Perpetual Limited ABN 86 000 431 827

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis
of Financial Condition and Result of Operations
(MD&A) for the 12 months ended 30 June 2012

Perpetual

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) for the 12 months ended 30 June 2012

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Note in this report:

- 1H11 refers to the financial reporting period for the six months ended 31 December 2010;
- 2H11 refers to the financial reporting period for the six months ended 30 June 2011;
- FY11 refers to the financial reporting period for the 12 months ended 30 June 2011;
  with similar abbreviations for subsequent periods.

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Perpetual is an Australian diversified financial services company operating in three main markets: funds management, financial advisory and trustee services. Factors influencing the performance of these sectors include, amongst others, global and Australian economic performance, global and Australian financial markets, and government policy.

The following is a discussion and analysis of Perpetual's results of operations for the 12 months ended 30 June 2012 (FY12). It also includes a discussion of its financial condition as at 30 June 2012.

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for FY12.

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

A list of relevant ASX announcements since the start of FY12 can be found at Appendix C. Additional information is available on the Group's website www.perpetual.com.au.

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

Overview

Investors became more cautious in FY12, continuing to be impacted by concerns over the fiscal sustainability of a number of European economies, in particular Greece, Spain and Italy. Global economic data also appeared to soften, as demonstrated by the slower pace of growth in the Chinese economy. Equity markets experienced increased volatility, resulting in increased demand for defensive assets or sidelining many investors altogether. This sense of caution was reflected in the domestic funds management industry, which again recorded annual net outflows[1], particularly in the domestic equity asset class.

The S&P/ASX All Ordinaries Price Index (All Ords) declined by around 11% during FY12, closing at 4,135.5 on 30 June 2012, whilst the average All Ords in FY12 declined by around 9% compared to the average All Ords in FY11.

FY12 underlying profit after tax (UPAT) was $67.6 million, down around 7% from $72.9 million in FY11. This result reflected:

- the reduction in the Group's core market-linked revenues due to net outflows and the impact of market related declines in valuation of FUM and FUA; offset by
- the benefits of expense reduction initiatives;
- the exiting of non-performing, non-core business activities;
- a reduction in variable and equity-based remuneration expense; and
- a lower effective tax rate.

FY12 statutory net profit after tax (NPAT) attributable to Perpetual Limited ordinary equity holders was $26.7 million, down 57% from $62.0 million in FY11, principally due to:

- a $5.3 million reduction in UPAT in FY12;
- a $16.2 million after tax increase in restructuring charges in FY12;
- a $5.6 million after tax loss in relation to market-linked investments in FY12, compared to a $3.5 million after tax gain in FY11;
- an $8.4 million after tax decrease in the recovery of prior period losses in relation to the EMCF 1 product, which, as previously announced, are included in UPAT from 1 July 2011 (FY12: gains of $1.4 million after tax) as they are no longer considered to be significant by virtue of their size; offset by
- the absence of private equity response costs in FY12, compared to $3.1 million in after tax costs incurred in FY11; and
- a $2.2 million after tax reduction in impairment charges.

[1] Based on most recent available Plan for Life data – March 2012.

The Board resolved to pay a FY12 final fully franked dividend of 40 cents per share, bringing total fully franked dividends in respect of FY12 to 90 cents per share, down 95 cents per share or 51% on FY11. The FY12 final dividend is payable on 5 October 2012. Refer to 'Dividends" discussion for additional information.

Consistent with the Group's commitment to actively manage its capital, the Group completed a $70 million off-market share buy-back in 1H12. As a result, at the end of FY12:

- the Group's holdings of cash, cash equivalents and liquid investments totalled $192.8 million, compared to $274.0 million at the end of FY11;
- net tangible assets per share were $3.23, compared to $4.50 at the end of FY11; and
- shares on issue were 42.0 million, a reduction of around 2.7 million, or around 6%, on shares on issue at the end of FY11.

Segment results summary

The Group operates in the financial services industry in Australia and provides wealth management and corporate trust services. Discontinued operations comprise the mortgage processing business (trading as Perpetual Lenders Mortgage Services or 'PLMS').

	Operating revenue		EBITDA [1]		Profit before/ after tax	
For the 12 month period	FY11 $m	FY12 $m	FY11 $m	FY12 $m	FY11 $m	FY12 $m
Perpetual Investments	225.0	190.5	94.0	83.2	73.3	72.0
Perpetual Private	116.2	114.7	21.8	16.2	13.3	8.3
Corporate Trust	57.2	52.0	23.6	19.3	21.5	17.4
Group Support Services	10.3	7.1	(1.7)	(2.6)	(6.5)	(6.7)
Continuing operations	**408.7**	**364.3**	**137.7**	**116.1**	**101.6**	**91.0**
Discontinued operations	40.0	34.7	5.5	4.5	3.8	3.2
Totals before tax and significant items	448.7	399.0	143.2	120.6	105.4	94.2
Income tax expense					(32.5)	(26.6)
Underlying profit after tax (UPAT)[2] before significant items					**72.9**	**67.6**
Significant items after tax:						
› Gain/(loss) on sale/impairment of investments					3.5	(5.6)
› Impairment of assets					(14.7)	(12.5)
› Restructuring costs[3]					(6.4)	(22.6)
› Gain on disposal of businesses					-	1.2
› Sale costs associated with PLMS					-	(1.4)
› EMCF1 gains[4]					9.8	-
› Private equity proposal response costs					(3.1)	-
Statutory net profit after tax (NPAT) attributable to equity holders of Perpetual Limited					**62.0**	**26.7**

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

(2) UPAT attributable to equity holders of Perpetual Limited excludes certain items, as determined by the Board and management, that are either significant by virtue of their size and impact on NPAT attributable to equity holders of Perpetual Limited, or are deemed to be outside normal operating activities. It reflects an assessment of the result for the ongoing business of the Group. UPAT has been calculated in accordance with the AICD/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 - Disclosing non-IFRS financial information. UPAT attributable to equity holders of Perpetual Limited has not been reviewed by the Group's external auditors, however the adjustments to NPAT attributable to equity holders of Perpetual Limited have been extracted from the books and records that have been audited.

(3) Restructuring costs (after tax) includes an amount of $8.6 million related to the closure of the business in Dublin which has now ceased operations. The liquidation of the Irish subsidiary is expected to be completed in FY13 and the foreign currency translation reserve related to these operations will then be reclassified as a non-cash expense within profit and loss. As at the end of FY12, the foreign currency reserve related to the operations in Dublin was $5.1 million.

(4) As the majority of the unrealised losses in the EMCF1 were recognised as at the end of FY11, its financial performance forms part of UPAT from the beginning of 1H12. The EMCF1 gains after tax for FY12 were $1.4 million.

The following table presents the change in underlying profit before tax by business unit for 2H12 compared to 2H11 and 1H12, and FY12 compared to FY11.

Change in underlying profit before tax	2H12 v 2H11 $m change	2H12 v 2H11 % change	2H12 v 1H12 $m change	2H12 v 1H12 % change	FY12 v FY11 $m change	FY12 v FY11 % change
Perpetual Investments	(0.9)	-3%	(3.4)	-9%	(1.3)	-2%
Perpetual Private	(2.2)	-39%	(1.5)	-31%	(5.0)	-38%
Corporate Trust	(2.0)	-19%	0	-	(4.1)	-19%
Group Support Services	0.3	+7%	(1.7)	-68%	(0.2)	-3%
Total continuing operations	(4.8)	-10%	(6.6)	-9%	(10.6)	-10%

Underlying performance in FY12, as measured by profit before tax, was around 10% lower than in FY11, reflecting the impact on revenue of the net outflows of funds under management over the year, combined with market related declines in valuation of FUM and FUA, as well as the continued investment in the Perpetual Private business, partially offset by disciplined cost management.

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

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

The Group earns the majority of its revenue based on a percentage of total assets under management, advice or administration.

Movement in key revenue drivers and operating environment

The following table summarises the movements in each business unit's key revenue driver, for its continuing operations, across the period. More detailed analysis is contained within the 'Review of Businesses' section.

At end of	FY10 $b	FY11 $b	Net flows $b	Other[1] $b	FY12 $b	FY12 v FY10 % variance	FY12 v FY11 % variance
Perpetual Investments FUM	26.9	27.2	(4.1)	(0.5)	22.6	(16)%	(17)%
Perpetual Private FUA	8.3	8.7	(0.4)	(0.3)	8.0	(4)%	(8)%
Corporate Trust FUA	210.5	205.8	11.2	-	217.0	+3%	+5%

[1] Includes reinvestments, distributions, income, and asset growth.

