Perpetual

Annual General Meeting 2006

Address to shareholders

Chairman's Address To Shareholders

2006 is a very special year for Perpetual.

In September, we celebrated the 120 year anniversary of the founding of Perpetual.

The year was also marked by other important anniversaries for Perpetual. Two of our oldest and most successful funds, our flagship Industrial Share Fund and our Monthly Income Fund turned 40 this year. These two funds share a notable place in our history, most importantly because the criteria used in their establishment formed the basis of Perpetual's investment philosophy and is still strongly ingrained in our culture and values in 2006.

We have come a long way since 1886. As Perpetual shareholders, you have shared some part of that journey with us. Please join me in celebrating Perpetual's 120 years and its rite of passage from being a trustee company to becoming one of Australia's leading wealth managers and corporate trustees.

In celebrating Perpetual, we must also thank our people, who have been the cornerstone of the Perpetual story, and acknowledge our shareholders, clients and partners for being part of our success.

Of course, every successful business has a team that provides the direction to and the daily leadership of our people, and I would like to take this opportunity to introduce you to Perpetual's executive committee. Sitting from left to right, we have:

- Gerard Doherty, Group Executive – Wealth Management
- Ivan Holyman, Chief Risk Officer
- John Nesbitt, Chief Financial Officer
- Phil Vernon, Group Executive – Corporate Trust

Our Chief Investment Officer, Emilio Gonzalez, is interstate for business and could not be here for today's Meeting.

David Deverall, Perpetual's Chief Executive Officer and Managing Director, and I will be speaking to you on behalf of the board and the management today.

I will have the pleasure of providing you with an overview of Perpetual's performance over the last year and with our forecast for the half year to 31 December 2006.

David will then elaborate on the status of our strategy and operations and discuss some of the challenges and opportunities impacting our operating environment.

I will deliver the final address of the morning on Perpetual's Remuneration Report and other remuneration matters.

I now turn to Perpetual's end of year results for 2006, which were released to the market in mid-August.

I am sure that most of you have taken the opportunity to read Perpetual's 'Annual Report 2006', in particular the shareholder friendly 'Part I – Annual Review', which provides a plain English explanation of our business over the past year. For those of you who haven't reviewed the Report, I will quickly run through some of the major highlights of 2006.

We were very pleased to announce an operating profit after tax of $131.5 million for the year to 30 June 2006. We consider operating profit after tax to be the best measure of the ongoing profitability of our business as it excludes the 'one-off' items which we outline below and provides a better indication of our earnings from our underlying operations. Under Australian International Financial Reporting Standards, this marks an increase of 13 per cent over the $116.3 million reported for the same period in 2005.

Our net profit after tax for the year to 30 June 2006 was $135.3 million, an increase of 14 per cent over last year's result of $119.1 million, adjusted for Australian International Financial Reporting Standards. Net profit after tax comprises operating profit after tax plus a number of 'one-off' items including:

- profit on the sale of our 50 per cent share in ASX Perpetual Registrars Limited
- profit on the sale of some of the shares from our investment portfolio
- net establishment costs for our new global equities business in Ireland
- the administration process review

This last item, the administration process review, was initiated in 2005. It looked at a range of legacy issues relating to historical unit pricing and other administrative processes, going back over ten years and covering some 120 funds and over one million investors.

To date, we have incurred costs of approximately $8.4 million after tax. Approximately one third of the expenditure relates to process improvements and the cost of carrying out the review and two thirds relate to 'make good' payments to the funds and investors. The review is now substantially complete.

Total operating revenues for the year to June 2006 rose 12 per cent to $394.1 million. The result was driven by increased asset volumes, solid revenue margins and the expansion of product and business lines.

Our operating earnings before interest, tax, depreciation and amortisation or EBITDA, is our revenue less cash expenses and is a broad measure of our cash earnings for the year to 30 June 2006.

EBITDA, excluding the significant items noted earlier, rose by 20 per cent to $212.5 million for the year ended 30 June 2006.

Our capital management policy has two objectives: firstly, to maintain adequate capital to operate and grow our business; and secondly, to return any excess capital to shareholders.

Perpetual is not an intensive user of capital and therefore has adopted a 90 per cent pay out ratio of our underlying profit to shareholders.

A number of our shareholders have suggested we investigate the option of a dividend reinvestment plan and a share split.

