Disposals	(396)	-	-	(396)
Balance as at 30 June 2010	6,623	20,634	539	27,796
Consolidated				
Balance as at 1 July 2008	7,861	22,289	504	30,654
Additions	772	29	1,268	2,069
Transfers from work in progress	936	836	(1,772)	-
Depreciation and amortisation	(2,345)	(2,500)	-	(4,845)
Disposals	(10)	(138)	-	(148)
Balance as at 30 June 2009	7,214	20,516	-	27,730

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 18. Intangibles		
Goodwill – at cost	113,539	76,639
	<u>113,539</u>	<u>76,639</u>
Other intangibles – at cost	27,618	12,478
Accumulated amortisation	(6,276)	(2,949)
	<u>21,342</u>	<u>9,529</u>
Capitalised software – at cost	76,749	68,683
Accumulated amortisation	(53,704)	(47,918)
	<u>23,045</u>	<u>20,765</u>
Project work in progress – at cost	5,582	5,727
	<u>163,508</u>	<u>112,660</u>

Reconciliations of the carrying amounts for each class of intangibles are set out below:

	Goodwill	Other	Capitalised	Project	Total
	\$'000	intangibles	software	work in	\$'000
	\$'000	\$'000	\$'000	progress	\$'000
Consolidated					
Balance as at 1 July 2009	76,639	9,529	20,765	5,727	112,660
Acquisitions through business combinations	36,900	15,141	70	-	52,111
Additions	-	-	518	7,650	8,168
Transfers from work in progress	-	-	7,586	(7,586)	-
Amortisation for the year	-	(3,328)	(5,783)	-	(9,111)
Disposals	-	-	(111)	(209)	(320)
Balance as at 30 June 2010	<u>113,539</u>	<u>21,342</u>	<u>23,045</u>	<u>5,582</u>	<u>163,508</u>
Balance as at 1 July 2008	62,124	4,266	12,137	9,429	87,956
Acquisitions through business combinations	14,515	6,863	-	-	21,378
Additions	-	-	1,979	9,987	11,966
Transfers from work in progress	-	-	13,689	(13,689)	-
Amortisation for the year	-	(1,600)	(6,718)	-	(8,318)
Disposals	-	-	(322)	-	(322)
Balance as at 30 June 2009	<u>76,639</u>	<u>9,529</u>	<u>20,765</u>	<u>5,727</u>	<u>112,660</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

Note 18. Intangibles (continued)

Amortisation

Amortisation is recognised in the following line items in the Statement of comprehensive income :

Amortisation expense	9,111	8,318
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Impairment tests for cash generating units containing goodwill

The following cash generating units have significant carrying amounts of goodwill:

Private Wealth	77,159	40,260
Securitisation ¹	16,653	16,653
Perpetual Lenders Mortgage Services ¹	5,648	5,648
Smartsuper	10,583	10,583
Australian Equities	3,496	3,495
	113,539	76,639

1. In 2009, combined as Corporate Trust division CGU.

Impairment testing of these goodwill balances is based on each cash generating unit's value in use, calculated as the present value of forecast future cash flows from those cash generating units using discount rates of between 12.5% and 15% (2009: discount rates of between 12% and 17%). The forecast future cash flows used in the impairment testing are based on assumptions as to the level of profitability for each business over a forecast period. Forecast future cash flows have been projected for 5 years based on the 2011-2013 Annual Operating Plan and the 5 year Strategic Plan which have been approved by the board and then projected for an indefinite period by including a terminal value with a growth rate in perpetuity of 2.5%.

Note 19. Prepayments

Current

Prepayments	7,447	11,820
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Non-current

Prepayments	858	-
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Note 20. Payables

Current

Trade creditors	29,024	31,202
Other creditors and accruals	11,637	4,240
	40,661	35,442

Non-current

Other creditors and accruals	6,206	1,819
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This note should be read in conjunction with Note 28 (b).

Note 21. Structured products – income received in advance

Current

Interest income	13,918	13,563
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Income received in advance consists of deferred interest income received associated with the PPI structured product. The PPI structured product is disclosed in Note 29(b).

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

Note 22. Non-current interest-bearing liabilities

Floating rate bill facility	45,000	45,000
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See Notes 27 and 28(c)(ii) for additional information. Bank facility associated with the PPI structured product is disclosed in Note 29(b).

Note 23. Provisions

Current

Internal insurance and legal provision ¹	5,404	880
Onerous leases and make good	75	172
Operational process review provision	1,667	5,469
Lease expense provision	524	275
	<u>7,670</u>	<u>6,796</u>

Non-current

Internal insurance and legal provision ¹	800	5,089
Lease expense provision	22,200	20,869
	<u>23,000</u>	<u>25,958</u>

¹ The internal insurance and legal provision includes the provision for self insurance and the provision for litigation. The provision for self-insurance recognises incurred but not reported claims. The provision for litigation claims includes provisions for legal cost and settlement amounts. These provisions are measured at the cost that the entity expects to incur in defending and/or settling the claim.

Reconciliations of the carrying amounts of each class of provision are set out below:

Internal insurance and legal provision

Carrying amount at beginning of year	5,969	6,165
Additional provision made during the year	1,180	5,005
Payments made during the year	(895)	(4,065)
Unused amounts reversed during the year	(50)	(1,136)
Carrying amount at end of year	<u>6,204</u>	<u>5,969</u>

Onerous leases and make good

Carrying amount at beginning of year	172	400
Additional provision made during the year	25	113
Payments made during the year	(122)	(341)
Carrying amount at end of year	<u>75</u>	<u>172</u>

Operational process review provision

Carrying amount at beginning of year	5,469	-
Amount transferred from other debtors	1,406	-
Additional provision made during the year	5,520	5,469
Unused amounts reversed during the year	(3,207)	-
Payments made during the year	(6,259)	-
Amounts paid, recognised as receivable	(1,262)	-
Carrying amount at end of year	<u>1,667</u>	<u>5,469</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

Note 23. Provisions (continued)

Lease expense provision

Carrying amount at beginning of year	21,144	18,410
Additional provision made during the year	12,475	13,831
Payments made during the year	(11,310)	(11,097)
Unused amounts reversed during the year	(133)	-
Unwinding of provisions	548	-
Carrying amount at end of year	22,724	21,144

Note 24. Contributed equity

Share capital

43,417,478 (2009: 42,509,430) ordinary shares, fully paid	206,017	174,222
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	2010		2009	
	Number of shares	\$'000	Number of shares	\$'000

Movements in share capital

Balance at beginning of year	39,358,781	174,222	39,197,876	163,811
Shares issued:				
Issued in business combination	283,950	10,569	-	-
Dividend reinvestment	255,682	9,295	-	-
Exercise of staff options	-	-	33,779	2,347
Executive share plans (vested during the year)	225,580	13,110	146,629	8,684
Employee equity allocation purchased on market	(29,465)	(1,336)	(19,503)	(1,014)
Employee share plans (vested during the year)	-	157	-	394
Balance at end of year	40,094,528	206,017	39,358,781	174,222
Ordinary shares fully paid (excluding unvested shares from share plans)	40,094,528	206,017	39,358,781	174,222
Unvested shares from share plans	3,322,950	173,375	3,150,649	173,128
Ordinary shares fully paid	43,417,478	379,392	42,509,430	347,350

Note 26 provides details of shares issued on exercise of options.

The Company does not have authorised capital or par value in respect of its issued shares.

Shares issued under the executive and employee share plans were issued at market value.

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and entitled to one vote per share at shareholders' meetings.

In the event of winding up of the company, ordinary shareholders rank after creditors and are fully entitled to any surplus capital.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 25. Reserves		
General	103	103
Available-for-sale-reserve ¹	2,871	(4,016)
Equity compensation reserve ²	57,688	48,457
Cash flow hedge reserve ³	(454)	(755)
Foreign currency translation reserve ⁴	(3,347)	(491)
	<u>56,861</u>	<u>43,298</u>

¹ The Available-for-sale-reserve represents adjustments to changes in the carrying value of shares and unit trusts to fair values. When these assets are sold or considered impaired, the cumulative gain / loss that had been recognised directly in equity is recycled to profit and loss.

² The Equity compensation reserve represents the value of the Company's own shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest to the employee. No gain or loss is recognised in profit and loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

³ The Cash flow hedge reserve is used to record gains or losses on hedging instruments designated as cash flow hedges as described in accounting policy Note 2(w)(i). Amounts are recognised in the Statement of comprehensive income when the associated hedged transaction affects profit and loss.

⁴ The Foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation. Refer to accounting policy Note 2(d).

Note 26. Employee benefits

a. Aggregate liability for employee benefits, including on-costs

Current

Liability for annual leave	6,705	5,916
Liability for long service leave	3,283	2,887
Other employee benefits	25,852	19,689
Restructuring provision	40	804
	<u>35,880</u>	<u>29,296</u>

Non-current

Liability for long service leave	<u>2,894</u>	<u>2,371</u>
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The non-current portion of the long service leave provision has been discounted using a rate of 5.3 per cent (2009: 5.5 per cent).

The number of full time equivalent employees at 30 June 2010 was 1,550 (2009: 1,139).

b. Equity based plans

(i) Option plans

The Company has an executive option plan which was approved at the 1998 Annual General Meeting. Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the rules of the plan, is based on the weighted average price of the company's shares traded during the five business days preceding the date of granting the option.

All options are to be settled by physical delivery of shares.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 26. Employee benefits (continued)

b. Equity-based plans (continued)

(i) Option plans (continued)

Options generally expire on the earlier of the expiry date or termination of the employee's employment. There are no voting or dividend rights attached to the option nor the unissued ordinary share underlying the option.

A summary of options over unissued ordinary shares is set out below:

Movement in number of options on issue									
Grant date	Exercise date	Expiry date	Weighted average exercise price	1 July 2009	Issued	Forfeited	Exercised ¹	Outstanding at 30 June 2010	Number of options exercisable
Jul 2004	Jun 2007 ⁴	Jul 2010	\$47.08	978	-	-	-	978	978
Jul 2005	Jun 2008	Jul 2011	\$56.85	28,144	-	(28,144)	-	-	-
Jul 2006	Jun 2009 ⁴	Jul 2012	\$71.88	29,950	-	-	-	29,950	-
Jul 2007	Jun 2010 ⁴	Jul 2013	\$79.17	236,436	-	-	-	236,436	-
Mar 2008	Mar 2011	Mar 2013	\$52.71	75,301	-	(75,301)	-	-	-
Jul 2008	Jun 2011 ⁴	Jul 2014	\$42.73	57,390	-	-	-	57,390	-
Jan 2009	Jun 2013	Jan 2015	\$31.42	182,215	-	(182,215)	-	-	-
Jun 2009	Jun 2012	Jun 2014	\$29.74	58,939	-	(58,939)	-	-	-
Jun 2009	Jun 2012 ⁴	Jun 2015	\$28.34	47,585	-	-	-	47,585	-
Jul 2009	Jul 2012 ⁴	Jun 2015	\$28.34	-	5,911	-	-	5,911	-
				716,938	5,911	(344,599)	-	378,250	978

Movement in number of options on issue									
Grant date	Exercise date	Expiry date	Weighted average exercise price	1 July 2008	Issued	Forfeited	Exercised ¹	Outstanding at 30 June 2009	Number of options exercisable
Oct 2002	Oct 2005 ²	Oct 2008	\$32.46	34,625	-	(846)	(33,779)	-	-
Jul 2004	Jun 2007 ⁴	Jul 2010	\$47.08	7,818	-	(6,840)	-	978	978
Jul 2005	Jun 2008 ⁴	Jul 2011	\$56.85	28,144	-	-	-	28,144	-
Jul 2006	Jun 2009 ⁴	Jul 2012	\$71.88	29,950	-	-	-	29,950	-
Jul 2007	Jun 2010 ⁴	Jul 2013	\$79.17	236,436	-	-	-	236,436	-
Mar 2008	Mar 2011 ⁴	Mar 2013	\$52.71	75,301	-	-	-	75,301	-
Jul 2008	Jun 2011 ⁴	Jul 2014	\$42.73	-	57,390	-	-	57,390	-
Jan 2009	Jun 2013 ³	Jan 2015	\$31.42	-	182,215	-	-	182,215	-
Jun 2009	Jun 2012 ⁴	Jun 2014	\$29.74	-	58,939	-	-	58,939	-
Jun 2009	Jun 2012 ⁴	Jun 2015	\$28.34	-	47,585	-	-	47,585	-
				412,274	346,129	(7,686)	(33,779)	716,938	978

¹ In certain circumstances, at the discretion of the People and Remuneration Committee, options can be exercised prior to their earliest exercise date.