The key driver of the Group's revenue is the average value of the Australian equity market over the period. The average value of the Australian equity market in FY12 as measured by the All Ords was around 9% lower than in FY11.

In addition, FY12 revenue was also adversely impacted by net outflows of FUM across asset classes and channels. In FY12, there was $4.1 billion of net outflows in Perpetual Investments, of which:

- by asset class, around 70% was from equities and around 30% from cash & fixed income, and
- by channel, around 50% was from the lower margin institutional channel, around 30% from the intermediary channel, and around 20% from the retail channel.

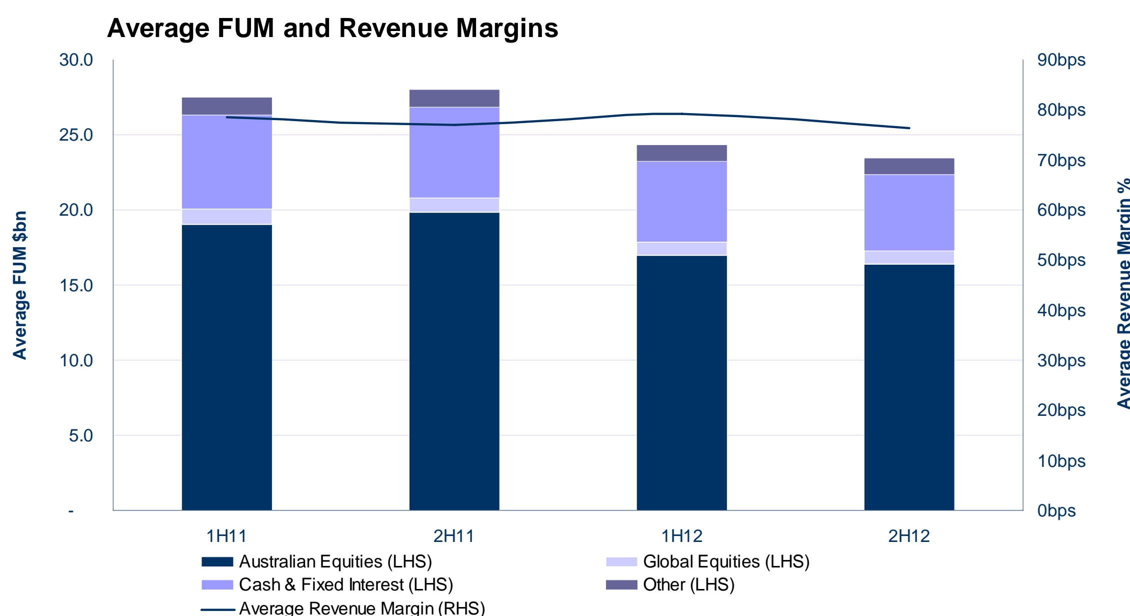
The largest drivers of total revenue are the value of FUM within Perpetual Investments and FUA within Perpetual Private, which are mainly influenced by the level of the Australian equity market. At the end of FY12, Perpetual Investments' FUM and Perpetual Private's FUA were around 72% and 50% exposed respectively to domestic and international equity markets.

The following table details the movement in average FUM and revenue margin over the last four half year reporting periods:

For the period	1H11 $b	2H11 $b	1H12 $b	2H12 $b	FY11 $b	FY12 $b
Australian equities	18.9	19.8	16.9	16.4	19.4	16.7
Global equities	1.1	1.0	0.9	0.9	1.0	0.9
Quantitative investments	0.1	Closed	Closed	Closed	0.1	Closed
Total equities	20.1	20.8	17.8	17.3	20.5	17.6
Cash & fixed income	6.2	6.0	5.4	5.1	6.1	5.2
Other	1.2	1.2	1.1	1.1	1.2	1.1
Total average FUM	27.5	28.0	24.3	23.5	27.8	23.9
Average FUM revenue margin	79 bps	77 bps	79 bps	76 bps	78 bps	78 bps

The key asset classes managed by the Group are equities and cash & fixed income. FY12 closing FUM was $22.6 billion, around 17% lower than at the close of FY11. Average FUM decreased by around 14% in FY12, to $23.9 billion.

The trends in the above table are depicted in the following chart, which shows Perpetual Investments' average FUM and revenue margin over the last four reporting periods.



Perpetual Private FUA decreased by around 8% over FY12, to $8.0 billion, due to the adverse impact of market related declines in valuation on FUA and net outflows. Average FUA decreased by around 6% in FY12, to $8.2 billion.

Management calculates the expected impact on revenue, across all of its businesses, for each 1% movement in the All Ords. Based on the level of the All Ords at the end of FY12, a 1% movement in the market changes annualised revenue by approximately $1.5 million to $2.0 million. It is worth noting this movement is not linear to the overall value of the market. This means that as the market reaches higher or lower levels, a 1% movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity and non-equity asset classes.

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

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

Corporate Trust FUA increased by around 5% since the end of FY11, to $217 billion. The passing of legislation in October 2011 enabled Australian authorised deposit-taking institutions (ADIs) to commence issuing covered bonds subject to an issuance cap to limit the subordination of ADI depositors to covered bond investors. With Corporate Trust being appointed as trustee for a number of programs, this benefited activity levels within that business unit. As at the end of FY12, covered bonds represented around 11% of FUA, compared to nil at the end of FY11.

Operating environment

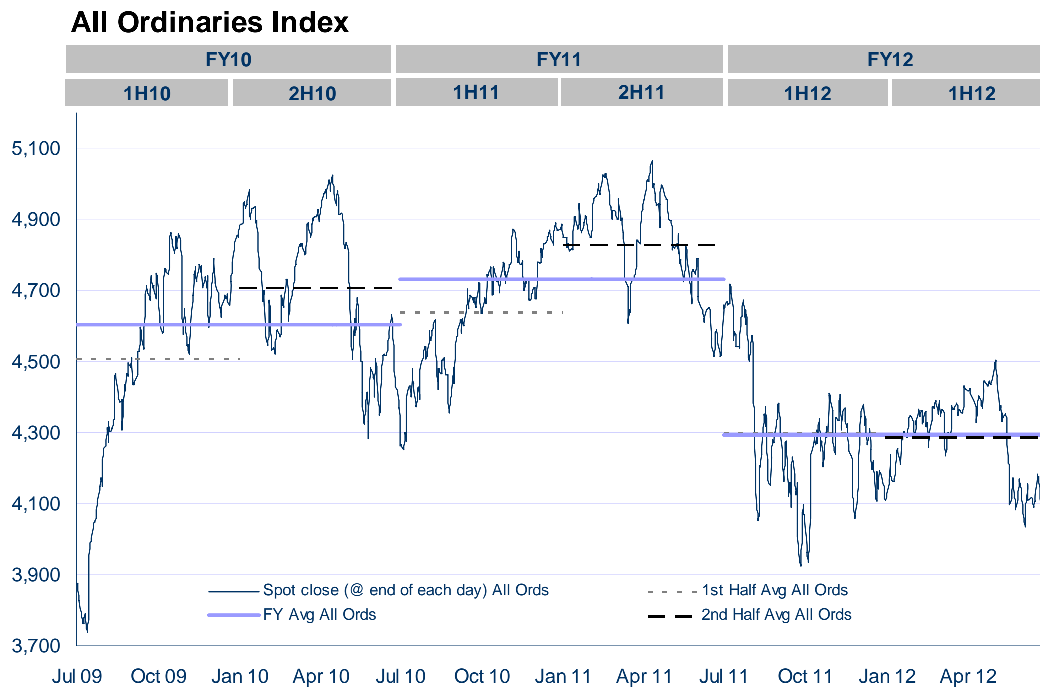
FY12 was very challenging for global financial markets as global economic prospects weakened, concerns about the state of Europe and its banking sector intensified, and regional policy makers failed to produce a cut-through, all of which triggered waning investor sentiment. While global share markets experienced periods of rising prices throughout the year (reflecting cheap valuations, rather than an improved earnings outlook), nearly every international market recorded negative returns over the year to 30 June 2012. The US sharemarket (+3.1%) was the only major market to record a rise in FY12, with major Asian markets declining between 7% and 20% and major European markets dropping between 13% and 31%.

Although concerns about the European crisis remained significant, the stress point switched from Greece to larger economies after a second Greek bailout (where private sector bond holders wrote down 70% of their Greek government debt holdings) was orchestrated by European authorities. Although significant risks in Greece remain, concerns about the state of the Spanish banking sector intensified, requiring a bail-out by its regional peers as rising unemployment threatened the balance sheet stability of several of its institutions.