While we have no firm plans at this point in time, we undertake to investigate the option of a dividend reinvestment plan in conjunction with our capital management program going forward.

On the question of a share split, we have carefully researched this option and could not find any evidence that a share split enhances price and/or liquidity of a stock over the longer term.

At our end of year results in August, the board was pleased to announce a final dividend of $1.64 per share. Combined with the interim dividend of $1.62 paid in March this year, total ordinary dividends paid to shareholders for the year to 30 June 2006 were $3.26 per share, an increase of 25 per cent over 2005.

On behalf of the board, we were also pleased to declare a special dividend of $1.00 per share, bringing total dividends paid to shareholders for the 2006 financial year to $4.26 per share, fully franked.

We believe Perpetual will generate sufficient franking credits to fully frank projected normal dividend payments for the foreseeable future.

As stated above, we review our capital requirements every six months and rightfully return any excess capital to our shareholders in the form of special dividends. Our ability to deliver a special dividend in the past few years has been driven by the sale of a number of non-core assets. It should be noted that ASX Perpetual Registrars, which was sold at the end of 2005, was the last of our non-core assets.

The data for this chart was supplied by Credit Suisse, the global financial services group.

The chart compares the return on equity of a number of listed funds management companies around the world. Return on equity is the ratio of profit a company has generated compared to shareholder funds employed.

The chart makes a number of statements. It shows that there is an extremely wide range of return on equity amongst listed fund managers. It also concludes that Perpetual is a highly efficient user of capital and therefore has the highest return on equity of this group of listed peers in Australia and overseas.

As part of our board renewal program commenced in 2003, we invited Elizabeth Proust to join the board of Perpetual, an invitation she accepted in January 2006.

Elizabeth brings over twenty years experience as a senior executive in the private and public sectors in human resources, public affairs and strategy development to our board. Her credentials are outlined in the 'Annual Report 2006'. You will be asked to vote on Elizabeth's reappointment to the board later in the Meeting. Please join me in welcoming her to Perpetual.

Elizabeth's appointment completes our board renewal program. Our board now has eight members.

Upon becoming Chairman in October 2005, I assumed the Chair of the Nominations Committee and relinquished the Chair of the Human Resources and Remuneration Committee. This chair has been assumed by Sandra McPhee. In another move, Philip Twyman became Chairman of the Audit Risk and Compliance Committee. Paul McClintock remains Chair of the Investment Committee.

As is our custom, we use the opportunity of the Annual General Meeting to forecast our profit for the six months to 31 December.

For the first time in recent years, there has not been a significant increase in the ASX indices at the commencement of the financial year. In this environment, we are pleased to forecast a 10 per cent increase in operating profit after tax (OPAT) for the first half of the current year over last year's adjusted first half OPAT of $58.2 million.

OPAT for the first half of last year was $63.5 million which excluded $5.3 million in losses associated with the establishment of our global equities business. The inclusion of global equities within last year's result reduces prior period OPAT to $58.2 million. Current year and future years OPAT will contain the results of our global equities business.

The forecast is subject to fluctuations in equity markets, particularly in Australia.

In summing up 2006, our most notable achievement was our ability to successfully balance all our commitments to our stakeholders. That is to grow profits and return wealth to our shareholders; and, as David will shortly discuss with you, to continue shaping Perpetual's future by investing in long-term revenue and profit building initiatives.

This is a tribute to the team at Perpetual. Please join me in thanking David for his excellent leadership and in thanking his more than 900 colleagues for their hard work and contribution to once again making Perpetual one of Australia's leading wealth managers and corporate trustees in 2006.

I would also like to acknowledge my fellow board members for their continued good guidance and support during the year.

I now invite David Deverall to present his address.

Thank you.

Robert Savage
Chairman
Sydney 17 October 2006

Chief Executive Officer And Managing Director's Address To Shareholders

Thank you, Bob.

Welcome fellow shareholders and thank you for joining us today.

I will start my address by briefly describing the performance of our business units. I will then update you on the progress of the implementation of our strategy and conclude by commenting on our operating environment and its potential impact on Perpetual in the years ahead.

Perpetual comprises two business units: Wealth Management and Corporate Trust. Wealth Management spans our activities in the wealth management market and has two main businesses: Perpetual Investments and Perpetual Private Clients.