² One third of this class of option can be exercised on this date with a further third, one year from this date and the last third, two years from this date.

³ This option class will vest on the fourth anniversary of the date of grant subject to the achievement of performance hurdles.

⁴ This option class will vest on the third anniversary of the date of grant subject to the achievement of performance hurdles. On 23 June 2010, the company announced that Managing Director, David Deverall, had given notice of his resignation. As a result, no long term incentives, including the options outstanding as at 30 June 2010, will vest as a result of Mr Deverall's resignation and all unvested options will be forfeited on ceasing employment. The options outstanding as at 30 June 2010 have a carrying value of \$Nil.

The options outstanding at 30 June 2010 have an exercise price in the range of \$28.34 to \$79.17 (2009: \$28.34 to \$79.17) and a weighted average contractual life of 3 (2009: 3.3) years.

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2010 was nil (2009: \$38.96).

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 26. Employee benefits (continued)

b. Equity-based plans (continued)

(i) Option plans (continued)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using a binomial lattice model, with the following inputs (weighted average):

	2010	2009
Fair value at grant date (\$)	8.25	8.12
Share price (\$)	28.54	32.15
Exercise price (\$)	28.34	32.59
Expected volatility (%)	45	35
Option life (years)	5	5
Expected dividends (%)	5.6	5.57
Risk free interest rate (%)	5.18	4.38

(ii) Executive Share Plan (ESP)

The ESP was approved by shareholders at the company's Annual General Meeting in 1997 and was amended at the 1999 AGM.

The ESP forms part of the structure for short and long term variable remuneration components paid to employees. Grants under the plan for short-term performance are made on achievement of specific performance goals. Long-term grants vest after periods of between three to five years, and may include the achievement of specific performance hurdles.

The issue price of grants of shares is the weighted average of the prices at which shares were traded on the ASX for the five days up to the date of issue. Shares are either purchased on market or issued by the Company to satisfy the grants made to eligible employees.

While shares are held by the ESP, employees receive dividends and have voting rights.

(iii) Employee Share Purchase Plan (ESPP)

This plan was discontinued on 10 December 2004 and no further issues have been made under this plan.

The ESPP provided eligible employees with a non-recourse interest free loan, for a period not exceeding 10 years, to purchase shares under the plan. The invitation was open to employees who commenced permanent employment with Perpetual prior to 1 June 2004 with an offer to purchase a minimum number of shares equivalent in value to \$1,000 and a maximum number of shares equivalent in value to \$4,000. The issue price under the plan was the weighted average of the prices at which shares were traded on the ASX for the five days up to the date of issue.

The shares vest when the loan is fully repaid.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 26. Employee benefits (continued)

b. Equity based plans (continued)

(iv) Tax Exempt Share Plan (TESP)

Under the TESP, eligible employees will be able to salary sacrifice up to \$1,000 of short term incentive to acquire an equivalent value of Perpetual shares. These shares cannot be sold or transferred until the earlier of three years after the date of allocation or the time the participant ceases to be an employee of Perpetual. Shares will be acquired in ordinary trading on the Australian Securities Exchange or issued by Perpetual. Executive directors and executives are not able to participate in this plan.

(v) The Tax Deferred Share Plan (TDSP)

Under the TDSP, eligible employees are able to salary sacrifice all or part of their short term incentive to acquire an equivalent value of Perpetual shares. Shares are acquired in the ordinary course of trading on the Australian Securities Exchange. Executive directors and executives have the opportunity to participate in this plan. Shares acquired under this plan by executive directors and executives are not subject to performance hurdles because they are acquired on a salary or bonus sacrifice basis.

(vi) Deferred Share Plan (DSP)

The DSP forms part of the structure for short-term and long-term variable remuneration components paid to eligible employees of the Australian business. Grants under the plan vest subject to the achievement of specific performance hurdles and service.

The issue price of grants is the weighted average of the prices at which shares traded on the Australian Securities Exchange for the five days up to the date of issue. Shares are either purchased on market or issued by the company to satisfy grants made to eligible employees.

While shares are held by the DSP, eligible employees have voting rights and receive dividends directly or reinvest dividends into Perpetual shares.

(vii) Global Employee Share Trust (GEST)

The GEST forms part of the structure for long-term variable remuneration components paid to eligible employees of the Perpetual Investments Global Equities business.

The issue price of grants is the weighted average of the prices at which shares traded on the Australian Securities Exchange for the five days prior to the date of grant of shares. Shares are either purchased on market or issued by the company to satisfy grants made to eligible employees.

Dividends paid on shares held by the GEST are retained in the GEST for the benefit of the employee until performance hurdles are tested, at which time the dividend accumulated may be distributed to the employee. Voting rights attached to unvested shares that are held in the GEST are exercisable by the trustee of the GEST.

Grants under the plan vest subject to the achievement of specific performance hurdles.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 26. Employee benefits (continued)

b. Equity-based plans (continued)

(viii) Details of the movement in employee shares

Of share grants under the ESP, DSP and GEST in the 2010 financial year, 368,416 shares were issued at market price and 264,449 shares were re-issued from the forfeited share pool at market price. Certain share plans stipulate that dividends received on unvested long-term incentive shares (39,572 shares at last dividend payment) are to be reinvested into Perpetual shares. During the period 1,943 shares were purchased on market at an average price of \$34.92 to satisfy this requirement. As a result of changes in the employee share scheme rules enacted in 2009, dividends that were being reinvested in Perpetual shares on long term incentive schemes are either now being received directly by the employees or held in the share plan bank account depending on the likelihood of the shares vesting.

The amounts recognised in the financial statements of the consolidated entity in relation to the share plans referred to above during the year were amortisation of performance shares totalling \$26,755,000 (2009: \$25,930,000) recognised as an expense with the corresponding entry directly in equity.

(ix) Non-executive directors' share purchase plan

A share purchase plan for non-executive directors was approved by shareholders at the annual general meeting in October 1998, under which each non-executive director can sacrifice up to 50 per cent of their director's fees to acquire shares in the Company. The shares are purchased four times throughout the year at market value and have a disposal restriction of 10 years, or when the director ceases to be a director of the Company.

During this financial year there were no directors that purchased shares on market in the Non-executive directors share purchase plan.

During the prior financial year the following directors participated in this plan:

Directors	Shares purchased on market	
	Number	\$
E P McClintock	1,675	49,486
E M Proust	419	12,378
R M Savage	2,134	60,659
P B Scott	1,047	30,935
P J Twyman	2,095	61,891
	7,370	215,349

Notes to and forming part of the financial statements for the year ended 30 June 2010

Consolidated	
2010	2009
\$'000	\$'000

Note 27. Financial arrangements

The consolidated entity has access to the following line of credit:

Facilities utilised

Floating rate bank facility	45,000	45,000
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Facilities not utilised

Floating rate bank facility	25,000	-
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Bill facilities

The floating rate bank bill facility is unsecured and has a floating interest rate of 5.07 per cent at 30 June 2010 (30 June 2009: 3.58 per cent). Repayment of the existing facility is due on 31 July 2011.

The consolidated entity has agreed to various debt covenants including shareholders' funds as a specified percentage of total assets, a minimum amount of shareholders' funds, a maximum ratio of total debt, a minimum interest cover, a maximum amount of structured product liabilities and a maximum provision for PPI credit losses as a specified percentage of PPI investor loans. The consolidated entity is in compliance with the covenants at 30 June 2010. Should the consolidated entity not satisfy any of these covenants, the outstanding balance of the loans may become due and payable.

Bank facilities associated with the PPI structured product are disclosed in Note 29 (b).

This note should be read in conjunction with Note 28 (c) (ii).

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28. Financial risk management

Perpetual recognises that risk is part of doing business and that the ongoing management of risk is critical to its success. The approach to managing risk is articulated in the Risk Management Framework. The Risk Management Framework is supported by the Risk Group, who are responsible for the design and maintenance of the framework, establishing and maintaining group wide risk management policies, and providing regular risk reporting to the Board, the Audit Risk and Compliance Committee (ARCC) and the Group Executive Committee. This framework is approved by the Perpetual Board of Directors (the Board) and is reviewed for adequacy and appropriateness on an annual basis.

The Board regularly monitors the overall risk profile of the group and sets the risk appetite for the group, usually in conjunction with the annual planning process. The Board is responsible for ensuring that management have appropriate processes in place for managing all types of risk, ranging from financial risk to operational risk. To assist in providing ongoing assurance and comfort to the board, responsibility for risk management oversight has been delegated to the ARCC. The main functions of this committee are to oversee the consolidated entity's accounting policies and practices, the integrity of financial statements and reports, the scope, quality and independence of our external audit arrangements, the monitoring of the internal audit function, the effectiveness of risk management policies and the adequacy of our insurance programs. This committee is also responsible for monitoring overall legal and regulatory compliance.

The activities of the consolidated entity expose it to the following financial risks: credit risk, liquidity risk and market risk. These are distinct from the financial risks borne by customers which arise from financial assets managed by the consolidated entity in its role as fund manager, trustee and responsible entity.

The risk management approach to and exposures arising from the Exact Market Cash Fund (EMCF) are disclosed in Note 29.

The following discussion relates to financial risks exposure to the consolidated entity in its own right.

a) Credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet their contractual commitments. The consolidated entity is predominantly exposed to credit risk on its Perpetual Protected Investments (PPI) loans which are issued only in Australia to retail customers, derivative financial instruments and deposits with banks and financial institutions, outstanding receivables and committed transactions.

The maximum exposure of the consolidated entity to credit risk on financial assets which have been recognised on the balance sheet is the carrying amount, net of any provision for doubtful debts. The table below outlines the consolidated entity's maximum exposure to credit risk as at reporting date.

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash and cash equivalents	187,539	146,138
Trade debtors	70,177	65,041
Structured products - loans receivable (PPI)	188,832	319,651
Other loan receivables	20,573	17,539
Available-for-sale listed equity securities and unlisted unit trusts	49,568	36,355
Held-to-maturity securities	222	222
Derivative financial instruments used for hedging: assets	11	145

Credit risk is managed on a functional basis across the various business segments. As a result of the swap agreements between the EMCF and the consolidated entity, the consolidated entity is also exposed to credit risk on its exposure to the \$1,199 million (2009: \$1,513 million) of underlying investments held by the EMCF. This maximum exposure would only be realised in the unlikely event that the recoverable value of all of the underlying investments held by the EMCF decline to \$nil. Further details of the credit risk relating to the EMCF are disclosed in Note 29.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

a) Credit risk (continued)

(i) Structured products – Perpetual Protected Investment loans

In order to manage the credit risk arising from lending to investors in PPI structured product offerings, the consolidated entity has in place a dedicated Credit Office who report to the General Manager, Structured Products. The Credit Office is governed by the Credit Risk Policy which stipulates the criteria that investors are required to meet prior to being granted a loan, and hence ensures that all investors under this arrangement possess the desired level of credit worthiness. The Credit Risk Policy is reviewed periodically by the Chief Risk Officer (CRO) to ensure its continued compliance with the Group's Risk Management Framework. All loans are secured by the investor's investment in the structured product and the consolidated entity has recourse to the investor and the investment in the event of default. A charge over additional collateral may be required for loans greater than \$2 million. As at 30 June 2010, loans for which Perpetual holds additional collateral amounted to \$3.5 million (30 June 2009: \$3.5 million).

The Credit Office monitors the loan portfolio on a daily basis and provides reports on a monthly basis to Group Finance and the Risk Group for review. Arrears above 30 days are reviewed on a monthly basis by the Credit Committee, and are followed up and managed by the Credit Officer and recovery initiatives can include litigation if required.