In an environment dominated by concerns about the economic and financial system outlook, defensive asset classes tended to outperform their growth peers. Indeed, the standout performers in FY12 were government bonds, with yields on 10-year Australian Commonwealth Government bonds declining to a 110-year low of 2.70%, which underpinned the asset class' strongest financial year return (+14.3%) since 1997. Record low yields were sparked by several reductions in the overnight Cash Rate Target by the Reserve Bank of Australia (from 4.75% to 3.5%), and increased purchases of Australian denominated debt by global investors and central banks. Australia was not alone in experiencing record low interest rates, with 10-year government yields in the US, Germany, UK, France and Denmark hitting fresh 200-year lows. Over shorter durations on the government yield curve, bonds in Germany, Austria, Switzerland and several other European countries traded at negative interest rates, in nominal and real terms, highlighting the degree of risk aversion in global markets.

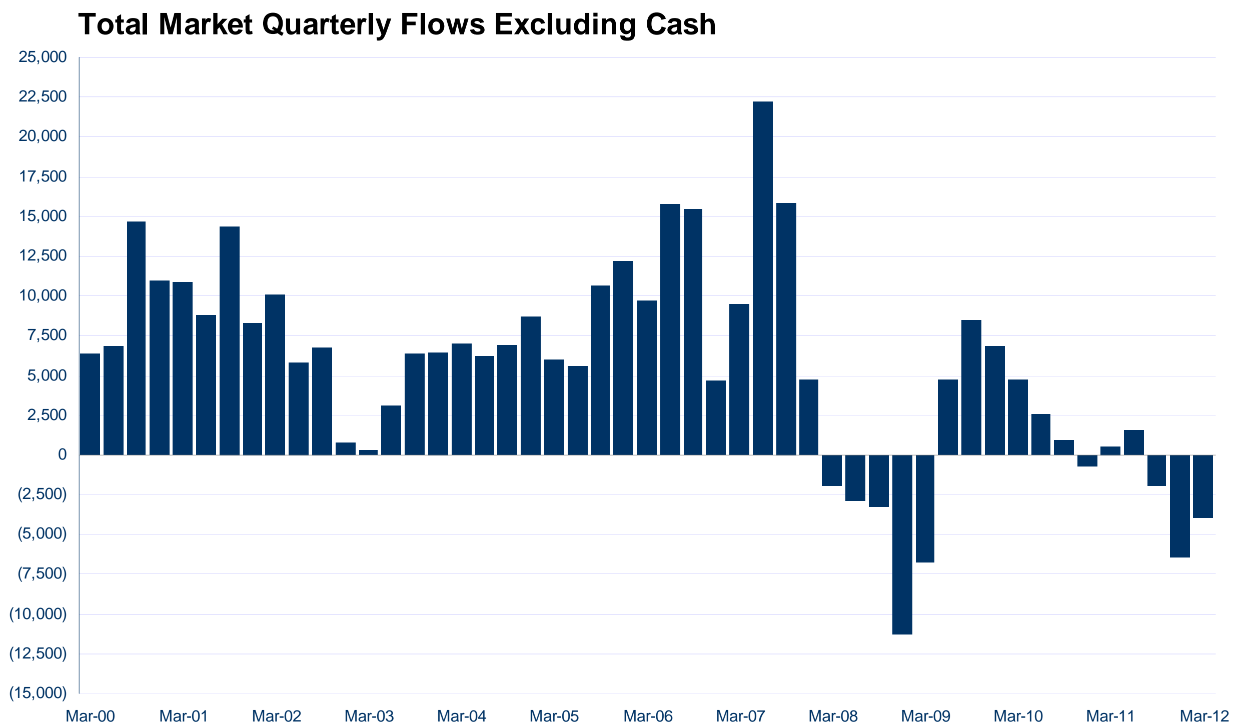
The Australian corporate bond market also benefited from increased investor interest and ended the financial year recording its second highest annualised return since 1997, at +10%. Given the low returns now available in government bonds, most investment flows in Australia were placed in the domestic cash market, even though that asset class recorded its second worst financial year return in the past 20 years, at +4.7%. Many of the global headwinds that contained returns in FY12 remain evident at the start of FY13 and will need to be resolved before any significant rise in asset markets can be sustained.

The following chart shows the movement in the daily All Ords as well as the average levels for 1H10, 2H10, FY10, 1H11, 2H11, FY11, 1H12, 2H12 and FY12.

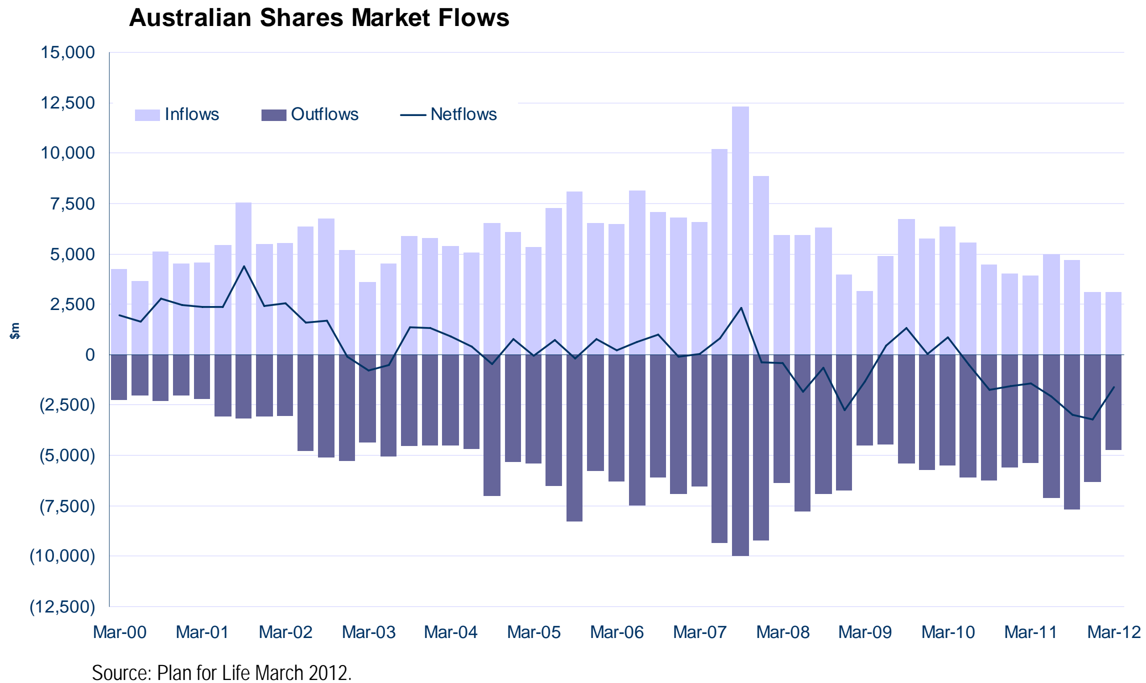


The All Ords decreased in value during FY12 by around 11%, closing at 4,135.5 at the end of the period, compared to 4,659.8 at the end of FY11. The average All Ords for FY12 was around 9% lower than during FY11.

Based on the most recent data available, which is presented in the following chart, the Australian funds management industry (excluding cash) experienced a year of net outflows. In the 12 months to March 2012, there were net outflows of $10.8 billion, compared to net inflows of $3.2 billion in the previous corresponding 12 month period.



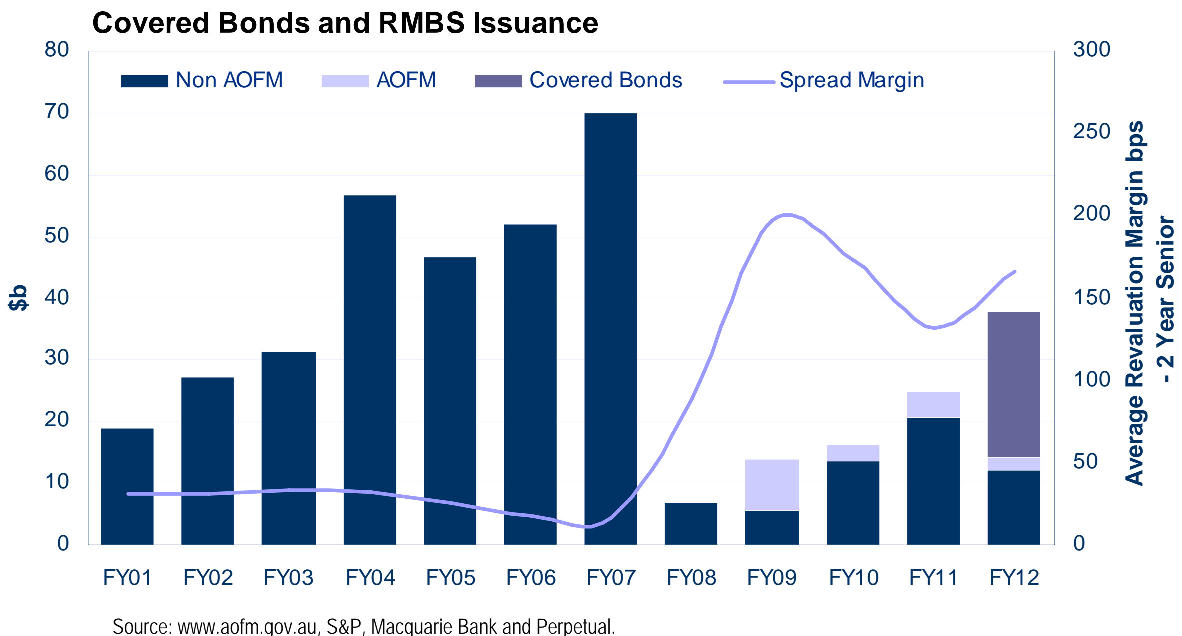
Source: Plan for Life March 2012.