Wealth Management had another excellent year in 2006. Divisional revenue increased 14 per cent to $321.4 million and profit before tax increased by 18 per cent to $165.7 million for the year to 30 June 2006.

Funds under management in Perpetual Investments rose by 23 per cent to $32.8 billion at 30 June 2006, driven by the strong performance of our talented asset management teams and good equity market returns. This year, we also saw an emerging contribution from the growing inflow of funds into our new asset classes, particularly our credit and enhanced cash products. Around a quarter of Perpetual's total funds under management are now in cash, fixed interest and mortgage products.

Funds under advice in Perpetual Private Clients stood at $6.6 billion at 30 June 2006, an increase of 14 per cent driven by solid growth right across the business.

Given the increasingly important profit contribution made by Perpetual Private Clients to the Wealth Management division and the different business models between it and Perpetual Investments, we will separately disclose the profitability of Perpetual Investments and Perpetual Private Clients in future. For your information, Perpetual Private Clients now represents about 20 per cent of the profitability of Wealth Management.

Revenues in Corporate Trust rose slightly to $58.2 million. Despite the strong growth in revenues from our securitisation trustee activities, the decision by one of our clients to in-source its responsible entity activities diminished overall revenue growth in Corporate Trust. Profit before tax increased by 10 per cent to $32.0 million for the year to 30 June 2006.

Securitisation funds under administration in Corporate Trust rose by 24 per cent during the year to $178.6 billion. This excellent result was driven by a strong mortgage market and new issuance volumes in residential mortgage backed securities.

The second item I would like discuss with you is the progress we have achieved in the implementation of the corporate strategy we introduced in 2004.

This diagram represents the core objectives of our corporate strategy, which are to:

1. spread our sources of profit by developing a more balanced portfolio of businesses
2. take advantage of new business opportunities by building new growth engines and
3. deliver our strategy by fully engaging our people

To implement this strategy, we focus on the things we do really well. We call these our four sources of competitive advantage.

They are:

1. our approach to managing philosophies and processes around funds management
2. our strong relationships with the financial planning community
3. our trusted brand and
4. our long history as a leading provider of fiduciary services to individuals and institutions

In executing our strategy we have introduced a comprehensive series of strategic initiatives over the past three years. Many of these strategies are now producing concrete outcomes for Perpetual. For example:

We launched our credit fixed interest, global equities and direct property businesses.

- Our highly successful credit fixed interest business has attracted funds under management of nearly $4 billion since its inception in early 2005. This is a truly remarkable outcome.
- Our Dublin-based global equities business is now fully operational. The investment performance of the business has improved substantially and, for the twelve months ending 30 September, performance of our global equities fund exceeded its benchmark by more than 3 per cent. This positions the business well for future fund flows.
- Our direct property team joined Perpetual in December 2005 and we launched the Wholesale Direct Property Fund in April 2006.

We expanded our quantitative investments, property securities and infrastructure businesses.

- Our Quantitative Investments Australian equities business has attracted funds under management of approximately $1 billion since its relaunch in 2005, including over $500 million into a new long short Australian equities fund.

- We acquired the remaining 50 per cent share of our listed property funds management business, Perpetual James Fielding, in late 2005. This business has outperformed the benchmark over the past year and funds under management have grown strongly.

We commenced a structured product business, which has raised more than $1.2 billion in our enhanced cash investment funds. The aim of our structured products business is to combine a variety of capital protection techniques with our existing funds management activities to deliver investment solutions for our clients. We believe the appetite by clients for such services will continue to grow rapidly in the years ahead.

We maximised our core businesses:

- In Perpetual Investments, we have maintained the revenue margins in our Australian equities business while growing our book of business to over $20 billion of funds under management. This has enabled us to achieve significant scale economies.
- In Perpetual Private Clients, we have consolidated our back office operations, integrated and strengthened the Perpetual Private Clients brand and repositioned the business to focus on superior sales and service. As I mentioned before, this business now contributes approximately 20 per cent of Wealth Management division's profits.
- In Perpetual Corporate Trust, we have diversified our service offering to our existing securitisation trustee customers by introducing a mortgage variations business and a loans servicing business. We have broadened our responsible entity services to include superannuation funds. We have also streamlined Corporate Trust's business operations to improve efficiency and reliability.