The consolidated entity minimises concentrations of credit risk by imposing a limit on the exposure it can have with each investor. The maximum standard exposure per borrower is set at \$1 million. For amounts greater than \$1 million, approval from both the CRO and the Chief Financial Officer (CFO) is required.

There were no PPI loans that were past due but not impaired as at the reporting date. Further information on the risk management approach to and exposures arising from the PPI structured product offerings is disclosed below in this note and in Note 29.

(ii) Investments held by incubation funds

Perpetual incubates new investment strategies through the establishment of seed funds for the purpose of building investment track records and developing asset management skills before releasing products to Perpetual's investors. Exposure to credit risk arises on the consolidated entity's financial assets held by the incubation funds mainly being deposits with financial institutions and derivative financial instruments.

The exposure to credit risk is monitored on an ongoing basis by the funds' investment manager and managed in accordance with the investment mandate of the funds.

Credit risk is not considered to be significant to the incubation funds as investments held by the funds are predominantly equity securities.

(iii) Other financial assets

The consolidated entity's exposure to trade debtors is influenced mainly by the individual characteristic of each customer.

Trade debtors are managed by the accounts receivable department. Outstanding fees and receivables are monitored on a daily basis and an aged debtors report is prepared and monitored by Group Finance. Management assesses the credit quality of customers by taking into account their financial position, past experience and other factors.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

a) Credit risk (continued)

(iii) Other financial assets (continued)

Credit risk further arises in relation to financial guarantees given to wholly owned subsidiaries. Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval and are monitored on a quarterly basis as part of the consolidated entity's regulatory reporting.

Credit risk arising from cash investments is mitigated by ensuring they have a Standard & Poor's rating of 'A' or higher, and transactions involving derivatives are limited to high credit quality financial institutions.

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings, if available, or to historical information on counterparty default rates.

The tables below provide an aged analysis of the financial assets which were past due but not impaired as at the reporting date.

30 June 2010					30 June 2009				
Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	Total	Less than 30 days	30 to 60 days	60 to 90 days	More than 90 days	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

Consolidated

Trade debtors	1,696	803	607	664	3,770	1,252	401	140	516	2,309
Other receivables	697	10	-	95	802	554	-	-	64	618
	<u>2,393</u>	<u>813</u>	<u>607</u>	<u>759</u>	<u>4,572</u>	<u>1,806</u>	<u>401</u>	<u>140</u>	<u>580</u>	<u>2,927</u>

The trade debtors in the above table relate to a number of independent customers and investors for whom there is no recent history of default.

A loan of \$7.2 million (2009: \$6.6 million) is included in Other debtors - Current as at 30 June 2010. The loan, which was originally due for repayment on 2 June 2010, was extended to 2 August 2010. The loan was repaid in full on 31 July 2010.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

a) Credit risk (continued)

(iii) Other financial assets (continued)

The nominal values of financial assets which were impaired are as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Trade debtors	522	271
Structured products - loans receivable	2,635	991
	<u>3,157</u>	<u>1,262</u>

The impaired financial assets relate mainly to independent customers and investors who are in unexpectedly difficult economic situations, where the consolidated entity is of the view that the receivable cannot be recovered. The consolidated entity does not hold any collateral against the trade debtors. Collateral held in respect of PPI loans is discussed in Note 28 (a)(i) above. For details of the provisions for impairment refer to Notes 13 and 29.

b) Liquidity risk

Liquidity risk is the risk that the financial obligations of the consolidated entity cannot be met as and when they fall due without incurring significant costs. The consolidated entity's approach to managing liquidity is to maintain a level of cash or liquid investments sufficient to meet its ongoing financial obligations. The consolidated entity has a robust liquidity risk framework in place which is principally driven by the Capital Management Review (refer to capital management disclosed below in Note 28 (d) for further details).

The consolidated entity manages liquidity risk by continually monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. In addition, a three year forecast of liquid assets, cash flows and balance sheet is reviewed by the Board on a semi-annual basis as part of the Capital Management Review to ensure there is sufficient liquidity within the Group.

The repayment of the existing facility of \$45 million (refer to Note 27) is due on 31 July 2011.

The \$25 million unutilised bank facility may be drawn at any time at the discretion of the consolidated entity. The consolidated entity's bank facilities are subject to annual review and management intends to refinance the existing facility for a further period after the due date.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

b) Liquidity risk (continued)

Maturities of financial liabilities

The tables below show the maturity profiles of the financial liabilities and gross settled derivative financial instruments for the consolidated entity. These have been calculated using the contractual undiscounted cash flows.

	30 June 2010				30 June 2009			
	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000	Less than 1 year \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Consolidated								
Liabilities								
Trade and other payables	40,661	6,206	-	46,867	35,442	1,819	-	37,261
Interest bearing liabilities	-	45,000	-	45,000	-	45,000	-	45,000
Structured products - interest bearing liabilities	24,818	164,807	-	189,625	107,683	84,590	126,475	318,748
	<u>65,479</u>	<u>216,013</u>	<u>-</u>	<u>281,492</u>	<u>143,125</u>	<u>131,409</u>	<u>126,475</u>	<u>401,009</u>
Derivatives								
Net settled - interest rate swaps	227	812	-	1,039	337	1,347	259	1,943
Gross settled - other derivatives								
- outflow	663	-	-	663	2,469	-	-	2,469
- (inflow)	(663)	-	-	(663)	(2,469)	-	-	(2,469)
	<u>227</u>	<u>812</u>	<u>-</u>	<u>1,039</u>	<u>337</u>	<u>1,347</u>	<u>259</u>	<u>1,943</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

c) Market risk

The consolidated entity is subject to the following market risks:

(i) Currency risk

The exposure to currency risk, as defined in *AASB 7 Financial Instruments: Disclosures*, arises when financial instruments are denominated in a currency that is not the functional currency of the entity and are of a monetary nature. Hence the gains/(losses) arising from the translation of the controlled entities' financial statements into Australian dollars are not considered in this note.

A significant proportion of the monetary financial instruments held by the consolidated entity, being liquid assets, receivables, loans receivable, interest-bearing liabilities and payables, interest rate swaps, are denominated in Australian dollars. Hence fluctuations in exchange rates do not materially impact the profit/(loss) for the year or shareholders' equity.

Investments held in listed securities and unlisted unit trusts including incubation funds are of a non-monetary nature and therefore are not exposed to currency risk as defined in *AASB 7 Financial Instruments: Disclosures*. The currency risk relating to non-monetary assets and liabilities is a component of price risk and arises as the value of the securities denominated in other currencies fluctuates with changes in exchange rates.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The consolidated entity's exposure to interest rate risk arises predominantly on investor loans granted under the PPI structured product offering.

PPI structured product loans bear interest rates which are either fixed for the term of the product (7 years), fixed annually or variable. The consolidated entity has entered into fixed and variable rate banking facilities in order to finance loans provided to investors as a result of exposure to interest rate risk arising from:

- (a) Fixed rate assets being financed with floating rate liabilities; and
- (b) Maturity or duration mismatches.

In order to manage the interest rate risk relating to PPI structured products, it is the consolidated entity's policy to hedge at least 95 per cent of its loan exposure by entering into floating-to-fixed interest rate swaps where the banking facilities have a variable interest rate. The hedging of interest rate exposure is managed by Group Finance and is reported to the Audit Risk and Compliance Committee on a half-yearly basis.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

c) Market risk (continued)

(ii) Interest rate risk (continued)

The consolidated entity's exposure to interest rate risk for the financial assets and liabilities is set out as follows:

Consolidated

	Note	Floating interest rate \$'000	Fixed interest rate maturing in			Non- interest bearing \$'000	Total \$'000
			6 months or less \$'000	6-12 months \$'000	4-7 years \$'000		
At 30 June 2010							
Financial assets							
Cash assets	12	187,239	250	50	-	-	187,539
Receivables	13	7,165	-	-	-	83,326	90,491
Other financial assets	14	60	162	-	-	49,827	50,049
Structured products – loans receivable - current	29	26,157	-	-	-	-	26,157
Structured products – loans receivable - non-current	29	20,489	-	65,457	76,729	-	162,675
		241,110	412	65,507	76,729	133,153	516,911
Financial liabilities							
Payables	20	-	-	-	-	46,867	46,867
Interest-bearing liabilities	22	45,000	-	-	-	-	45,000
Structured products – interest-bearing liabilities - current	29	24,818	-	-	-	-	24,818
Structured products – interest-bearing liabilities - non-current	29	80,729	-	17,150	66,928	-	164,807
Effect of interest rate swaps		(50,815)	-	43,600	7,215	-	-
		99,732	-	60,750	74,143	46,867	281,492
At 30 June 2009							
Financial assets							
Cash assets	12	146,138	-	-	-	-	146,138
Receivables	13	6,575	-	-	-	75,773	82,348
Other financial assets	14	60	40	-	-	36,709	36,809
Structured products – loans receivable - current	29	108,935	-	-	-	-	108,935
Structured products – loans receivable - non-current	29	13,400	-	101,417	95,899	-	210,716
		275,108	40	101,417	95,899	112,482	584,946
Financial liabilities							
Payables	20	-	-	-	-	37,261	37,261
Interest-bearing liabilities	22	45,000	-	-	-	-	45,000
Structured products – payable to investors	29	107,683	-	-	-	-	107,683
Structured products – interest-bearing liabilities	29	107,691	-	29,650	73,724	-	211,065
Effect of interest rate swaps		(61,915)	-	54,500	7,415	-	-
		198,459	-	84,150	81,139	37,261	401,009

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below demonstrates the impact of a 1 per cent change in interest rates, with all other variables held constant, on the profit after tax and equity of the consolidated entity.

	30 June 2010		30 June 2009	
	Impact on profit after tax \$'000	Impact on equity \$'000	Impact on profit after tax \$'000	Impact on equity \$'000
Consolidated				
Change in variable				
+ 1 per cent	1,016	1,758	784	1,689
- 1 per cent	(1,016)	(1,768)	(784)	(1,698)

The impact on profit after tax for the year would be mainly as a result of an increase / (decrease) in interest revenue earned on cash and cash equivalents. The impact on equity would be mainly the result of an increase/(decrease) in the fair value of the cash flow hedges associated with variable interest rate borrowings.

(iii) Market risks arising from Funds Under Management and Funds Under Advice

The consolidated entity's revenue is significantly dependent on Funds Under Management and Funds Under Advice which are influenced by equity market movements. Management calculates the expected impact on revenue for each 1% movement in the All Ords. Based on the level of the All Ords at the end of 30 June 2010 (4,325), 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.

(iv) Market risks arising from incubation funds

The consolidated entity is exposed to equity price risk on investments held by its incubation funds. The funds may also be exposed, to a small extent, to the other risks which influence the value of those shares or units (including foreign exchange rates and interest rates).

Market risk in the incubation funds is limited by a predetermined seed capital funding pool which has been allocated based on the consolidated entity's balance sheet. The Investment Committee is responsible for determining the size of the pool and approving new incubation fund strategies. They also ensure management has appropriate processes and systems in place for managing investment risk for each fund. The funds' specialist asset managers aim to manage the impact of price risks through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments, including derivatives, which are only acquired if they meet specified investment criteria. Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these restrictions reported to the Chief Risk Officer.

These funds may be party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates, interest rates and equity indices in accordance with the funds' investment guidelines.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

c) Market risk (continued)

(iv) Market risks arising from incubation funds (continued)

The impact on the consolidated profit after tax of a potential change in the returns of the funds in which the consolidated entity invested at year end is not material. The potential change has been determined using historical analysis and management's assessment of an appropriate rate of return. The analysis is based on the assumption that the returns on asset classes have moved, with all other variables held constant and that the relevant change occurred as at the reporting date. However, actual movements in the risk may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of economies, markets and securities in which the funds invest. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

The incubation funds may be exposed to currency risk and interest rate risk. Their investment managers may enter into derivative contracts (such as forwards, swaps, options and futures) through approved counterparties to minimise risk. However, the use of these contracts must be consistent with the investment strategy and restrictions of each incubation fund, and agreed acceptable level of risk. These funds are also exposed to interest rate risk on cash holdings. Interest income from cash holdings is earned at variable interest rates and investments in cash holdings are at call.