Source: Plan for Life March 2012.

The above chart focuses on industry flows for the Australian equity asset class. The industry has been in net outflow since the December 2007 quarter..

As observed above, following the passage of legislation in October 2011, local banks, particularly the major trading banks, began to issue covered bonds as an alternative to the RMBS or senior unsecured bond markets. This new market experienced strong issuance in FY12. As can be seen from the following chart, in FY12 the issuance of covered bonds was around two times that of RMBS issued in the same period.



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

Regulatory environment

The regulatory environment became more certain in FY12 as Federal Parliament passed key legislation.

The **Superannuation Guarantee** (Administration) Amendment Act 2012 received Royal Assent on 29 March 2012. The legislation specifies that:

- the superannuation guarantee (SG) rate will gradually increase from 9% to 12% between 1 July 2013 and 1 July 2019, and
- the SG age limit of 70 and above will be removed from 1 July 2013, and employers will be required to contribute to complying super funds of eligible employees aged 70 and older.

The **Future of Financial Advice** (FoFA) package of legislation received Royal Assent on 27 June 2012. It amends the Corporations Act and introduces:

- a prospective ban on conflicted remuneration structures, including commissions and volume-based payments, in relation to the distribution of and advice about a range of retail investment products. The ban will not apply to some products and advice services, including for example:
    - general insurance, where the benefit only relates to a general insurance product;
    - basic banking products, where advice is only given on a basic banking product;
    - financial product advice given to wholesale clients; and
    - advice where the client pays the benefit to the provider (e.g. fee for service arrangements).
- a duty for financial advisers to act in the best interests of their clients, subject to a 'reasonable steps' qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients. There is a safe harbour, which advice providers can rely on to show that they have met the best interests duty. This is intended to be the minimum standard of compliance with the best interests duty;
- an opt-in obligation that requires advice providers to renew their clients' agreement to ongoing fees every two years. ASIC will have the ability to exempt advisers from the opt-in obligation if they are satisfied that the adviser is signed up to a professional code that makes the need for the opt-in provisions unnecessary; and
- enhanced powers for ASIC.

The FoFA reforms commenced on 1 July 2012 and compliance will be mandatory from 1 July 2013.

The **Stronger Super** reforms are designed to improve Australia's superannuation system by removing unnecessary costs and better safeguarding the retirement savings of all Australians.

The reform package is divided into four key areas:

MySuper - The Government will introduce a low cost default superannuation product called MySuper from 1 July 2013, which aims to simplify default superannuation products and improve their transparency and comparability;

SuperStream - SuperStream is a package of measures designed to enhance the 'back office' of superannuation. When fully implemented, these measures should improve the productivity of the superannuation system and make the system easier to use;

Self managed superannuation funds - The Government will implement a range of measures relating to self managed superannuation funds (SMSFs). Reforms in this area will improve their integrity and increase community confidence in SMSFs. They will also improve the operation and efficiency of the sector; and

Governance - The Government's measures to strengthen the integrity of the superannuation system aim to improve trustee and fund decisions, efficiency and effectiveness, and so help grow member superannuation entitlements. The regulator, APRA, will develop new standards.

While the Group's high quality private wealth advice model and product and service offering position it well to transition to the new regulatory environment for financial advice and superannuation, these changes in legislation are placing cost and consolidation pressure on small and medium-sized financial advisory businesses and on superannuation funds. Both of these groups are clients of the Perpetual Investments business.

The Group does not expect to incur any material costs in relation to the introduction of FoFA and its compliance.

Shareholder returns

For the period ended [1] [2]		1H11	2H11	1H12	2H12	FY11	FY12
Diluted earnings per share (EPS) on UPAT	cents	93.9	71.8	81.5	80.5	165.5	162.0
Diluted EPS on NPAT	cents	80.1	60.8	53.8	9.3	140.8	64.0
Annualised return on average equity (ROE) on UPAT	%	22.6	17.4	21.6	24.1	20.1	21.3
Annualised ROE on NPAT	%	19.3	14.7	14.2	2.8	17.1	8.4

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

In FY12, EPS based on UPAT fell by 3.5 cents per share, or around 2%, compared to FY11. FY12 ROE based on UPAT improved by 120 bps from 20.1% in FY11 to 21.3%, primarily due to the impact of the $70 million share buy-back completed in 1H12, which reduced average equity from around $363 million in FY11 to around $317 million in FY12.

Both EPS and ROE on NPAT were substantially lower in FY12 compared to FY11, mainly due to the factors noted previously.

During FY12, the number of shares on issue decreased by around 6% (or 2.7 million shares) to 42.0 million shares due to:

- the Group buying back around 3.3 million shares, or around 7.5% of its issued capital, offset by
- the issue of around 0.6 million shares under its employee share plans.

No shares were issued during FY12 to satisfy the DRP in relation to the FY11 final dividend or the FY12 interim dividend.

Shareholders' equity decreased by $97.8 million, or around 27%, from $366 million at the end of FY11 to $268.2 million at the end of FY12, principally due to:

- a $70 million off-market share buy-back capital management initiative completed in 1H12, which decreased contributed equity by around $30.9 million and retained earnings by $39.1 million;
- a $16 million decrease in reserves, primarily due to a net $15.3 million decline in the equity compensation reserve;
- a $30 million decrease in retained earnings, primarily due to $61.2 million of dividends being paid during FY12 (less $4.4 million of dividends paid in relation to Treasury shares), which exceeded FY12 NPAT of $26.7 million; offset by
- a $23 million increase in contributed equity due to the vesting of staff shares.

Dividends

For the period ended		1H11	2H11	1H12	2H12	FY11	FY12
Fully franked dividends paid/payable	$m	$42.2	$40.2	21.0	$16.8	$82.4	$37.8
Fully franked dividend per ordinary share	cents	95.0	90.0	50.0	40.0	185.0	90.0
Dividend payout ratio (1)	%	118.6	148.0	92.9	430.1	131.4	140.6
Proportion of NPAT paid/payable as dividend	%	120.6	148.9	91.6	441.9	132.9	141.4(2)

(1) Dividend payout ratio is calculated using dividend(s) resolved to be paid for the relevant period divided by the diluted earnings per share.
(2) Based on ordinary fully paid capital at end of FY12.

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

FY12 NPAT was reduced by a $12.5 million after tax asset impairment charge (equivalent to 30 cents per share) that was non-cash in nature and does not materially affect the Group's liquidity, cash flows, or current or future operations. Having taken this matter into consideration and the fact that the Group's financial profile remains strong, the Board has on this occasion excluded the impact of this charge on NPAT in determining FY12 dividends under its dividend policy.

A FY12 final fully franked dividend of 40 cents per share will be payable on 5 October 2012 (Ex-dividend Date of 7 September 2012 and Record Date 13 September 2012).

This brings total fully franked dividends for FY12 to 90 cents per share, compared to total dividends of 185 cents per share fully franked in FY11. This equates to a FY12 dividend payout ratio of around 96% when the aforementioned non-cash impairment charge is excluded.

The DRP will be operational for the FY12 final dividend. Shares to satisfy the DRP will be acquired on market and transferred to DRP participants. DRP shares will be allocated to participants at the Average Market Price as defined in the DRP terms[2]. There will be no discount applicable to the Average Market Price.

The Pricing Period for the FY12 final dividend DRP will be the ten Trading Days commencing 14 September 2012 and ending 27 September 2012.

The Group's franking credit balance as at the end of FY12, prior to the payment of the FY12 final dividend, was $26.8 million (equivalent to around 64 cents per share), which will enable it to fully frank $62.5 million of cash dividends or around 149 cents per share. After payment of the final dividend for FY12, the franking balance is capable of fully franking a further $45.7 million of cash dividends or around 109 cents per share.