At group level, we enhanced our capital management by selling our interests in non-core businesses such as ASX Perpetual Registrars and Symetry and by selling our 39 Hunter Street building. We used the proceeds from these sales to fund revenue-building strategic initiatives while still managing to return surplus capital via a number of special dividends. Over the past three years, we have delivered $4.50 per share in special dividends to our shareholders. We also increased our dividend payout ratio to 90 per cent of operating cash flow. This has delivered a substantial increase in ordinary dividends to shareholders.

To engage our people, we implemented a new remuneration system in 2004. The Perpetual team is now eligible to share in the profit participation pool. This pool funds short term incentives, is proportional to Perpetual's operating profits, and encourages all members of our team to think and act in the best interests of shareholders.

We have introduced performance-based incentives for key asset managers. These incentives, which are very long-term, align the interests of our asset managers with the interests of our customers and shareholders.

We have also vastly improved our working environment by moving to single premises in Sydney. Rather than being spread across 17 floors in three separate buildings in the Sydney CBD we are now together in one building in Angel Place. This initiative has vastly improved the cohesion and efficiency of our working environment.

We changed our name to one that more accurately reflects the increasingly global diversified financial services institution that we are today.

These initiatives around people engagement are working and, as evidence, our people engagement scores as measured by Hewitt Associates have improved by ten per cent over the last two years.

The final part of my address today is a summary of our operating environment and its potential impact on Perpetual in the years ahead.

As shareholders, we are fortunate that Perpetual's operating environment is a very favourable one. Here are some facts to support my optimism.

In 2006, Australia's managed funds market passed the $1 trillion mark, making it one of the largest and fastest growing asset pools in the world.

The pool has been fuelled by Governments' policies over the past 15 years to close the retirement savings gap being forced on us by the realities of Australia's ageing population.

The retirement savings gap is the shortfall between the reasonable expectations for living standards in retirement and the amount that will have accrued by the current rate of savings.

The Governments' initiatives have narrowed the retirement savings gap and, according to analysis conducted by the Investment and Financial Services Association, over the past three years it has narrowed a further 15 per cent. The 'gap' is now $450 billion in total. This is still a lot of money but we are getting there.

There are now a number of initiatives in place to continue to close the retirement savings gap. These initiatives include a combination of:

- education such as the establishment of the Literacy Task Force
- regulation such as the introduction of Super Choice and the Future Fund
- incentives such as the sweeping changes recently announced in the May Budget, which will simplify superannuation and abolish back-end taxes on superannuation, and the highly successful co-contribution scheme

In particular, I note the positive work undertaken by the previous Labor Government and now by the current coalition Government. Their bi-partisan support for superannuation is commendable and we applaud them for making Australia one of the few countries in the world to proactively and effectively address the financial impact of its ageing population.

As a result of these initiatives, the pool of superannuation assets is forecast to continue to grow strongly. Current estimates suggest that annual growth of over 10 per cent is likely for the next ten years, meaning the pool of assets is forecast to grow from approximately $1 trillion today to $2.5 trillion by 2016.

These predictions bode well for the industry and for Perpetual and we are excited to be part of that journey.

Having painted that favourable picture of our operating environment there are a number of issues that Perpetual and the industry must address to fully capitalise on the opportunity presented to us.

The first issue to address is globalisation. There are a number of forces at work which will fuel investors' appetites for an ever-increasing exposure in their portfolios to global assets.

Firstly, the world is now a smaller place from an investment perspective. Many companies listed on stock exchanges today generate a significant portion of their earnings from offshore activities. For example Rinker, a company listed on the Australian Stock Exchange, generates 80 per cent of its earnings from its offshore activities.

Secondly, the Australian stock market represents only 2 per cent of the capitalisation of the world's stock markets and is heavily skewed towards resource stocks and financial services stocks.

Finally, the increased flow of superannuation money into asset markets will force investors to look offshore for appropriately priced securities.

From Perpetual's perspective, we see globalisation as a key part of the evolution of our own funds management capabilities. We have backed this view by establishing our international equities business in Dublin. We have also expanded the investment guidelines in our Australian Share Fund to enable our fund managers to invest up to 20 per cent of the fund in overseas shares. We believe that both of these initiatives will become important contributors to our profit growth over the medium to long-term.

The second issue to address is the need for our industry to do a better job at simply and clearly explaining to our wealth management customers what they are paying for and how much they are paying for it. We have also made significant improvements in our disclosure regime to the point where our regime is envied by other countries.