(v) Market risks arising from the Exact Market Cash Funds

The consolidated entity is further subject to market risks through the establishment of the Exact Market Cash Fund (EMCF). The fund was established with the purpose of providing an exact return utilising the UBS Bank Bill Index (the benchmark index) to investors. The impact of the EMCF on the consolidated entity's financial results is dependent on the performance of the fund relative to the benchmark.

The risk management approach to and exposures arising from the EMCF are disclosed in Note 29.

d) Capital management

A Capital Management Review is carried out on a semi-annual basis and is submitted to the Board for review and approval. The capital management policy ensures that the level of financial conservatism is appropriate for the Company's businesses including acting as custodian and manager of clients' assets and operation as a trustee company. This policy also aims to provide business stability and accommodate the growth needs of the consolidated entity. This policy comprises three parts:

(i) Dividend Policy

Dividends paid to shareholders are to be in the range of 80-100 per cent of the consolidated entity's net profit after tax attributable to members of the Company, which is in line with the historical dividend range paid to shareholders.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

d) Capital management (continued)

(ii) Review of capital and distribution of excess capital

A review of the consolidated entity's capital base is performed at least semi-annually and excess capital that is surplus to the Group's current requirements is potentially returned to shareholders in the absence of a strategically aligned, value accretive investment opportunity.

(iii) Gearing Policy

The consolidated entity seeks to maintain a conservative financial management profile. Its gearing policy includes a maximum debt / debt and total equity ratio of 30 per cent and EBITDA interest cover of more than 10 times. Corporate debt (excluding product debt) has been maintained at \$45 million throughout the year (2009: \$45 million), and the consolidated entity is within its stated gearing policy at year end.

The gearing ratio for the consolidated entity as at 30 June 2010 is 11 per cent (2009: 13 per cent) and an EBITDA interest cover ratio of 54 times (2009: 54 times) was achieved.

e) Fair value

As of 1 July 2009, Perpetual has adopted the amendment to *AASB 7 Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the consolidated entity's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new standard.

Consolidated

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 30 June 2010				
Financial assets				
Available-for-sale listed equity securities	36,030	-	-	36,030
Available-for-sale unlisted unit trusts	-	13,538	-	13,538
Derivative financial instruments	-	11	-	11
Structured products - EMCF assets ¹	-	1,154,517	-	1,154,517
	<u>36,030</u>	<u>1,168,066</u>	<u>-</u>	<u>1,204,096</u>
Financial liabilities				
Derivative financial instruments	-	662	-	662
Deferred acquisition consideration	-	-	11,819	11,819
	<u>-</u>	<u>662</u>	<u>11,819</u>	<u>12,481</u>

¹ The EMCF liability is not included as it is accounted for at amortised cost.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 28 - Financial risk management (continued)

e) Fair value (continued)

Consolidated	2010 Deferred acquisition consideration \$'000
Opening balance	2,440
Acquisitions through business combinations	8,583
Accrual of interest	796
Closing balance	11,819

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the consolidated entity is the current bid price. Marketable shares included in Other financial assets are traded in an organised financial market and their fair value is the current quoted market bid price for an asset. The carrying amounts of bank term deposits and receivables approximate fair value. The fair value of investments in unlisted shares in other corporations is determined by reference to the underlying net assets and an assessment of future maintainable earnings and cash flows of the respective corporations.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. The estimates of fair value where valuation techniques are applied are subjective and involve the exercise of judgement. Changing one or more of the assumptions applied in valuation techniques to reasonably possible alternative assumptions may impact on the amounts disclosed.

The consolidated entity's financial assets and liabilities included in current assets and liabilities in the balance sheet are carried at amounts in accordance with Notes 12,13,14,20 and 29. The carrying amount of financial assets and financial liabilities, less any impairment, approximates their fair value, except for those outlined in the table below.

	2010		2009	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Structured products – loans receivable (non-current)	162,675	159,318	210,716	200,452
Structured products – interest bearing liabilities (non-current)	164,807	154,309	211,065	202,473

Notes to and forming part of the financial statements for the year ended 30 June 2010

Consolidated	
2010	2009
\$'000	\$'000

Note 29. Structured products assets and liabilities

a. Exact Market Cash Funds

Current assets

Exact Market Cash Fund 1	693,243	1,086,011
Exact Market Cash Fund 2	497,823	409,779
	1,191,066	1,495,790

Current liabilities

Exact Market Cash Fund 1	695,129	1,089,263
Exact Market Cash Fund 2	495,213	408,991
	1,190,342	1,498,254

The Exact Market Cash Funds current asset balances reflect the fair value of the net assets held by the funds. The current liabilities balances represent the consolidated entity's obligation to the funds investors under the swap agreements and reflect the net assets of the funds for unit pricing purposes.

The Exact Market Cash Fund 1 (EMCF 1) was established during the financial year ended 30 June 2005 with the purpose of providing an exact return that matched the UBS Bank Bill rate (the benchmark index), or a variant thereon, to investors. The fund's ability to pay the benchmark return to the investors is guaranteed by the consolidated entity. The National Australia Bank has provided the EMCF 1 product with a guarantee to the value of \$20 million in 2010 (2009: \$22.5 million) to be called upon in the event that the consolidated entity is unable to meet its obligations. Due to the guaranteed benchmark return to investors, the consolidated entity is exposed to the risk that the return of the EMCF 1 differs from that of the benchmark. The return of the EMCF 1 is affected by risks to the underlying investments in the EMCF 1 portfolio, which are market, liquidity, and credit risks.

In March 2009, the consolidated entity changed the swap agreement valuation methodology between the fund and the consolidated entity. 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 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. The change in valuation methodology will not affect the investment returns to investors in the EMCF 1.

The Exact Market Cash Fund 2 (EMCF 2) was established in July 2008 and aims to provide an exact return that matches the benchmark index to investors in the fund. It has a similar structure to EMCF 1, but in addition, there are specific rules that govern the withdrawal of funds. EMCF 2 invests in debt securities issued by parties or securities with a minimum credit rating of 'BBB-' by Standard & Poor's or equivalent rating agency at the time of purchase. The investments held by EMCF 2 are recorded at fair value within the fund, and in the consolidated entity's financial statements. National Australia Bank has provided the fund with a guarantee to the value of \$6 million (2009: \$5 million) to be called upon in the event that Perpetual does not meet its obligations to the fund under the swap agreement.

The EMCF 1 product has been assigned a 'AAf' fund credit quality rating by Standard & Poor's and invests predominantly in Perpetual's Credit Enhanced Cash Fund (AA) and Cash Alpha Pool Fund of the consolidated entity. These funds cannot invest in securities which have a Standard & Poor's credit rating below 'BBB-'. They can invest in assets directly or indirectly by investing in other managed funds that have similar investment objectives and authorised investments. The underlying funds may invest in a variety of cash and debt securities, predominantly floating rate securities, cash deposits and fixed rate securities.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 29. Structured products assets and liabilities (continued)

a. Exact Market Cash Funds (continued)

The EMCF 2 product invests directly into a variety of cash and debt securities, predominantly floating rate securities, cash deposits and fixed rate securities with a minimum credit rating band of 'BBB-' by Standard & Poor's or equivalent rating agency at the time of purchase.

EMCF 1 and EMCF 2 (EMCF) use professional investment managers to manage the impact of these risks by using prudent investment guidelines and investment processes. The investment manager explicitly targets low volatility and aims to achieve this through a quality-screening process that is designed to assess the likelihood of default and difficult trading patterns during periods of rapid systematic risk reduction. There is a clearly defined mandate for the inclusion of sectors and issuances. In periods of risk reduction, diversification may be narrowly focused on cash and highly liquid investment-grade assets. At times of higher risk tolerance, appropriate diversification should be expected.

Interest rate exposure is limited to +/- 90 days versus the benchmark. The portfolio is constructed with the goal of having a diversified portfolio of securities, while largely retaining the low-risk characteristics of a cash investment.

Liquidity risk of EMCF is managed by maintaining a level of cash or liquid investments in the portfolio which are sufficient to meet a reasonable expectation of investor redemptions, distributions or other of the fund's financial obligations. This is complemented by a dynamic portfolio management process that ensures liquidity is increased when there is an expectation of a deterioration in market conditions. Cash flow forecasts are prepared for the funds, including the consideration of the maturity profile of the securities, interest and other income earned by the funds, and projected investor flows based on historical trends and future expectations.

Furthermore, the credit quality of financial assets is managed by the EMCF using Standard & Poor's rating categories, in accordance with the investment mandate of the EMCF. The EMCF's exposure in each credit rating category is monitored on a daily basis. This review process allows assessment of potential losses as a result of risks and the undertaking of corrective actions. The investment managers have undertaken to restrict the asset portfolio of the underlying funds to securities, deposits or obligations that meet Standard & Poor's 'AAf' fund credit quality rating criteria.

The investment managers of the underlying funds invested by the EMCF enter into a variety of derivative financial instruments such as credit default swaps and foreign exchange forwards in the normal course of business in order to mitigate credit risk exposure, and to hedge fluctuations in foreign exchange rates.

Details of the assets held by the underlying funds are set out below:

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to BBB- \$'000	Total \$'000
30 June 2010				
Corporate bonds	234,236	167,492	61,990	463,718
Mortgage and asset backed securities	537,385	5,011	9,831	552,227
Cash	183,375	-	-	183,375
	954,996	172,503	71,821	1,199,320
30 June 2009				
Corporate bonds	225,389	143,858	50,666	419,913
Mortgage and asset backed securities	595,969	9,217	15,562	620,748
Cash	472,545	-	-	472,545
	1,293,903	153,075	66,228	1,513,206

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 29. Structured products assets and liabilities (continued)

a. Exact Market Cash Funds (continued)

The impact of the EMCF on the consolidated profit after tax is dependent on the calculation of the swap agreement between the fund and the consolidated entity and the performance of the fund relative to the benchmark. If the fund's performance is below the benchmark return, then the consolidated entity will be obliged to make payments to the fund under the swap agreement. Conversely, if the fund's performance is higher than the benchmark, then the fund will make payments to the consolidated entity.

The table below demonstrates the impact of a 1 per cent deviation of the fund from the benchmark return on the consolidated profit before tax.

	2010 \$'000	2009 \$'000
EMCF performance 1 per cent higher than benchmark	11,993	15,132
EMCF performance 1 per cent lower benchmark	(11,993)	(15,132)

The analysis is based on the assumption that the returns of the portfolios have increased or decreased as disclosed with all other variables held constant. However, actual movements in the risk may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of economies, markets, and securities in which the underlying funds invest. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

b. Perpetual Protected Investments

The Perpetual Protected Investments structured product (the PPI product) was established in the financial year ended 30 June 2007 for the purpose of providing investors the ability to select investments from a menu of managed funds while providing capital protection at maturity via a constant proportion portfolio insurance structure. The seven-year investment allows investors to borrow up to 100 per cent of their original invested amount (and their first year's interest if the interest is pre-paid), subject to a minimum loan of \$50,000.

Structured products – loans receivable at reporting date consists of the following:

	Consolidated	
	2010 \$'000	2009 \$'000
Current		
Structured products – receivable from investors	26,157	108,935
	26,157	108,935
Non-current		
Structured products – loans receivable	165,690	212,247
Less: loan establishment fees	(380)	(540)
	165,310	211,707
Less: provision for credit losses	(2,635)	(991)
	162,675	210,716

Movements in the provision for credit losses are as follows :

Balance as at 1 July	991	-
Provision for credit losses recognised during the year	2,376	991
Unused amounts reversed	(732)	-
Balance as at 30 June	2,635	991

In June 2010, a number of investors in the PPI product advised the Group that they intended to repay all or some of their loans. This gave rise to the reclassification to current assets and liabilities in relation to the PPI and corresponding bank funding facilities. Repayments received from investors will be applied to reduce the bank funding facilities used to finance these loans.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 29. Structured products assets and liabilities (continued)

b. Perpetual Protected Investments (continued)

Investment and interest loans made to investors are funded by fixed and variable interest rate banking facilities. Total bank facilities available and utilised under these financial arrangements as at 30 June 2010 were \$189.6 million (2009: \$318.7 million).