The ability to distribute the franking account balance is effectively constrained by the level of retained earnings in the parent company. The Perpetual Limited entity had retained earnings of $10.2 million (equivalent to around 24 cents per share) at 30 June 2012. This is expected to increase during the September 2012 quarter as a result of earnings generated by the business, which will enable the FY12 final dividend to be fully franked.

The ability to fully frank future dividends in the short term will be subject to a number of factors, including the pay-out ratio and further costs and charges in relation to the Transformation 2015 program. Given the use of the September 2012 quarter earnings in respect of the FY12 final dividend, the retained earnings of Perpetual Limited at 31 December 2012 are expected to be less than the amount required to fully frank the FY13 interim dividend at the same level as the FY12 final dividend. However, no decision has been made in relation to FY13 dividends.

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

Review of Businesses

Perpetual Investments

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

The business offers clients strong investment capabilities across a range of asset classes, including Australian and international equities, property securities, fixed income and multi-sector strategies.

In addition to in-house and sub-advised investment manufacturing, Perpetual Investments also offers the WealthFocus platform, which provides clients with a range of funds managed by both Perpetual and other fund managers under one account.

Perpetual Investments services a diverse range of client types, from large institutional investors through to smaller retail investors.

During the period, the business executed a number of strategic initiatives, including the exit from self managed superannuation fund (SMSF) administration services via the sale of the smartsuper business and the closure of the Dublin-based International Share funds manufacturing capability and transfer of management of these funds to Wellington Management Company, LLP (Wellington Management).

The business also revised its retail distribution operating model to enhance its focus on key clients and decision makers in the retail funds market, as well as organisations influencing their product selection, such as research and ratings houses.

Financial summary

Perpetual Investments profit before tax for FY12 was $72.0 million, which was $1.3 million or 2% below FY11. However, profit margin on revenue increased to 38% in FY12 from 33% in the prior year.

Subdued revenues (down 15% or $34.5 million year-on-year) have been offset by a significant reduction in total expenses (operating and non-cash expenses) by $33.2 million or 22%, mainly due to the strategic initiatives outlined above.

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Revenues	112.8	112.2	99.1	91.4	225.0	190.5
Operating expenses	(65.2)	(65.8)	(55.2)	(52.1)	(131.0)	(107.3)
EBITDA	47.6	46.4	43.9	39.3	94.0	83.2
Depreciation and amortisation	(2.7)	(2.7)	(2.0)	(2.3)	(5.4)	(4.3)
Equity remuneration expense	(6.8)	(8.5)	(4.2)	(2.7)	(15.3)	(6.9)
Profit before tax	**38.1**	**35.2**	**37.7**	**34.3**	**73.3**	**72.0**
Average FUM revenue margin (revenues/ average FUM)	79 bps	77 bps	79 bps	76 bps	78 bps	78 bps
Average FUM	$27.5b	$28.0b	$24.3b	$23.5b	$27.8b	$23.9b

Revenues

FY12 revenue of $190.5 million constituted a decrease of 15% on the prior year, whilst 2H12 revenue was 8% lower than in the prior half. This decline in revenue is broadly in line with the decrease in average funds under management (FUM) over the period (down 14%) as ongoing global macro-economic concerns and market volatility continue to have an impact on investor confidence.

Movements in average FUM balances generally correlate to movements in equity markets, but are also impacted by the level of investor applications and redemptions (net flows) during the period.

The average FUM revenue margin in FY12 was 78 bps, the same level as the prior year. Movements in average margins are mainly brought about by changes in the mix of FUM between lower margin institutional and higher margin retail investors, as well as changes in the mix of asset classes such as cash (generally lower margin) and equities (generally higher margin).

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

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
By asset class:						
› Equities	89.6	90.6	77.6	72.7	180.2	150.3
› Cash & fixed income	14.0	13.3	14.9	13.1	27.3	28.0
› Other FUM related	6.1	5.7	3.7	3.5	11.8	7.2
› Other non-FUM related	3.1	2.6	2.9	2.1	5.7	5.0
Revenues	112.8	112.2	99.1	91.4	225.0	190.5

Equities revenues represent fees earned on Australian and Global equities products. This revenue was $150.3 million in FY12, a decrease of 17% on FY11. This was due to net outflows from lower margin institutional investors and mature retail products such as the Industrial Share Fund, and lower equity markets over the period.

Cash & fixed income revenues are derived from fixed income, cash and mortgage products. FY12 revenue was up slightly by $0.7 million. Lower revenues from mature mortgage fund products were offset by the inclusion of $2.0 million of revenue from the EMCF1 product as normal operating revenue during the year. Prior to FY12, this was reported outside of UPAT as a significant item.

Other FUM related revenue includes management fees for external funds on the WealthFocus platform, administration fees on the Perpetual Protected Investments (PPI) structured products (which have been in run-off since 2009) and SMSF administration fees from the smartsuper business, which was sold in August 2011.

Other FUM related revenue has decreased by $4.6 million from FY11, mainly due to the cessation of SMSF administration revenue following the sale of the smartsuper business, as well as lower administration fees on the PPI structured products as these products continue to run off.

Other non-FUM related revenue mainly includes the net interest margin derived from the structured products loan book and interest earned on operational bank accounts across the business. This revenue was $5.0 million for the period, $0.7 million less than in FY11, and reflects the decrease in the structured products loan book, offset in part by an increase in mortgage lending fees by $0.4 million during the year from new mortgage related investment products that have been developed for the institutional market.

Total Expenses

The execution of key strategic initiatives and a focus on reducing costs in response to the volatile operating environment have resulted in a significant drop in expenses during the year.

Operating expenses were down by $23.7 million or 18% from FY11. When including non-cash expenses such as depreciation and amortisation and equity remuneration expense, total expenses were down by $33.2 million or 22% from FY11.

The decrease in total expenses has mainly been brought about by various strategic initiatives, such as:

- the closure of the Dublin-based International Share funds manufacturing capability and transfer of management of these funds to Wellington Management, resulting in a reduction in net expenses of approximately $6.0 million (a one-off restructuring charge has been incurred in association with the closure of this business and this is reported as a significant item);
- the sale of the smartsuper SMSF administration business, contributing a total of around $7.0 million of expense reductions (including sales and support staff); and

- around $3.1 million in savings associated with staff reductions from a Group-wide restructure initiative announced in May 2011.

Further expense reductions achieved included:

- a decrease of around $6.8 million in staff related expenses due to lower headcount and variable remuneration costs, such as the Group's short term incentive (bonus) pool;
- a decrease in equity remuneration expense of $8.4 million in FY12, due to the forfeiture of equity share awards as a result of specific hurdles not being met and staff departures; and
- a decrease of around $2.6 million in operating expenses such as travel, entertainment and other discretionary expenses as the business maintained a strong cost control focus.

The Transformation 2015 program announced of 25 June 2012 will maintain a focus on cost reduction initiatives in Perpetual Investments during the coming financial year.

Funds under management

At the end of FY12, FUM was $22.6 billion, a decrease of 17% from the end of FY11.

On an average FUM basis, FY12 FUM was $23.9 billion or 14% lower than in the prior corresponding period. Movements in average FUM are more correlated with changes in revenues over time.

The table below details the closing FUM for the last three financial years.

At end of	FY10 $b	FY11 $b	Net flows $b	Other [1] $b	FY12 $b
Institutional	8.1	8.7	(2.0)	-	6.7
Intermediary (master fund and wrap)	12.9	12.6	(1.3)	(0.4)	10.9
Retail	5.9	5.9	(0.8)	(0.1)	5.0
All channels	**26.9**	**27.2**	**(4.1)**	**(0.5)**	**22.6**
Australian equities	17.5	18.7	(2.7)	(0.5)	15.5
Global equities	1.4	1.0	(0.1)	-	0.9
Equities	18.9	19.7	(2.8)	(0.5)	16.4
Cash & fixed income	6.7	6.0	(1.2)	-	4.8
Other	1.3	1.5	(0.1)	-	1.4
All asset classes	**26.9**	**27.2**	**(4.1)**	**(0.5)**	**22.6**

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

Due to the increasingly defensive attitude of investors and the loss of certain institutional mandates, the business experienced net outflows of $4.1 billion during FY12. The majority of outflows were in the lower margin institutional channel, the more mature Industrial Share Fund, and mortgage funds that are sourced from the intermediary and retail channels.