There is no doubt that we have taken giant strides in leading the world in innovation around product design and delivery, which in turn have delivered excellent risk adjusted returns for investors.

Despite this, the quality of disclosure could be improved.

When customers purchase a wealth management product they are, in fact, purchasing a bundled set of extremely valuable wealth management services. These services include but are not limited to strategic investment advice, ongoing investment advice, investment administration and consolidation, and funds management.

The challenge for customers is that our industry does not clearly enough explain exactly which services they are purchasing and how much they are paying for them. Furthermore, we do not give them enough choice in deciding which of these bundled services they actually want to pay for.

In an industry where a significant percentage of our flows are from compulsory, that is non-voluntary, superannuation savings this suggests there is room for improvement in the quality of disclosure.

If we can improve the quality of the disclosure of the services we offer, and the fees we charge for them, I believe we will further enhance the confidence that our customers have of our industry. As a result, we will also increase the level of voluntary contributions into our industry, thereby helping to further close the retirement savings gap. This is good for our industry, good for Government and good for customers.

The third issue I would like to discuss today is the need for our industry to pursue a more effective balance between regulatory oversight and entrepreneurial endeavour. In other words, to identify a level of regulatory oversight that appropriately reflects the level of risk. In recent times, the balance has tipped too far towards regulatory oversight.

This trend was highlighted in a report released by the Taskforce on Reducing Regulatory Burdens on Business in the middle of this year and I quote:

"…regulators face their own incentives to minimise risk – in this case, the risk that they will be criticised for failing to 'protect' consumers. Reflecting these attitudes and incentives, some regulators have tended to use heavy-handed and legalistic practices in administering and enforcing regulation. Indeed, even in policy areas where there have been legislative attempts to share risk more evenly between business and consumers as in aspects of superannuation and financial regulation, the response of agencies responsible for administering and enforcing such legislation has been to add additional prescriptive elements to constrain the way business operates". End of quote.

This is a disturbing trend for consumers in their desire to maximise their wealth and for the Government in its attempt to close the retirement savings gap.

Why? Because the biggest risk we face in providing for our retirement is the risk that we are too risk averse and adopt excessively conservative investment strategies. To grow wealth over the long-term, investors must be encouraged to seek appropriate diversified levels of risk, with the possibility of potential capital loss in the short-term.

By bringing this issue into the open through the establishment of the Taskforce, it shows that the Government is listening and is genuinely concerned about this trend. I am also encouraged by the Government's commitment to implement many of the Taskforce's recommendations.

Nevertheless, we must remain vigilant to ensure that we strike the right balance between regulatory oversight and entrepreneurial endeavour. By doing so, we will be doing the right thing by our customers, whose best interests the industry serves first and foremost.

These are just three issues I have identified that we must focus on as an industry. I look forward to the active role that Perpetual will continue to play in helping address them in consultation with our many stakeholders and peers.

In summary, our operating environment is a very favourable one and I believe Perpetual is well positioned to continue to thrive in the years ahead. We have a great set of businesses, a clear strategy, and a highly talented and motivated team.

In closing, I would like to thank our team for their contribution to an excellent result for Perpetual in 2006.

I will now hand you back to Bob.

David Deverall
Chief Executive Officer and Managing Director
Sydney 17 October 2006

Chairman's Address To Shareholders On Remuneration

Ladies and gentlemen

This section of the Annual General Meeting is devoted to remuneration matters. There are three remuneration matters on which you will be asked to vote on at this Meeting:

- the non- binding vote on the Remuneration Report
- the allocation of shares and options to David Deverall, our Chief Executive Officer and Managing Director, under the long-term incentive plan
- the proposed increase in the directors' fee cap

Perpetual's most fundamental task as a publicly-listed company is to create long-term value for shareholders. With that in mind, I draw your attention to the slide overhead.

As Perpetual shareholders, if you had invested $50,000 in Perpetual in 1996, and then reinvested the dividends in our stock over the next decade, you would have an investment worth over $1 million today. That represents a total shareholder return of around 36 per cent per annum. As a comparison, $50,000 invested in the S&P/ASX100 Accumulation Index over the same period would have given shareholders an investment of $171,000 or an annual return of 13 per cent.

We are very proud of this achievement and of our ability to fulfil the task with which we have been entrusted.