It is the consolidated entity's policy to hedge variable rate facilities from exposure to fluctuating interest rates in accordance with its financial risk management policies. Accordingly, the consolidated entity has entered into interest rate swap contracts in order to hedge exposure to fluctuations in interest rates under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. Details of the consolidated entity's exposure to risks arising from Perpetual Protected Investments are set out in Note 28.

The contracts are settled on a net basis. For the 1 year interest rate swap, the fixed rate payment is paid either annually in advance or monthly in arrears, and the floating rate payment is received monthly in arrears; for the 7 years interest rate swap, the fixed rate leg is paid annually in advance, and the floating rate leg is received quarterly in arrears.

Interest rate swap contracts entered into cover approximately 97 per cent (2009: 94 per cent) of the variable interest rate banking facilities and are timed to expire as each loan falls due. The fixed interest rates of these swaps range from 4.74 per cent to 7.37 per cent (2009: 3.12 per cent to 7.37 per cent) and the banking facilities' variable interest rates range from 5.89 per cent to 6.1 per cent (2009: 4.42 per cent to 4.5 per cent).

The interest rates under the fixed interest banking facilities range from 5.24 per cent to 7.77 per cent (2009: 3.53 per cent to 7.77 per cent). There were \$84.1 million fixed interest banking facilities at 30 June 2010.

Interest rate swaps have been both terminated and entered into in accordance with the Group's product interest rate risk policy.

The fair value of interest rate swap contracts outstanding as at reporting date and period of expiry are as follows:

	2010		2009	
	Fair value \$'000	Notional amount \$'000	Fair value \$'000	Notional amount \$'000
Less than 1 year	(11)	43,600	124	54,500
4-7 years	(651)	7,215	(821)	7,415
	(662)	50,815	(697)	61,915

The gain or loss from re-measuring interest rate swap contracts at fair value is deferred in other comprehensive income in the cash flow hedge reserve, to the extent that the hedge is effective, and re-classified into net profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in net profit and loss immediately.

As at 30 June 2010, an unrealised loss of \$0.4 million (2009: loss of \$0.7 million) was deferred in equity in the cash flow hedge reserve.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000

Note 30. Commitments

Capital expenditure commitments

Contracted but not provided for and payable within one year	1,207	940
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Capital expenditure contracted but not provided for and payable within one year relates primarily to costs associated with the fit out of Angel Place, Sydney and the costs associated with software development.

Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

Not later than 1 year	15,761	13,405
Later than 1 year and not later than 5 years	62,100	63,935
Later than 5 years	73,581	67,481
	151,442	144,821

Operating leases are predominantly related to premises.

Note 31. Contingencies

The directors are of the opinion that the recognition of liabilities is not required in respect of these matters, as it is not probable that future sacrifice of economic benefits will be required and the amount is not capable of reliable measurement.

Contingent liabilities

A controlled entity has bank guarantees to the favour of the Australian Securities and Investments Commission in respect of dealer's licence arrangements.

20 20

Bank guarantees of a controlled entity in favour of the ASX Settlement and Transfer Corporation Pty Limited with respect to normal trading activities.

1,000 1,000

Bank guarantees of a controlled entity in favour of various lessors for rental bonds on leased premises.

340 124

In the ordinary course of business, contingent liabilities exist in respect of claims and potential claims against entities in the consolidated entity. The consolidated entity does not consider that the outcomes of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position.

Note 32. Related parties

Controlled entities and associates

The consolidated entity has a related party relationship with its Key Management Personnel (see Note 38).

Business transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

For a fixed term from 2 November 2009 to 2 May 2010, Meredith Brooks provided advisory and consulting services to Perpetual Investment's Global Equities business. In accordance with the consultancy agreement, Ms Brooks received \$197,000 for providing those services. This cash payment is in addition to the fees Ms Brooks received in her capacity as a non-executive director.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Name of Company	Beneficial interest		Country of incorporation
	2010 %	2009 %	
Note 33. Controlled entities			
Perpetual Limited			
<i>Controlled Entities¹</i>			
Australian Trustees Limited	100	100	Australia
Commonwealth Trustees Pty Limited ²	100	100	Australia
Financial Pursuit Pty Limited	100	100	Australia
Fordham Business Advisors Pty Ltd	100	-	Australia
Grosvenor Financial Services Pty Ltd	100	-	Australia
Investor Marketplace Limited	100	100	Australia
Perpetual Assets Pty Limited ²	100	100	Australia
Perpetual Australia Pty Limited	100	100	Australia
Perpetual Investment Management Limited	100	100	Australia
Perpetual Loan Company Limited	100	100	Australia
Perpetual Loan Company No. 2 Limited	100	100	Australia
Perpetual Mortgage Services Pty Limited	100	100	Australia
Perpetual Nominees Limited	100	100	Australia
Perpetual Services Pty Limited ²	100	100	Australia
Perpetual Trust Services Limited	100	100	Australia
Perpetual Trustee Company (Canberra) Limited	100	100	Australia
Perpetual Trustee Company Limited	100	100	Australia
Perpetual Trustees Consolidated Limited	100	100	Australia
Perpetual Trustees Queensland Limited	100	100	Australia
Perpetual Trustees SA Limited	100	100	Australia
Perpetual Trustees Victoria Limited	100	100	Australia
Perpetual Trustees WA Limited	100	100	Australia
PI Investment Management Limited	100	100	Ireland
Queensland Trustees Pty Limited	100	100	Australia
smartsuper Pty Limited	100	100	Australia
Perpetual Legal Services Pty Limited	100	100	Australia
Perpetual Concentrated International Share Fund	100	100	Australia
Perpetual Resource Fund	92	99	Australia
Perpetual Wholesale Geared International Share Fund	92	46	Australia
Perpetual Asia Pool Fund	100	100	Australia
Perpetual Equity Imputation Portfolio	100	100	Australia
Perpetual Capital Accumulation Portfolio	100	100	Australia
Global Equities UCITS Fund	100	-	Australia
Perpetual Pure Value 2 Fund	100	-	Australia
Exact Market Cash Fund 1	100	100	Australia
Exact Market Cash Fund 2	100	100	Australia
Entities under the control of Australian Trustees Limited			
Wilson Dilworth Partnership Pty Limited ²	100	100	Australia

Notes to and forming part of the financial statements for the year ended 30 June 2010

Name of Company	Beneficial interest		Country of incorporation
	2010 %	2009 %	
Note 33. Controlled entities (continued)			
Entities under the control of Fordham Business Advisors Pty Limited			
Fordham Investment Management Pty Ltd	100	-	Australia
Garnet Investment Management Pty Ltd	100	-	Australia
Garnet Superannuation Pty Ltd	100	-	Australia
Transcript Pty Ltd ²	100	-	Australia
Entities under the control of Grosvenor Financial Services Pty Limited			
Grosvenor Tax and Accounting Pty Ltd	100	-	Australia
Entities under the control of Perpetual Assets Pty Limited			
Perpetual Asset Management Limited	100	100	Australia
Entities under the control of Perpetual Asset Management Limited¹			
Perpetual Superannuation Ltd	100	100	Australia
Entities under the control of Perpetual Trustee Company Limited			
Perpetual Corporate Trust Limited	100	100	Australia
Perpetual Custodians Limited	100	100	Australia
Perpetual Service Network Pty Limited ²	100	100	Australia
PT Limited	100	100	Australia
Entities under the control of Perpetual Trustees Consolidated Limited			
Perpetual Nominees (Canberra) Limited	100	100	Australia
Perpetual Custodian Nominees Pty Limited ²	100	100	Australia
Entities under the control of Perpetual Trustees Victoria Limited			
Perpetual Executors Nominees Limited	100	100	Australia
AXA GESP Exempt (Aust) Pty Limited ³	-	51	Australia
AXA GESP Deferred (Aust) Pty Limited ³	-	51	Australia
Entities under the control of Perpetual Trustees WA Limited			
Terrace Guardians Limited	100	100	Australia
Entities under the control of PT Limited¹			
Perpetrust Nominees Pty Limited ²	100	100	Australia
Entities under the control of Wilson Dilworth Partnership Pty Limited¹			
Wilson Dilworth Limited	100	100	Australia

¹ Entities in bold are directly owned by Perpetual Limited with the exception of Perpetual Asset Management Limited, P.T. Limited and Wilson Dilworth Partnership Pty Limited which are owned by Perpetual subsidiaries.

² A small proprietary company as defined by the *Corporations Act 2001* and is not required to be audited for statutory purposes.

³ AXA GESP Exempt (Aust) Pty Limited and AXA GESP Deferred (Aust) Pty Limited were sold by Perpetual Trustees Victoria Limited on 26 March 2010.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Company	
	2010	2009
	\$'000	\$'000
Note 34. Parent entity disclosures		
As at, and throughout, the financial year ending 30 June 2010 the parent entity of the Group was Perpetual Limited.		
Result of the parent entity		
Profit for the period	56,296	80,748
Other comprehensive income/(expense)	4,478	(8,279)
Total comprehensive income for the period	<u>60,774</u>	<u>72,469</u>
Financial position of the parent entity at year end		
Current assets ¹	154,815	132,193
Total assets	<u>576,524</u>	<u>481,877</u>
Current liabilities ¹	155,157	103,376
Total liabilities	<u>190,121</u>	<u>128,610</u>
Total equity of the parent entity comprising:		
Share capital	236,724	204,520
Reserves	50,509	39,447
Retained earnings	99,170	109,300
Total Equity	<u>386,403</u>	<u>353,267</u>

¹ Current liabilities exceed current assets by \$342,000 as at 30 June 2010 which is primarily due to a net intercompany payable to controlled entities of \$29,605,000. This will not affect the parent entity's ability to pay its debts as and when they become due and payable. Total assets of the parent entity exceed total liabilities by \$386,403,000.

Parent entity contingencies

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Uncalled capital of the controlled entities.	9,893	10,903
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In the ordinary course of business, contingent liabilities exist in respect of claims and potential claims against the parent entity. The parent entity does not consider that the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, are likely to have a material effect on its operations or financial position.

Capital expenditure commitments

Contracted but not provided for and payable within one year	<u>1,207</u>	<u>940</u>
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Capital expenditure contracted but not provided for and payable within one year relates primarily to costs associated with the fit out of Angel Place, Sydney and the costs associated with software development.

Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

Not later than 1 year	10,817	10,324
Later than 1 year and not later than 5 years	55,340	55,075
Later than 5 years	<u>53,946</u>	<u>66,897</u>
	120,103	132,296

Operating leases are predominantly related to premises.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 34. Parent entity disclosures (continued)

Parent entity guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiaries and has provided financial guarantees in respect of:

- Guarantee to secure a \$70,000,000 bank facility (\$45,000,000 is utilised) of a controlled entity amounting to \$70,000,000 (2009: \$45,000,000).
- Guarantees to secure lending associated with structured products amounting to \$11,371,000 (2009: \$16,122,000).
- No liability was recognised by the Company in relation to these guarantees as the fair value of these guarantees is considered to be immaterial. The Company does not expect the financial guarantees to be called upon.