Net flows

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

For the period ended	1H11 $b	2H11 $b	1H12 $b	2H12 $b	FY11 $b	FY12 $b
Institutional	(0.5)	0.4	(1.7)	(0.3)	(0.1)	(2.0)
Intermediary (master fund and wrap)	(0.6)	(0.6)	(0.8)	(0.5)	(1.2)	(1.3)
Retail	(0.2)	(0.3)	(0.5)	(0.3)	(0.5)	(0.8)
All distribution channels	**(1.3)**	**(0.5)**	**(3.0)**	**(1.1)**	**(1.8)**	**(4.1)**
Australian equities	(0.1)	(0.5)	(2.0)	(0.7)	(0.6)	(2.7)
Global equities	(0.1)	(0.1)	(0.1)	-	(0.2)	(0.1)
Equities	(0.2)	(0.6)	(2.1)	(0.7)	(0.8)	(2.8)
Cash & fixed income	(1.0)	0.1	(0.8)	(0.4)	(0.9)	(1.2)
Other	(0.1)	-	(0.1)	-	(0.1)	(0.1)
All asset classes	**(1.3)**	**(0.5)**	**(3.0)**	**(1.1)**	**(1.8)**	**(4.1)**

Flows Analysis by Distribution Channel

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

During FY12, this channel experienced net outflows of $2.0 billion arising from the withdrawal of some Australian equities institutional mandates (primarily during 1H12) as well as net outflows from low margin cash & fixed income products.

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

In FY12, the intermediary channel experienced net outflows of $1.3 billion, largely from more mature funds such as the Industrial Share Fund and mortgage funds. Net outflows in 2H12 of $0.5 billion were at a lower rate than in 1H12.

Retail – this channel sources FUM from advisers and individual clients who invest with Perpetual directly. This FUM earns the highest average gross margin. However, it requires an increased level of support infrastructure, which makes the cost to service this channel the highest.

Net outflows from this channel in FY12 were $0.8 billion, again largely from more mature funds such as the Industrial Share Fund and mortgage funds. Again, net outflows in 2H12 were at a lower rate than in 1H12.

Investment performance

Almost all of Perpetual Investments' funds have experienced returns greater than that of the market over the medium to longer term horizons. The consistency of excess returns against benchmark provides a better outcome for investors and demonstrates the value of Perpetual's disciplined investment process, combined with the experience and expertise of Perpetual's investment managers.

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

Excess/(under) investment performance p.a. - gross as at 30 June 2012

Period	Industrial Share Fund	Australian Share Fund	Smaller Companies Fund	Concentrated Equity Fund	Global Resources Fund	Diversified Income Fund	Share Plus Fund	Ethical Share Fund	International Share Fund
1 year	1.1%	3.8%	5.5%	5.2%	(1.3%)	1.4%	7.8%	13.3%	1.5%
3 years	0.2%	4.2%	11.1%	3.4%	6.7%	5.0%	6.5%	12.5%	(0.9%)
5 years	2.7%	3.9%	7.4%	5.0%	6.2%	(0.5%)	5.9%	5.7%	1.0%
7 years	1.9%	2.8%	5.7%	3.7%	N/A	N/A	3.8%	6.0%	0.5%
10 years	2.3%	3.2%	4.5%	3.7%	N/A	N/A	N/A	4.6%	N/A

During 2H12, the business launched the Pure Equity Alpha fund, a long/short fund targeting absolute returns. The Pure Equity Alpha fund subsequently received a "Recommended" rating from investment research house Zenith. In the same period, the Share Plus Fund was awarded a "Highly Recommended" rating by investment research house Zenith, the highest rating possible and an endorsement of Perpetual Investments' strong investment management capabilities.

Also in 2H12, the business was awarded its first offshore sub-advisory mandate for the Global Resources strategy. Funds under advice for this mandate at the end of FY12 were around $60 million and are not included in the Group's FUM.

The new retail distribution operating model, which was announced in December 2011, enhances the business' focus on key clients and decision makers in the retail funds market, as well as organisations influencing their product selection. One initiative has resulted in the Australian Share and the Diversified Income strategies becoming available on the administration platform of one of Australia's largest distribution networks from late 2H12.

Perpetual Private

Perpetual Private provides holistic financial solutions for high net worth individuals in the target segments of business owners, established wealthy and professionals. It aims to be the leading provider of wealth advice for financially successful individuals, families, businesses and not-for-profit organisations.

Perpetual Private manages financial assets for around 6,500 private clients, estates, trusts and charitable trusts, with funds under advice (FUA) of $8.0 billion at the end of 2012, down 8% from $8.7 billion at the end of FY11.

Perpetual is one of Australia's largest managers of philanthropic funds, including as trustee for over 540 charitable trusts and endowment funds, with over $1.1 billion in funds under management at the end of FY12.

During 2012, Perpetual Private continued to invest for future growth through a number of initiatives. Key achievements included:

- the commencement of the build phase of the platform outsourcing agreement with Macquarie Investment Management Limited as part of the modernisation of Perpetual Private's service offering (Project ICE – "Improving Client Experience"). This phase included the launch of the new Super Wrap product in April 2012. The new platform offering is expected to be complete in 2H13;
- the penetration of new customer sub-segments such as trustee services for Native Title Trusts, which is gaining good early traction;
- a more diversified base of non-market related revenue streams such as investment placements, estate planning, new insurance risk sales and financial plan fees. The business has continued to invest in these service offerings to further enhance its holistic offering to key client segments. These revenue streams are not as impacted by market volatility and provide a 'stabilising' effect against uncertain financial markets;

- the appointment of a National Manager for Life Risk. The business is now able to provide, through its advice team, a sharper focus on the life risk offering for its target segments for both personal and business life risk needs;
- the continued strengthening of Alliance Partner relationships that specialise in the business owners and professionals markets, and pursuit of new client opportunities in Estate Planning;
- the continued pursuit of the inorganic growth strategy. A number of potential investment opportunities were identified (and due diligence was undertaken in respect of some of these opportunities) during FY12, but none were concluded during the period; and
- the continued investment in professional development to enhance technical capability across the business.

Financial summary

FY12 profit before tax of $8.3 million constituted a decrease of $5.0 million or 38% from the $13.3 million reported in FY11. This result reflects ongoing investment in the business (primarily Project ICE) and subdued revenues as investors remained cautious.

Slightly lower market related revenue (down $1.3 million in FY12 compared to FY11) was balanced by broadly flat non-market related revenue. FY12 operating expenses increased by $4.1 million compared to FY11, principally due to the investment in Project ICE.

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Market related revenue	39.4	39.7	38.4	39.4	79.1	77.8
Non-market related revenue	17.5	19.6	18.4	18.5	37.1	36.9
Total revenues	56.9	59.3	56.8	57.9	116.2	114.7
Operating expenses	(45.1)	(49.3)	(48.4)	(50.1)	(94.4)	(98.5)
EBITDA	11.8	10.0	8.4	7.8	21.8	16.2
Depreciation and amortisation	(3.0)	(3.3)	(3.1)	(3.2)	(6.3)	(6.3)
Equity remuneration expense	(1.1)	(1.1)	(0.4)	(1.2)	(2.2)	(1.6)
Profit before tax	**7.7**	**5.6**	**4.9**	**3.4**	**13.3**	**8.3**
Closing funds under advice (FUA)	$8.8b	$8.7b	$8.1b	$8.0b	$8.7b	$8.0b
Average funds under advice (FUA)	$8.5b	$8.8b	$8.2b	$8.2b	$8.7b	$8.2b
Market related revenue margin	93 bps	90 bps	94 bps	96 bps	91 bps	95 bps

Revenues

The main revenue driver for Perpetual Private is FUA, with market related revenue contributing approximately 68% of total revenues in FY12. This is broadly in line with prior periods. The business has also continued to generate non-market related revenue, reflecting the broad range of service offerings. These non-market revenue streams provide a more stable income stream for the business in times of volatile financial markets.

FY12 revenues of $114.7 million were relatively flat on the prior year (down by 1% or $1.5 million). Market related revenue was around 2% lower as a consequence of lower average FUA (reflecting weaker market conditions and some net outflows), offset by an uplift in revenue as a result of a review of certain product revenue structures. The FY12 market related revenue margin of 95 bps is up from 91 bps in the prior year as a result of these reviews and that benefit should be maintained into future periods.

FY12 non-market related revenue of $36.9 million was broadly unchanged from FY11. Annual revenues increased for estate administration, placement fees, insurance and tax and accounting fees, although these were offset by lower activity in trustee services and business advisory fees, reflecting the level of client conservatism in the current market environment.