The success of Perpetual's business model is one that relies almost completely on the talents and teamwork of its people. They are our intellectual capital and our competitive edge. It is our imperative to motivate and retain this very important resource for the long-term benefit of our shareholders.

What is most noteworthy is that while Perpetual continues to grow wealth for its shareholders – and 2006 was no exception – we have been able to fund the creation of a high performance culture that excels by attracting and retaining the best quality people. Our culture rewards success, encourages commitment to Perpetual and drives results like those above by also making our employees the part owners of our business. In other words, the interests of our employees and those of our shareholders become one and the same.

We are delighted to note that we have been highly successful in this endeavour. Today, our employees as a group are Perpetual's largest shareholder. Most importantly, we have been able to achieve this objective without impeding the growth of shareholder wealth.

I would like to review the five core principles we apply to remuneration. These are:

1. variable pay for all employees should form a significant part of overall remuneration while keeping fixed remuneration competitive
2. variable pay should be linked to shareholder wealth creation
3. short-term incentive payments should be uncapped to allow for recognition of performance exceeding expectations
4. short-term incentive payments should be made out of realised profits of the organisation rather than being budgeted as a fixed cost and
5. equity participation within the organisation should be increased to encourage an ownership mindset and be appropriately tied to challenging hurdles

In 2006, Perpetual employees were remunerated with a combination of fixed salary, which is set around the median market range, and variable performance-based incentives, which are paid from profits and not budgeted as fixed costs.

As outlined last year, these incentives come in the form of a profit participation pool for employees and long-term incentive schemes for senior employees, which for the vast majority of participants are share based schemes.

The bar graph above shows the increase in operating profit after tax over the past five years period. The line in the chart shows the relative growth in the level of short-term incentives over the same period.

While we do not disclose the value of our employee profit pool for competitive reasons, the slide clearly shows that relationship between operating profit after tax and short-term incentives is highly correlated.

Incentives form a significant part of our remuneration. Particularly for our key senior management, that variable component averages 64 per cent of total remuneration.

In the case of David Deverall, his particular 'at risk' component makes up approximately 75 per cent of his remuneration, meaning that only 25 per cent of his remuneration is fixed.

In the lead up to this Meeting, we sought dialogue with our stakeholders, including our shareholders and shareholder advisory groups, on remuneration issues. We are very pleased to note that the vast majority of you are in favour of the way we recognise the contribution of our people to Perpetual's success and we would like you to reaffirm your support today.

Our shareholders were asked to cast a non-binding vote on Perpetual's Remuneration Report for the first time in 2005. At last year's Meeting, we reviewed the Report and the philosophy behind our remuneration policy in some detail.

Details of this year's Report can be found in the 'Part I: Annual Review' or in full version in the 'Part II: Statutory Financial Statements'.

The Report and our philosophy remain fundamentally unchanged in 2006. Last year, you voted overwhelmingly in favour of our remuneration strategy and, as it is again covered in detail in this year's annual report, I do not intend to review it on this occasion. There will of course be ample time for any shareholder who has questions to put these to the board later in this Meeting.

I would however like to touch briefly on the matter of re-testing of the performance hurdles.

As you would be aware, our long-term incentive programs for senior employees are subject to very stringent performance hurdles. Our people must perform beyond expectations and also deliver returns to shareholders over a three year period before they can experience any reward for their efforts.

We allow for the re-testing of these hurdles after four years and for good reason. Three years are not always sufficient for the benefits from our strategic initiatives to flow through to the business. Accordingly, we re-test the hurdles after the fourth year to give our employees the appropriate time and every opportunity to achieve the goal that has been set for them, that is to build wealth for our shareholders. This approach reinforces our long-term commitment to growing shareholder value and is exemplified by the slide we saw at the beginning of this address on Perpetual's total shareholder return over the last ten years.

It is important to note that key management do not meet three year targets under re-testing. Instead, they must meet equally arduous four year targets of 10 per cent compound EPS growth over the period and equally difficult TSR hurdles.

Incidentally, we believe this practice reinforces the alignment between the interests of our employees with those of our shareholders in that, if the targets are achieved at the end of the fourth year, both shareholders and employees will benefit.

I will now review the new contract for David Deverall, which was announced to the market in late August this year.