Notes to and forming part of the financial statements for the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
Note 35. Notes to the Cash Flow Statement		
Cash flows from operating activities		
Profit for the year	90,506	37,749
Add/(less) items classified as investing/financing activities:		
(Profit)/loss on sale of investments	(3,913)	6,673
Reinvestment of dividends and unit distributions	(512)	(1,962)
Working capital acquired from business combinations	5,724	1,000
Leave liabilities acquired from business combinations	(903)	(80)
Deferred acquisition consideration	(8,583)	(2,439)
Deferred tax recognised on intangibles acquired	(4,543)	-
Share of loss/(profit) of equity accounted investees, net of income	16	(111)
Tax paid on the sale of investments	(784)	(1,657)
Add/(less) non-cash items:		
Loss on sale of property, plant and equipment	78	470
Transfer from cash flow hedge reserve to profit and loss	-	(14)
Depreciation and amortisation expense	14,857	13,163
Equity remuneration expense	26,755	25,930
Transfer to foreign currency translation reserve	(2,856)	197
Transfer to available-for-sale reserve	(1,125)	(1,725)
Profit after tax attributable to non-controlling interests	216	58
Impairment of available-for-sale securities	7,085	1,065
Net cash provided by operating activities before change in assets and liabilities	122,018	78,317
Change in assets and liabilities during the financial year:		
(Increase)/decrease in receivables	(8,143)	6,155
Decrease/(increase) in net structured products assets	2,051	(812)
Decrease in derivative assets	134	15,358
(Decrease)/increase in derivative liabilities	(159)	586
Increase/(decrease) in payables	9,606	(12,255)
Decrease/(increase) in prepayments	3,515	(4,039)
Increase/(decrease) in employee benefits	7,107	(7,580)
(Decrease)/increase in provisions	(2,084)	7,354
Increase/(decrease) in current tax liabilities	16,586	(25,258)
Increase in deferred tax assets	(2,838)	(1,517)
Increase in deferred tax liabilities	5,061	2,817
(Decrease)/increase in cash flow hedge reserve	(301)	3,599
Net cash provided by operating activities	152,553	62,725

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 36. Business combinations

(i) Grosvenor Financial Services Pty Ltd

On 24 September 2009 the Company acquired 100% of the issued share capital of Grosvenor Financial Services Pty Ltd, which specialises in providing financial advice and services to medical, dental and legal professionals. The acquired entity is based in the Sydney CBD.

The acquisition of Grosvenor is part of the consolidated entity's strategy to expand its private wealth business by acquiring complementary businesses specialising in the high net worth segment of the market.

The acquired business contributed revenue of \$4.6 million and net loss after tax of \$0.8 million to the consolidated entity for the period from 24 September 2009 to 30 June 2010. If this acquisition had occurred on 1 July 2009, the revenue and net loss would have been \$5.8 million and \$1.0 million respectively.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred

	\$'000
Cash consideration	8,875
Equity consideration	10,569
Contingent consideration	682
Total consideration	<u>20,126</u>

The fair value of the ordinary shares issued (283,950) was based on the listed share price of the Company at 24 September 2009 of \$37.22 per share.

Contingent consideration

The Company has agreed to pay the selling stakeholder additional cash consideration if the acquiree exceeds certain pre-determined revenue hurdles. The Company has included \$0.7 million as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the expected contingent consideration and a discount rate of 15 percent. Subsequent to the date of acquisition, the balance of contingent consideration has increased by \$0.1 million, representing the unwinding of the discount in the period since acquisition.

Identifiable assets acquired and liabilities

	\$'000
Intangible assets	6,041
Receivables	1,117
Cash and cash equivalents	48
Current tax assets	172
Other current assets	418
Trade and other payables	(103)
Financial liabilities	(100)
Current tax liabilities	(497)
Deferred tax liabilities	(1,813)
Provisions	(336)
Total identifiable net assets	<u>4,947</u>

All trade receivables are expected to be collectible at the acquisition date.

Goodwill

	\$'000
Goodwill was recognised as a result of the acquisition as follows:	
Total consideration transferred	20,126
Less value of identifiable net assets	(4,947)
Goodwill	<u>15,179</u>

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 36. Business combinations (continued)

(i) Grosvenor Financial Services Pty Ltd (continued)

The goodwill is attributable mainly to the skills and technical talent of the acquiree's work force, and the synergies expected to be achieved from integrating the company into the consolidated entity. None of the goodwill recognised is expected to be deductible for income tax purposes.

Transactions separate from the acquisition

The consolidated entity incurred acquisition-related costs of \$0.3 million relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative and general expenses in the consolidated entity's Statement of comprehensive income.

(ii) Fordham Business Advisors Pty Ltd

On 5 January 2010 the Company acquired 100% of the issued share capital of Fordham Business Advisors Pty Ltd, which specialises in providing financial, investment and related tax and accounting services for private business owners. The acquired entity is based in the Melbourne CBD.

The acquisition of Fordham is part of the consolidated entity's strategy to expand its private wealth business by acquiring complementary businesses specialising in the high net worth segment of the market.

The acquired business contributed revenue of \$10.8 million and net profit after tax of \$0.2 million to the consolidated entity for the period from 5 January 2010 to 30 June 2010. If this acquisition had occurred on 1 July 2009, the revenue and net profit would have been \$21.6 million and \$2.0 million respectively.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred

	<u>\$'000</u>
Cash consideration	16,900
Cash consideration held in escrow	10,022
Contingent consideration	7,901
Total consideration	<u>34,823</u>

Contingent consideration

The Company has agreed to pay the selling stakeholder additional cash consideration if the acquiree exceeds certain pre-determined gross profit and synergy hurdles. The Company has included \$7.9 million as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the expected contingent consideration and a discount rate of 7.2 percent. Subsequent to the date of acquisition, the balance of contingent consideration has increased by \$0.2 million, representing the unwinding of the discount in the period since acquisition.

Identifiable assets acquired and liabilities

	<u>\$'000</u>
Intangible assets	9,100
Receivables	4,688
Cash and cash equivalents	300
Other current assets	290
Property, plant & equipment	2,630
Trade and other payables	(424)
Deferred tax liabilities	(2,730)
Provisions	(752)
Total identifiable net assets	<u>13,102</u>

All trade receivables are expected to be collectible at the acquisition date.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 36. Business combinations (continued)

(ii) Fordham Business Advisors Pty Ltd (continued)

Goodwill	\$'000
Goodwill was recognised as a result of the acquisition as follows:	
Total consideration transferred	34,823
Less value of identifiable net assets	<u>(13,102)</u>
Goodwill	<u><u>21,721</u></u>

The goodwill is attributable mainly to the skills and technical talent of the acquiree's work force, and the synergies expected to be achieved from integrating the company into the consolidated entity. None of the goodwill recognised is expected to be deductible for income tax purposes.

Transactions separate from the acquisition

The consolidated entity incurred acquisition-related costs of \$0.6 million relating to external legal fees and due diligence costs. The legal fees and due diligence costs have been included in administrative and general expenses in the consolidated entity's Statement of comprehensive income.

Note 37. Subsequent events

The directors are not aware of any other event or circumstance since the end of the financial period not otherwise dealt with in this report that has or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 38. Remuneration details provided as part of the financial report

The following disclosures required under AASB 124 are required to be included in the Financial Report:

- Para 16 'Total Compensation of Key Management Personnel'
- Para 25.7.3 'Options and Rights holdings'
- Para 25.7.4 'Equity Holdings and Transactions'
- Para 25.9 'Disclosure of Other Transactions'.

Total compensation of key management personnel

	Consolidated	
	2010 \$	2009 \$
Short-Term	8,309,185	6,559,201
Post-Employment	336,371	397,882
Termination benefits	742,219	585,000
Share-Based	(444,168)	1,014,888
Total	8,943,607	8,556,971

Negative balances are a result of adjustments made in the year to reflect the most current expectations of vesting of LTI grants with non-market conditions hurdles.

Related party disclosures

Executives have not entered into material contracts with the Company or a member of the consolidated entity since the end of the previous financial year and there were no material contracts involving KMP's interests existing at year end.

Option holdings of Executive Director and group executives

Name	Grant date	Exercise period	Exercise price	Held at 1 July 2009	Movement during the year			Held at 30 June 2010	Vested & exercisable at 30 June 2010	Fair value per option at grant date ¹	Proceeds received on exercise
					Granted	Forfeited	Exercised				
			\$	No. of options	No. of options			No. of options	No. of options	\$	\$
Managing Director											
D Deverall ²	Options granted prior to 1 July 2008 ³			295,508	-	28,144	-	267,364	978		
	1 Jul 08	1 Jul 11 - 1 Jul 14	42.73	57,390	-	-	-	57,390	-	8.97	-
	29 Jun 09	1 Jul 12 - 29 Jun 15	28.34	47,585	-	-	-	47,585	-	9.58	-
	3 Jul 09	1 Jul 12 - 29 Jun 15	28.34	-	5,911	-	-	5,911	-	9.58	-
		Aggregate Value			\$56,627	\$1,599,986	-				-
Departed Group executives											
E Gonzalez	20 Jan 09	30 Jun 13 - 20 Jan 15	31.42	182,215	-	182,215	-	-	-	6.60	-
		Aggregate Value			-	\$5,725,195	-				-
J Nesbitt	9 Jun 09	30 Jun 12 - 30 Jun 14	28.34	58,939	-	58,939	-	-	-	9.06	-
		Aggregate Value			-	\$1,670,331	-				-
E Wang	31 Mar 08	31 Mar 11 - 31 Mar 13	52.71	75,301	-	75,301	-	-	-	9.96	-
		Aggregate Value			-	\$3,969,116	-				-

Options granted to the Managing Director and group executives are granted from the Executive Option Plan. R Brandweiner, R Burrows, C Doyle, C Green, I Holyman, R MacIntyre, M Miller, M Pancino, P Ryan, S Singh and J Stewart do not hold options over Perpetual shares.

¹ Equity instruments issued have been valued by PricewaterhouseCoopers (PwC) using a Binomial Option Pricing model at grant date.

² Approval for the issue of options to D Deverall was obtained under ASX Listing Rule 10.14 at Perpetual's AGMs held on 19 October 2004, 17 October 2006, 30 October 2007, 28 October 2008 and 22 October 2009.

³ These options were granted on 19 October 2004 (978), 1 July 2005 (28,144), 1 July 2006 (29,950) and 1 July 2007 (236,436). On 23 June 2010, the company announced that Managing Director, David Deverall, had given notice of his resignation. As a result, no long term incentives, including the options outstanding as at 30 June 2010, will vest as a result of Mr Deverall's resignation and all unvested options will be forfeited on ceasing employment. The options outstanding as at 30 June 2010 have a carrying value of \$Nil.

⁴ Percentage of total remuneration received as options for the Managing Director and Group Executives are: D Deverall (0%), E Gonzalez (0%), J Nesbitt (0%) and E Wang (0%).

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 38. Remuneration details provided as part of the financial report

Option holdings of Executive Director and group executives (continued)

Name	Grant date	Exercise period	Exercise price	Held at 1 July 2008	Movement during the year			Held at 30 June 2009	Vested & exercisable at 30 June 2009	Fair value per option at grant date	Proceeds received on exercise
					Granted	Forfeited	Exercised				
			\$	No. of options	No. of options			No. of options	No. of options	\$	\$
Managing Director											
D Deverall ²	Options granted prior to 1 July 2007 ³			65,912	-	6,840	-	59,072	978	-	-
	1 Jul 07	30 Jun 10 - 1 Jul 13	79.17	134,625	-	-	-	134,625	-	11.92	-
	1 Jul 07	30 Jun 12 - 1 Jul 13	79.17	67,313	-	-	-	67,313	-	11.92	-
	1 Jul 07	1 Jul 10 - 1 Jul 17	79.17	34,498	-	-	-	34,498	-	11.92	-
	1 Jul 08	1 Jul 11 - 1 Jul 14	42.73	-	57,390	-	-	57,390	-	8.97	-
	29 Jun 09	1 Jul 12 - 29 Jun 19	28.34	-	47,585	-	-	47,585	-	9.58	-
		Aggregate Value			\$970,653	\$322,027	-				-
Group executives											
E Gonzalez	Options granted prior to 1 July 2007 ⁴			33,334	-	-	33,334	-	-	-	-
	20 Jan 09	30 Jun 13 - 20 Jan 15	31.42	-	182,215	-	-	182,215	-	6.60	-
		Aggregate Value			\$1,202,619	-	\$409,342				\$1,082,022
J Nesbitt	9 Jun 09	30 Jun 12 - 9 Jun 19	28.34	-	58,939	-	-	58,939	-	9.06	-
		Aggregate Value			\$533,987	-	-				-
E Wang	31 Mar 08	31 Mar 11 - 31 Mar 13	52.71	75,301	-	-	-	75,301	-	9.96	-
		Aggregate Value			-	-	-				-

Options granted to the Managing Director and group executives are granted from the Executive Option Plan. R Brandweiner, R Burrows, C Doyle, C Green, I Holyman, M Pancino and J Stewart do not hold options over Perpetual shares.