Expenses

Operating expenses in FY12 were $98.5 million, $4.1 million or 4% higher than in the prior year. Of this increase, $3.4 million relates to Project ICE as the project moved into build phase. In FY12, Project ICE expenditure was $5.3 million, of which $2.4 million was incurred in 1H12 and $2.9 million in 2H12. In

2H12, the business also incurred due diligence expenditure in relation to potential acquisitions that, at the end of FY12, the Group has chosen not to progress further.

FY12 depreciation and amortisation was at the same level as the prior year, whilst equity remuneration expense was $0.6 million lower due to the forfeiture of certain share awards as specific hurdles were not met.

Funds under advice

Perpetual Private's FUA at the end of FY12 was $8.0 billion, $0.7 billion lower than at the end of FY11. Average FY12 FUA was $8.2 billion or 6% lower than in FY11. This decrease in average FUA reflects the unfavourable impact of the decline in investment markets, combined with net outflows. At the end of FY12, around 50% of Perpetual Private's FUA was invested in equities.

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

At end of	FY10 $b	FY11 $b	Net flows $b	Other [1] $b	FY12 $b
Financial advisory:					
› superannuation	3.3	3.5	(0.2)	-	3.3
› non-superannuation	2.2	2.2	(0.1)	(0.2)	1.9
	5.5	5.7	(0.3)	(0.2)	5.2
Fiduciary services:					
› philanthropic	1.1	1.2	(0.1)	-	1.1
› trusts and estates	1.7	1.8	-	(0.1)	1.7
	2.8	3.0	(0.1)	(0.1)	2.8
Total funds under advice (FUA)	8.3	8.7	(0.4)	(0.3)	8.0

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

Native title

Throughout Australia, mining companies and Aboriginal communities have been negotiating royalty payments in return for access to registered native title lands for some years. A recent trend is for these funds to be managed by a professional trustee company via an appropriate trust structure.

Perpetual Private recognised this opportunity and has established a dedicated Native Title Trusts team that leverages the Group's long-term experience, breadth of knowledge, fiduciary background and investment management capability. Initial response to Perpetual's services has been very positive, with three initial trust appointments totalling $40 million in FY12.

Perpetual Private is well placed to accelerate its growth if market volatility reduces and a turnaround in investor sentiment occurs.

Corporate Trust

Corporate Trust is a leading provider of corporate trustee services. Products and services include trustee services for covered bonds, mortgage-backed and other securitisation programs for major banks and non-bank organisations; regulatory compliance services (responsible entity) for fund managers; custody, accounting services for property and mortgage funds; and trusteeships for corporate debt issues, infrastructure projects and other structures.

On 25 June 2012, the Group announced that as part of its Transformation 2015 strategy it had decided to exit the mortgage processing services business known as Perpetual Lenders Mortgage Services (PLMS) and that the sales process for PLMS was well advanced. On 12 July 2012, the Group announced that it had entered into an agreement to sell PLMS to FAF International Property Services (Australia) Pty Limited, an affiliate of First Mortgage Services (FMS). On 1 August 2012, the Group announced that it

had completed the sale of PLMS to FMS. The sale allows the Corporate Trust business to focus on its corporate fiduciary services.

In line with the sale, PLMS is being treated as a discontinued business and its performance is shown separately from the ongoing operations of Corporate Trust.

Financial summary

In FY12, Corporate Trust's profit before tax decreased by 19% or $4.1 million on FY11, to $17.4 million. This decrease in profit was primarily attributable to:

- the FY11 result benefiting from fees of $1.7 million for trusts experiencing financial distress, and
- the continued run-off in FY12 of the higher margin RMBS securitisation FUA, partially offset by the growth in FUA in the new, lower margin asset class of covered bonds.

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Total revenues	28.3	28.9	26.1	25.9	57.2	52.0
Operating expenses	(16.7)	(16.9)	(16.6)	(16.1)	(33.6)	(32.7)
EBITDA	11.6	12.0	9.5	9.8	23.6	19.3
Depreciation and amortisation	(0.5)	(1.0)	(1.0)	(0.9)	(1.5)	(1.9)
Equity remuneration amortisation	(0.3)	(0.3)	0.2	(0.2)	(0.6)	-
Profit before tax	**10.8**	**10.7**	**8.7**	**8.7**	**21.5**	**17.4**

Revenue

Corporate Trust's FY12 revenue decreased by $5.2 million or 9% on FY11, to $52.0 million.

The primary revenue driver of Corporate Trust is the RMBS securitisation market, which remained largely closed during FY12 as funding margins widened. As such, revenue from the RMBS securitisation stream declined with the continued run-off of RMBS securitisation FUA, along with a decline in revenue margin in response to changes in mix in both clients and asset class with the emergence of covered bonds as a funding alternative. In addition, FY11 benefited from revenue of $1.7 million associated with the additional services provided to trusts that were experiencing financial distress.

Expenses

In FY12, operating expenses, at $32.7 million decreased by 3% compared to FY11. The decrease was the result of a strong cost focus and a reduction in variable remuneration in line with reduced revenue.

The above expenses include approximately $2 million of costs that were previously allocated to the discontinued PLMS operations. The Group is committed to reducing these stranded costs as part of the Transformation 2015 program of initiatives announced on 25 June 2012.

Funds under administration (FUA) [1]

At end of	1H11 $b	2H11 $b	1H12 $b	2H12 $b
CMBS and ABS	28.5	26.2	23.3	24.8
RMBS – non-bank[2]	48.9	48.3	45.6	43.2
RMBS – repos	77.7	76.1	80.1	74.9
RMBS – bank[2]	54.3	55.2	53.2	50.4
Covered bonds	-	-	3.5	23.7
Total funds under administration (FUA)	**209.4**	**205.8**	**205.7**	**217.0**

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

FUA at the end of FY12 increased by 5% compared to the end of FY11, to $217.0 billion. FUA declined across most of the traditional asset classes as new issuance levels remain subdued and below the level of run-off from the existing books.

The run-off from traditional asset classes has been more than offset by the new covered bond asset class. The first Australian covered bond issuance took place in 1H12, followed by strong growth in issuance from all major banks. Corporate Trust was appointed as covered bond trustee for three of the four major banks. By the end of FY12, covered bond FUA was $23.7 billion and represented around 11% of total FUA. Fees earned for covered bonds trusteeship are significantly lower than that for other asset classes. This change in mix will result in lower average margins for the business in the future, particularly if this asset class continues to grow as a proportion of total FUA.

Run-off rates across existing RMBS increased during FY12 compared to FY11, reflecting the continued de-leveraging of households.

Discontinued Operations (PLMS)

Financial summary

PLMS FY12 profit before tax of $3.2 million constituted a decrease of $0.6 million, or 16%, on FY11. The decrease was primarily attributable to:

- one-off fees of around $2 million received in FY11 to accommodate variations in service contracts, which were not repeated in FY12, and
- a decline in revenue during the year, primarily driven by a contraction in new loan mortgage processing volumes and margins due to changes in the client and matter type mix. However, this decline in revenue was offset by a corresponding reduction in variable costs, which benefited from productivity gains, resulting in an improvement in underlying earnings compared to the prior year.

2H12 profit before tax increased by $2.0 million on 1H12, to $2.6 million. This increase was primarily attributable to a favourable shift in the mix of clients and products, resulting in higher margins.

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Total revenues	24.0	16.0	16.6	18.1	40.0	34.7
Operating expenses	(18.7)	(15.8)	(15.3)	(14.9)	(34.5)	(30.2)
EBITDA	5.3	0.2	1.3	3.2	5.5	4.5
Depreciation and amortisation	(0.8)	(0.9)	(0.8)	(0.5)	(1.7)	(1.3)
Equity remuneration amortisation	(0.0)	(0.0)	0.1	(0.1)	(0.0)	(0.0)
Profit before tax	**4.5**	**(0.7)**	**0.6**	**2.6**	**3.8**	**3.2**

Revenue

PLMS revenue declined by 13% in FY12 compared to FY11, reflecting the absence of one-off fees of around $2 million received in FY11, and a decrease in matter volumes of around 2% as the housing market continued to experience subdued levels of activity. In addition, the average price per matter was impacted by changes in client mix towards banks (experienced mostly in 1H12) and shifts in mortgage matter type, reducing the average price per matter.

2H12 revenue increased by 9% over 1H12 due to a change in the mix of both clients and matters.

Around 45% of FY12 revenue was attributable to client contracts that were either in run-off or reduced scope.

Expenses

FY12 operating expenses of $30.2 million represented a decrease of 12% from FY11. This decrease was a result of variable expense reductions in line with declines in mortgage processing volumes, as well as the delivery of operational efficiencies within PLMS.