David was appointed as Perpetual's Chief Executive Officer and Managing Director in August 2003. During that time, operating profit after tax has increased from $72.5 million in 2003 to $131.5 million in 2006, a compound annual growth rate of 22 per cent; EBITDA has grown from $117.4 million in 2003 to $212.5 million in 2006, a compound annual growth rate of 22 per cent; and earnings per share has risen from $1.91 in 2003 to $3.23 in 2006, a compound annual growth rate of 19 per cent.

These are excellent achievements for any Chief Executive Officer.

In renewing his contract, the board took into account these results and the improvements in employee engagement at Perpetual under David's leadership, and the need to secure his commitment and dedication to the future growth of Perpetual. In particular, the board considered his lead role in the successful implementation of major growth initiatives, which David and his team have commenced delivering over the last three years.

We consider that David's renewed contract provides the right balance of fixed remuneration, which was below market and which has now risen to a median market amount of $800,000, and variable remuneration. His short-term incentive remains at a maximum of $1.375 million per annum. David's long-term incentive includes Perpetual shares and options to the value of $1.025 million per annum.

More details of David's new contract are available on our website and on the Notice of Annual General Meeting.

Today at this meeting, you are being asked to approve the granting of shares and options to the value of $1.025 million per annum to David Deverall under Perpetual's long-term incentive plan at any time prior to 17 October 2009.

David's long-term incentive is subject to a number of performance hurdles associated with total shareholder return and earnings per share. According to research by reputable corporate adviser, Boston Consulting Group, consistent top quartile performance is very difficult to achieve over the long-term. This is an onerous hurdle, which only rewards exceptional performance.

His hurdles tied to earnings per share are also very challenging.

The next item for review is the proposed increase to the aggregate fee pool from which our non-executive directors' are paid.

The role of your board is to set the strategic direction for Perpetual and to ensure Perpetual's operations are conducted ethically, responsibly and with the highest standards of integrity. It is vitally important that Perpetual can attract and retain suitably skilled, experienced and committed individuals to serve on the board. Our remuneration policy for non-executive directors aims to achieve this objective.

The maximum aggregate remuneration of our non-executive directors was last increased to $1.75 million per annum in 2004. Since then, Perpetual has grown significantly in both business volumes and complexity.

The market has also changed. The responsibilities of non-executive directors have increased. Conversely, the pool of quality talent has contracted, putting pressure on fees to rise with market demand. This has created a highly competitive environment and we must be able to compete effectively against other larger financial institutions for board talent.

We recently conducted an independent review of non-executive director remuneration and propose to increase the fee pool to a maximum of $2.25 million per annum.

It might be worthwhile at this point to provide some additional information around this proposal. The ceiling on the total pool of fees has been raised by 29 per cent; the actual rise in non-executive director fees in 2007 is 7 per cent.

The increased pool will allow for future expected growth in non-executive director fees for a number of years, it also will provide for the possibility of adding an extra director, who may have special skills and experience to meet the needs of our expanding business and to allow for board renewal.

Our approach to the remuneration of non-executive directors is set out in detail in the 'Part II: Statutory Financial Statements'.

I hope I have provided sufficient detail to help you make an informed vote on these three items.

Thank you

Robert Savage
Chairman
Sydney 17 October 2006

PERPETUAL TRUSTEES AUSTRALIA LIMITED

Head Office

AUSTRALIA

Sydney
Level 12
Angel Place
123 Pitt Street
Sydney NSW 2000
Telephone 61 2 9229 9000

State Offices

Canberra
Level 4
10 Rudd Street
Canberra ACT 2601
Telephone 61 2 6248 7977

Brisbane
Level 10
Riverside Centre
123 Eagle Street
Brisbane QLD 4000
Telephone 61 7 3834 5656

Adelaide
Level 8
115 Grenfell Street
Adelaide SA 5000
Telephone 61 8 8418 5656

Melbourne
Level 28
360 Collins Street
Melbourne VIC 3000
Telephone 61 3 8628 0400

Perth
Level 29
Exchange Plaza
2 The Esplanade
Perth WA 6000
Telephone 61 8 9224 4400

Overseas Offices

IRELAND

Dublin
5th Floor
Alexandra House
The Sweepstakes
Ballsbridge
Dublin 4
Telephone 353 1 669 9200

UNITED KINGDOM

London
9th Floor
CityPoint
1 Ropemaker Street
London EC2Y 9HT
Telephone 44 870 351 4668

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