¹ Equity instruments issued have been valued by PricewaterhouseCoopers (PwC) using a Binomial Option Pricing model at grant date.

² Approval for the issue of options to D Deverall was obtained under ASX Listing Rule 10.14 at Perpetual's AGMs held on 19 October 2004, 17 October 2006, 30 October 2007 and 28 October 2008.

³ These options were granted on 1 July 2004 (6,840; 100% forfeited in the current year), 19 October 2004 (978), 1 July 2005 (28,144) and 1 July 2006 (29,950).

⁴ These options were granted on 28 October 2002 (33,334).

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 38. Remuneration details provided as part of the financial report (continued)

Unvested share holdings of Executive Director, group and other executives

Name	Grant date	Issue price	Vesting date	Held at 1 July 2009	Movement during the year			Held at 30 June 2010	Fair value per share (\$) TSR Hurdle	Fair value per share (\$) non-TSR hurdle
					Granted	Forfeited	Vested			
				No of shares	No of shares			No of shares		
Executive Director										
D Deverall ¹	Shares granted prior to 1 July 2008 ²			58,532	-	7,036	-	51,496		
	1 July 2008	42.73	1 July 2011	11,993	-	-	-	11,993	38.97	50.80
	29 June 2009	28.34	29 June 2012	18,083	-	-	-	18,083	21.30	28.01
	Aggregate Value				-	\$399,997	-			
Group executives										
R Brandweiner	Shares granted prior to 1 July 2008 ³			2,748	-	1,389	-	1,359		
	1 October 2008	48.63	1 October 2011	4,112	-	-	-	4,112	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	7,208	-	-	7,208	29.02	37.93
	Aggregate Value				\$274,985	\$96,582	-			
R Burrows	Shares granted prior to 1 July 2008 ⁴			11,383	-	-	-	11,383		
	1 October 2008	48.63	1 October 2011	12,338	-	-	-	12,338	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	15,727	-	-	15,727	29.02	37.93
	Aggregate value				\$599,985	-	-			
C Doyle	Shares granted prior to 1 July 2008 ⁵			25,531	-	-	-	25,531		
	1 October 2008	48.63	1 October 2011	7,197	-	-	-	7,197	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	9,174	-	-	9,174	29.02	37.93
	Aggregate Value				\$349,988	-	-			
C Green	Shares granted prior to 1 July 2008 ⁶			5,031	-	-	2,740	2,291		
	1 October 2008	48.63	1 October 2011	4,112	-	-	-	4,112	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	6,553	-	-	6,553	29.02	37.93
	Aggregate Value				\$249,997	-	\$199,938			
I Holyman	Shares granted prior to 1 July 2008 ⁷			16,464	-	4,472	-	11,992		
	1 October 2008	48.63	1 October 2011	9,253	-	-	-	9,253	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	11,795	-	-	11,795	29.02	37.93
	Aggregate Value				\$449,979	\$300,026	-			
M Miller	Shares granted prior to 1 July 2008 ⁸			3,308	-	1,677	-	1,631		
	1 October 2008	48.63	01/10/2011	2,467	-	-	-	2,467	38.97	50.80
	1 October 2009	38.15	01/10/2012	-	8,519	-	-	8,519	29.02	37.93
	Aggregate Value				\$325,000	\$121,348	-			
M Pancino	Shares granted prior to 1 July 2008 ⁹			4,159	-	1,865	-	2,294		
	1 October 2008	48.63	1 October 2011	5,140	-	-	-	5,140	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	6,553	-	-	6,553	29.02	37.93
	Aggregate Value				\$249,997	\$134,951	-			
J Stewart	Shares granted prior to 1 July 2008 ¹⁰			584	-	-	-	584		
	1 October 2008	48.63	1 October 2011	3,084	-	-	-	3,084	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	3,931	-	-	3,931	29.02	37.93
	Aggregate Value				\$149,968	-	-			
P Ryan	Shares granted prior to 1 July 2008 ¹¹			2,946	-	1,451	-	1,495		
	1 October 2008	48.63	1 October 2011	2,287	-	-	-	2,287	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	3,538	-	-	3,538	29.02	37.93
	Aggregate Value				\$134,975	\$104,994	-			
S Singh	Shares granted prior to 1 July 2008 ¹²			1,931	-	566	-	1,365		
	1 October 2008	48.63	1 October 2011	2,261	-	-	-	2,261	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	3,538	-	-	3,538	29.02	37.93
	Aggregate Value				\$134,975	\$40,956	-			
R MacIntyre	Shares granted prior to 1 July 2008 ¹³			9,498	-	2,257	-	7,241		
	1 October 2008	48.63	1 October 2011	1,028	-	-	-	1,028	38.97	50.80
	1 October 2009	38.15	1 October 2012	-	2,096	-	-	2,096	29.02	37.93
	Aggregate Value				\$79,962	\$158,700	-			
Departed Executives										
E Gonzalez	Shares granted prior to 1 July 2008 ¹⁴			26,622	-	26,622	-	-		
	1 October 2008	48.63	1 October 2011	16,450	-	16,450	-	-	38.97	50.80
	20 January 2009	31.42	30 June 2013	39,783	-	39,783	-	-	N/A	31.42
	Aggregate Value				-	\$3,949,872	-			
J Nesbitt	Shares granted prior to 1 July 2008 ¹⁵			23,004	-	23,004	-	-		
	1 October 2008	48.63	1 October 2011	16,450	-	16,450	-	-	38.97	50.80
	9 June 2009	29.74	30 June 2012	20,174	-	20,174	-	-	N/A	29.74
	1 October 2009	38.15	1 October 2012	-	20,969	20,969	-	-	29.02	37.93
	Aggregate Value				\$799,967	\$3,849,818	-			
E Wang	Shares granted prior to 1 July 2008 ¹⁶			21,832	-	21,832	-	-		
	1 October 2008	48.63	1 October 2011	6,169	-	6,169	-	-	38.97	50.80
	Aggregate Value				-	\$1,595,883	-			

¹ Approval for the issue of shares to David Deverall was obtained under ASX Listing Rule 10.14 at Perpetual's AGM held on 19 October 2004, 17 October 2006, 30 October 2007, 28 October 2008 and 22 October 2009.

² These shares were granted on 1 July 2005 (7,036; 100% forfeited in the current year), 1 July 2006 (7,130) and 1 July 2007 (44,366).

³ These shares were granted on 30 September 2005 (745; 100% forfeited in the current year), 2 October 2006 (644; 100% forfeited in the current year) and 1 October 2007 (1,359).

⁴ These shares were granted on 31 March 2008 (11,383).

⁵ These shares were granted on 4 December 2006 (1,645), 1 October 2010 (4,759) and 20 February 2008 (19,127).

⁶ These shares were granted on 1 October 2007 (2,291) and 17 July 2006 (2,740; 100% vested in the current year).

⁷ These shares were granted on 30 September 2005 (4,472; 100% forfeited in the current year), 2 October 2006 (5,873) and 1 October 2007 (6,119).

⁸ These shares were granted on 30 September 2005 (641; 100% forfeited in the current year), 2 October 2006 (1,036; 100% forfeited in the current year) and 1 October 2007 (1,631).

⁹ These shares were granted on 14 August 2006 (255), 2 October 2006 (1,865; 100% forfeited in the current year) and 1 October 2007 (2,039).

¹⁰ These shares were granted on 10 September 2007 (584).

¹¹ These shares were granted on 2 October 2006 (1,451; 100% forfeited in the current year) and 1 October 2007 (1,495).

¹² These shares were granted on 3 July 2006 (139), 2 October 2006 (566; 100% forfeited in the current year) and 1 October 2007 (1,226).

¹³ These shares were granted on 30 September 2005 (876; 100% forfeited in the current year), 2 October 2006 (1,381; 100% forfeited in the current year), 1 October 2007 (1,359) and 3 December 2007 (5,882).

¹⁴ These shares were granted on 30 September 2005 (7,453; 100% forfeited in the current year), 2 October 2006 (8,291; 100% forfeited in the current year) and 1 October 2007 (10,878; 100% forfeited in the current year).

¹⁵ These shares were granted on 30 September 2005 (5,217; 100% forfeited in the current year), 2 October 2006 (6,909; 100% forfeited in the current year) and 1 October 2007 (10,878; 100% forfeited in the current year).

¹⁶ These shares were granted on 30 September 2005 (1,729; 100% forfeited in the current year), 2 October 2006 (1,796; 100% forfeited in the current year), 1 October 2007 (4,079; 100% forfeited in the current year) and 31 March 2008 (14,228; 100% forfeited in the current year).

¹⁷ Grants of performance shares after 30 June 2003 contain 50% of the shares with a performance hurdle linked to TSR and 50% of the shares granted with a performance hurdle linked to EPS.

Where applicable, the fair value of shares with a TSR performance hurdle are disclosed. The fair value of TSR-linked shares is calculated by PwC using valuation techniques which take into account the probability of vesting as reflected in the fair value at grant.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 38. Remuneration details provided as part of the financial report (continued)

Unvested shareholdings of Managing Director, group and other executives

Name	Grant date	Issue price	Vesting date	Held at 1 July 2008	Movement during the year			Held at 30 June 2009	Fair value per share (\$) TSR Hurdle	Fair value per share (\$) non-TSR hurdle
					Granted	Forfeited	Vested			
				No of shares	No of shares		No of shares			
Managing Director										
D Deverall ¹	Shares granted prior to 1 July 2007 ²			16,121	-	1,955	-	14,166		
	1 July 2007	79.17	1 July 2010	31,735	-	-	-	31,735	57.22	80.08
	1 July 2007	79.17	30 June 2012	12,631	-	-	-	12,631	N/A	73.76
	1 July 2008	42.73	1 July 2011	-	11,993	-	-	11,993	38.97	50.80
	29 June 2009	28.34	1 July 2012	-	18,083	-	-	18,083	21.30	28.01
	Aggregate Value				\$1,024,933	\$92,041				
Group executives										
R Brandweiner	Shares granted prior to 1 July 2007 ³			1,500	-	111	-	1,389		
	1 October 2007	73.54	1 October 2010	1,359	-	-	-	1,359	57.22	80.08
	1 October 2008	48.63	1 October 2011	-	4,112	-	-	4,112	38.97	50.80
	Aggregate Value				\$199,967	\$5,513				
R Burrows	31 March 2008	52.71	31 March 2011	11,383	-	-	-	11,383	57.22	52.71
	1 October 2008	48.63	1 October 2011	-	12,338	-	-	12,338	38.97	50.80
	Aggregate value				\$599,997					
C Doyle	4 December 2006	72.92	4 December 2009	1,645	-	-	-	1,645	52.13	72.92
	1 October 2007	73.54	1 October 2010	4,759	-	-	-	4,759	57.22	80.08
	20 February 2008	52.28	1 January 2011	19,127	-	-	-	19,127	N/A	52.28
	1 October 2008	48.63	1 October 2011	-	7,197	-	-	7,197	38.97	50.80
	Aggregate Value				\$349,990					
E Gonzalez	Shares granted prior to 1 July 2007 ⁴			15,744	-	-	-	15,744		
	1 October 2007	73.54	1 October 2010	10,878	-	-	-	10,878	57.22	80.08
	1 October 2008	48.63	1 October 2011	-	16,450	-	-	16,450	38.97	50.80
	20 January 2009	31.42	30 June 2013	-	39,783	-	-	39,783	N/A	31.42
	Aggregate Value				\$2,049,945					
C Green	Shares granted prior to 1 July 2007 ⁵			4,796	-	-	2,056	2,740		
	1 October 2007	73.54	1 October 2010	2,291	-	-	-	2,291	57.22	80.08
	1 October 2008	48.63	1 October 2011	-	4,112	-	-	4,112	38.97	50.80
	Aggregate Value				\$199,967		\$150,026			
I Holyman	Shares granted prior to 1 July 2007 ⁶			11,162	-	817	-	10,345		
	1 October 2007	73.54	1 October 2010	6,119	-	-	-	6,119	57.22	80.08
	1 October 2008	48.63	1 October 2011	-	9,253	-	-	9,253	38.97	50.80
	Aggregate Value				\$449,973	\$40,580				
J Nesbitt	Shares granted prior to 1 July 2007 ⁷			12,943	-	817	-	12,126		
	1 October 2007	73.54	1 October 2010	10,878	-	-	-	10,878	57.22	80.08
	1 October 2008	48.63	1 October 2011	-	16,450	-	-	16,450	38.97	50.80
	9 June 2009	29.74	30 June 2012	-	20,174	-	-	20,174	N/A	29.74
	Aggregate Value				\$1,399,938	\$40,580				
M Pancino	Shares granted prior to 1 July 2007 ⁸			2,120	-	-	-	2,120		
	1 October 2007	73.54	1 October 2010	2,039	-	-	-	2,039	57.22	80.08
	1 October 2008	48.63	1 October 2011	-	5,140	-	-	5,140	38.97	50.80
	Aggregate Value				\$249,958					
J Stewart	10 September 2007	75.24	10 September 2010	584	-	-	-	584	N/A	75.24
	1 October 2008	48.63	1 October 2011	-	3,084	-	-	3,084	38.97	50.80
	Aggregate Value				\$149,975					
E Wang	Shares granted prior to 1 July 2007 ⁹			4,006	-	481	-	3,525		
	1 October 2007	73.54	1 October 2010	4,079	-	-	-	4,079	57.22	80.08
	31 March 2008	52.71	31 March 2011	14,228	-	-	-	14,228	N/A	52.71
	1 October 2008	48.63	1 October 2011	-	6,169	-	-	6,169	38.97	50.80
	Aggregate Value				\$299,998	\$23,891				
Departed group executives										
P Vernon	Shares granted prior to 1 July 2007 ¹⁰			8,557	-	8,557	-	-		
	1 October 2007	73.54	1 October 2010	5,439	-	5,439	-	-	57.22	80.08
	Aggregate Value					\$992,953				

¹ Approval for the issue of shares to David Deverall was obtained under ASX Listing Rule 10.14 at Perpetual's AGM held on 19 October 2004, 17 October 2006, 30 October 2007 and 28 October 2008.

² These shares were granted on 1 July 2004 (1,710; 100% forfeited in the current year), 19 October 2004 (245; 100% forfeited in the current year), 1 July 2005 (7,036) and 1 July 2006 (7,130).

³ These shares were granted on 1 October 2004 (111; 100% forfeited in the current year), 30 September 2005 (745) and 2 October 2006 (644).

⁴ These shares were granted on 30 September 2005 (7,453) and 2 October 2006 (8,291).

⁵ These shares were granted on 17 July 2006 (4,796; 43% vested in the current year).

⁶ These shares were granted on 1 October 2004 (817; 100% forfeited in the current year), 30 September 2005 (4,472) and 2 October 2006 (5,873).

⁷ These shares were granted on 1 October 2004 (817; 100% forfeited in the current year), 30 September 2005 (5,217) and 2 October 2006 (6,909).

⁸ These shares were granted on 14 August 2006 (255) and 2 October 2006 (1,865).

⁹ These shares were granted on 1 October 2004 (481; 100% forfeited in the current year), 30 September 2005 (1,729) and 2 October 2006 (1,796).

¹⁰ These shares were granted on 1 October 2004 (463; 100% forfeited in the current year), 30 September 2005 (2,981; 100% forfeited in the current year) and 2 October 2006 (5,113; 100% forfeited in the current year).

Shares granted to the Managing Director and group executives are granted from the Executive Share Plan. Grants of performance shares after 30 June 2003 contain 50% of the shares with a performance hurdle linked to TSR and 50% of the shares granted with a performance hurdle linked to EPS. Where applicable, the fair value of shares with a TSR performance hurdle are disclosed. The fair value of TSR-linked shares is calculated by PwC using valuation techniques which take into account the probability of vesting as reflected in the fair value at grant.

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 38. Remuneration details provided as part of the financial report (continued)

Vested shareholdings of Managing Director, group and other executives

Name	Balance at	LTI Shares vesting	Other changes	Balance at
	1 July 2009	in the period	during the year	30 June 2010 *
		No of shares	No of shares	No of shares
Managing Director				
D Deverall	35,540	-	-	35,540
Group executives				
R Brandweiner	402	-	-	402
R Burrows	-	-	-	-
C Doyle	-	-	-	-
C Green	2,056	2,740	-	4,796
I Holyman	2,736	-	-	2,736
M Miller	234	-	-	234
M Pancino	-	-	-	-
J Stewart	-	-	-	-
R MacIntyre	16,893	-	-	16,893
P Ryan	-	-	-	-
S Singh	-	-	-	-
Departed group executives				
E Gonzalez	88,279	-	(69,632)	18,647
J Nesbitt	7,417	-	-	7,417
E Wang	600	-	-	600

* Or date of departure for group executives that departed in the year.

Other changes during the year represent shares acquired via bonus sacrifice, conversion of options into shares and disposal of shares. Disposals during the year include E Gonzalez (69,632).

Name	Balance at	LTI Shares vesting	Other changes	Balance at
	1 July 2008	in the period	during the year	30 June 2009 *
		No of shares	No of shares	No of shares
Managing Director				
D Deverall	35,540	-	-	35,540
Group executives				
R Brandweiner	402	-	-	402
C Doyle	-	-	-	-
E Gonzalez	69,134	-	19,145	88,279
C Green	-	2,056	-	2,056
I Holyman	2,736	-	-	2,736
J Nesbitt	7,527	-	(110)	7,417
M Pancino	-	-	-	-
J Stewart	-	-	-	-
E Wang	600	-	-	600
Departed group executives				
P Vernon	1,580	-	-	1,580

* or date of departure for group executives that departed in the year.

Other changes during the year represent shares acquired via bonus sacrifice, conversion of options into shares and disposal of shares. Disposals during the year include E Gonzalez (14,189) and J Nesbitt (110).

Notes to and forming part of the financial statements for the year ended 30 June 2010

Note 38. Remuneration details provided as part of the financial report (continued)

Remuneration of Non-Executive Directors

Directors' individual shareholdings

	Balance at the start of the year, or for directors appointed in the year, the date of appointment	Shares acquired via salary sacrifice during the year	Other changes during the year	Balance at the end of the year, or for directors who retired in the year, the date of retirement
Directors				
R M Savage	9,380	-	229	9,609
P V Brasher ¹	-	-	1,000	1,000
M J Brooks	5,500	-	253	5,753
P Bullock ²	-	-	1,000	1,000
E P McClintock	8,485	-	283	8,768
E Proust	3,147	-	98	3,245
P B Scott	2,047	-	93	2,140
P J Twyman	8,772	-	(665)	8,107

¹ Paul Brasher was appointed as a director on 1 November 2009.

² Philip Bullock was appointed as a director on 1 June 2010.

Prior year directors' individual shareholdings

	Balance at the start of the year, or for directors appointed in the year, the date of appointment	Shares acquired via salary sacrifice during the year ¹	Other changes during the year	Balance at the end of the year, or for directors who retired in the year, the date of retirement
Directors				
R M Savage	7,246	2,134	-	9,380
M J Brooks	4,500	-	1,000	5,500
E P McClintock	6,810	1,675	-	8,485
E Proust	2,728	419	-	3,147
P B Scott	1,000	1,047	-	2,047
A Stevens ²	1,500	-	-	1,500
P J Twyman	5,677	2,095	1,000	8,772

¹ Shares are acquired four times a year.

² Mr A Stevens joined Perpetual on 24 June 2008 and resigned on 3 February 2009.

Directors' declaration

- 1 In the opinion of the directors of Perpetual Limited (the "Company"):
 - a. the consolidated financial statements and notes, and the Remuneration report in the Directors' report, set out on pages 23 to 59, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
 - b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);
 - c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors:

Dated at Sydney this 24th day of August 2010.



Robert Savage
Director



David Deverall
Director



Independent auditor's report to the members of Perpetual Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising Perpetual Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the balance sheet as at 30 June 2010, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 38 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independence



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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 23 to 59 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Perpetual Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Andrew Yates
Partner

Sydney
24 August 2010

Securities exchange and investor information

2010 Annual General Meeting

The 2010 Annual General Meeting of the Company will be held in the Heritage Ballroom, Level 6, The Westin Sydney, 1 Martin Place, Sydney on Tuesday 26 October 2010 commencing at 10:00 am.

Stock exchange listing

The ordinary shares of Perpetual Limited are listed on the Australian Securities Exchange under the ASX code PPT, with Sydney being the home exchange. Details of trading activity are published in most daily newspapers.

Substantial shareholders

Queensland Trustees Pty Limited is a substantial shareholder of Perpetual Limited as at 31 July 2010.

Distribution schedule of holdings as at 31 July 2010	Number of holders	Number of shares
1 – 1,000 shares	23,115	8,483,188
1,001 – 5,000 shares	4,771	9,974,422
5,001 – 10,000 shares	451	3,236,002
10,001 – 100,000 shares	287	6,004,866
100,001 and over shares	32	15,719,000
Total	28,656	43,417,478

Number of shareholders with less than a marketable parcel:	472	4,270
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Twenty Largest Shareholders as at 31 July 2010

Name	Number of ordinary shares	Percentage of issued capital
Queensland Trustees Pty Limited ¹	2,814,201	6.48%
HSBC Custody Nominees (Australia) Limited ¹	2,211,749	5.09%
J P Morgan Nominees Australia Limited ¹	1,583,903	3.65%
National Nominees Limited ¹	1,268,387	2.92%
Australian Foundation Investment Company Limited	843,726	1.94%
Citicorp Nominees Pty Limited ¹	763,166	1.76%
Perpetual Trustee Company Limited ¹	658,184	1.52%
Milton Corporation Limited	646,588	1.49%
RBC CEES Trustee Limited ¹	632,977	1.46%
Washington H Soul Pattinson & Co Ltd	529,598	1.22%
UBS Wealth Management Australia Nominees Pty Ltd ¹	450,160	1.04%
Bond Street Custodians Limited ¹	355,428	0.82%
Argo Investments Limited	350,880	0.81%
Cogent Nominees Pty Limited ¹	328,519	0.76%
ANZ Nominees Limited ¹	311,806	0.72%
Enbear Pty Ltd	310,678	0.72%
RBC Dexia Investor Services Australia Nominees Pty Ltd ¹	284,366	0.65%
T Eustace	283,950	0.65%
Invia Custodian Pty Limited ¹	264,660	0.61%
Australian United Investment Co. Limited	250,000	0.58%
Total	15,142,926	34.89%

¹ Held in capacity as executor, trustee or agent.

Securities exchange and investor information (continued)

Other Information

Perpetual Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Voting rights

Under the Company's Constitution, each member present at a general meeting (whether in person, by proxy, attorney or corporate representative) is entitled:

- on a show of hands to one vote; and
- on a poll to one vote for each share held.

If a member is present in person, any proxy of that member is not entitled to vote.

Voting by proxy

Voting by proxy allows shareholders to express their views on the direction and management of the economic entity without attending a meeting in person.

Shareholders who are unable to attend the 2010 Annual General Meeting are encouraged to complete and return the proxy form that accompanies the notice of meeting enclosed with this report.

On-market buy back

There is no current on-market buy back.

Final dividend

The final dividend of 105 cents per share will be paid on 28 September 2010 to shareholders entitled to receive dividends and registered on 7 September 2010 being the record date.

Enquiries

If you have any questions about your shareholding or matters such as dividend payments, tax file numbers or change of address you are invited to contact the company's share registry office below, or visit their website at www.linkmarketservices.com.au or email registrars@linkmarketservices.com.au

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

Perpetual Shareholder Information Line:
1300 732 806 or (02) 8280 7620
Fax: (02) 9287 0303

Locked Bag A14
Sydney South NSW 1235

Any other enquiries which you may have about the Company, can be directed to the Company's registered office or visit the company's website.

Principal registered office

Level 12
123 Pitt Street
Sydney NSW 2000

Tel: (02) 9229 9000
Fax: (02) 8256 1461

Company Secretary

Joanne Hawkins

Website address: www.perpetual.com.au