Number of matters	1H11 '000s	2H11 '000s	1H12 '000s	2H12 '000s	FY11 '000s	FY12 '000s
PLMS volumes	131	109	119	115	240	234

As shown in the preceding table, PLMS volumes in FY12 decreased by 2% on FY11, impacted by the subdued housing market. Volumes in 1H12 and 2H12 were up 9% and 6% respectively on 2H11 as 2H11 was impacted by natural disasters depressing housing sales in some states.

Around 60% of matters were attributable to client contracts that were in run-off.

PLMS revenue split by client type	1H11 %	2H11 %	1H12 %	2H12 %	FY11 %	FY12 %
Bank	85	86	87	81	86	84
Non-bank	15	14	13	19	14	16

The revenue mix attributable to bank clients in FY12 decreased slightly as a proportion of total PLMS revenue, due to a reduction in services provided, coupled with growth in higher priced new loan volumes for non-bank clients.

Group Support Services

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

Financial summary

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Revenues	5.1	5.2	3.8	3.3	10.3	7.1
Operating expenses	(4.9)	(7.1)	(4.4)	(5.3)	(12.0)	(9.7)
EBITDA	0.2	(1.9)	(0.6)	(2.0)	(1.7)	(2.6)
Depreciation and amortisation	(0.4)	(0.4)	(0.6)	(0.4)	(0.8)	(1.0)
Equity remuneration expense	(0.2)	(0.2)	0.0	(0.6)	(0.4)	(0.6)
Interest expense	(1.6)	(2.0)	(1.3)	(1.2)	(3.6)	(2.5)
Profit/(loss) before tax	**(2.0)**	**(4.5)**	**(2.5)**	**(4.2)**	**(6.5)**	**(6.7)**

FY12 revenue of $7.1 million from the Group's cash and principal investments was $3.2 million less than in FY11, principally as a result of the $70 million share buy-back completed in October 2011, which reduced the Group's cash resources and interest income.

In FY12, operating expenses of $9.7 million were $2.3 million lower than in FY11. The major variances were due to:

- a $2.7 million negative expense in relation to the write-back of deferred consideration payable in relation to acquisitions where certain pre-determined hurdles had not been met;
- a reduction of around $2 million in relation to variable remuneration expense; offset by
- a $0.5 million expense in relation to a strategy consultancy assignment;
- a $0.7 million increase in IT license fees; and
- a $0.5 million expense in relation to the Group's off-market share buy-back that was completed in 1H12.

FY12 interest expense of $2.5 million was around $1.1 million lower than in FY11 due to a reduction in the discount unwind in relation to the payment of deferred acquisition consideration for recent Perpetual Private acquisitions.

Total Group Expenses

Total Group expenses before tax including depreciation and amortisation and equity remuneration expense (excluding significant items and discontinued operations) decreased by around 11% from FY11 to $273.3 million in FY12.

Movement in Group expenses

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Employment	(105.1)	(107.9)	(91.7)	(89.6)	(213.0)	(181.3)
Occupancy	(8.7)	(9.0)	(8.9)	(8.9)	(17.7)	(17.8)
General & administrative	(31.4)	(38.3)	(34.2)	(35.7)	(69.7)	(69.9)
Other intangibles	(1.7)	(1.4)	(0.9)	(0.9)	(3.1)	(1.8)
Financing costs	(1.6)	(2.0)	(1.3)	(1.2)	(3.6)	(2.5)
Total expenses before tax	**(148.5)**	**(158.6)**	**(137.0)**	**(136.3)**	**(307.1)**	**(273.3)**

The previous table excludes expenses that are considered non-recurring and unrelated to the ongoing business activities of the Group.

The key drivers of the decrease in the Group's continuing operations expenses in FY12 are set out in the following table.

	$m
FY11 expenses	307.1
Decrease in employment costs due to sale or closure of businesses and restructuring	(17.8)
Increase in employment costs in relation to Project ICE	3.0
Decrease in employment costs due to lower variable remuneration	(17.3)
Decrease in General & administrative due to a write-back of deferred consideration	(2.7)
Decrease in Other intangibles amortisation due to run-off	(1.3)
Decrease in Financing costs due to run-off of deferred consideration discount unwind	(1.1)
Increase in outsourcing fees	2.7
Other	0.7
FY12 expenses	273.3

As can be seen from the above table, the 15% reduction in employment costs in FY12 compared to FY11 was the main contributor to lower total expenses. This was split between expense savings due to a reduction in FTEs and the impact of lower variable remuneration.

The following table provides an analysis of the total FTEs (full time equivalent staff members) by business as at the end of each of the last four half year reporting periods.

FTEs in continuing operations have fallen by 99, or around 8%, over the last 12 months.

The reduction in FTEs in the following table reflects the sale of smartsuper, the closure of Dublin, and other restructuring initiatives such as that of the domestic retail distribution function in Perpetual Investments to support product flows and take advantage of growth opportunities and the closure of Perpetual's in-house creative agency within the Marketing function.

At end of	1H11 FTEs	2H11 FTEs	1H12 FTEs	2H12 FTEs
Perpetual Investments	253	238	149	134
Perpetual Private	407	370	404	405
Corporate Trust	154	150	146	151
Group Support Services	410	431	399	400
Total FTEs in continuing operations	**1,224**	**1,189**	**1,098**	**1,090**
Discontinued operations (PLMS)	356	291	284	253
Total FTEs	**1,580**	**1,480**	**1,382**	**1,343**

FY12 expenses of $273.3 million for continuing operations were consistent with guidance provided by the Group on 25 June 2012. As indicated at that time, FY13 expenses, excluding the benefits of the Transformation 2015 program, are expected to be around $11 million higher than FY12, primarily due to:

- equity remuneration, which benefited from a write-back in FY12, is expected to increase by around $5 million; and
- Project ICE expenditure will increase by a further $6 million.

Tax expense

Perpetual's average tax rate in FY12 was 28% (FY11: 31%), calculated from underlying profit from continuing operations before tax (UPBT). The FY12 tax rate benefited from the reversal of an over-provision for income tax in the prior year. Normalising for this over-provision, the average tax rate based on FY12 UPBT would have been around 29%.

Significant Items

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

	Profit/(Loss) Before Tax					
For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Significant items:						
1. Gain/(loss) on sale/impairment of investments	2.2	2.0	(2.8)	(2.8)	4.2	(5.6)
2. Impairment of assets	(10.6)	(4.1)	-	(17.9)	(14.7)	(17.9)
3. Restructuring costs	-	(9.1)	(11.1)	(17.8)	(9.1)	(28.9)
4. Gain on disposal of businesses	-	-	0.6	0.6	-	1.2
5. Sale costs associated with PLMS	-	-	-	(1.4)	-	(1.4)
6. EMCF gains	8.5	5.4	-	-	13.9	-
7. Private equity proposal response costs	(4.3)	(0.1)	-	-	(4.4)	-
Total significant items	**(4.2)**	**(5.9)**	**(13.3)**	**(39.3)**	**(10.1)**	**(52.6)**

	Profit/(Loss) After Tax					
For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Significant items:						
1. Gain/(loss) on sale/impairment of investments	1.6	1.9	(2.2)	(3.4)	3.5	(5.6)
2. Impairment of assets	(10.6)	(4.1)	-	(12.5)	(14.7)	(12.5)
3. Restructuring costs	-	(6.4)	(10.2)	(12.4)	(6.4)	(22.6)
4. Gain on disposal of businesses	-	-	0.6	0.6	-	1.2
5. Sale costs associated with PLMS	-	-	-	(1.4)	-	(1.4)
6. EMCF gains	6.0	3.8	-	-	9.8	-
7. Private equity proposal response costs	(3.0)	(0.1)	-	-	(3.1)	-
Total significant items	**(6.0)**	**(4.9)**	**(11.8)**	**(29.1)**	**(10.9)**	**(40.9)**

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

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Profit on sale of part of investment portfolio/seed funds	2.8	2.8	-	0.3	5.6	0.3
Impairment of available for sale securities	(0.6)	(0.8)	(2.8)	(3.1)	(1.4)	(5.9)
Total profit/(loss) before tax on sale/impairment of investments	2.2	2.0	(2.8)	(2.8)	4.2	(5.6)
Income tax benefit/(expense)	(0.6)	(0.1)	0.6	(0.6)	(0.7)	-
Total profit/(loss) after tax on sale/impairment of investments	**1.6**	**1.9**	**(2.2)**	**(3.4)**	**3.5**	**(5.6)**

In FY12, a loss of $5.6 million after tax was incurred on the sale/impairment of investments, compared to a profit after tax of $3.5 million in FY11, reflecting the market related declines in valuation experienced by the Group's seed fund investment activities.

2. Impairment of assets

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Impairment of property, plant and equipment	-	-	-	(3.4)	-	(3.4)
Impairment of intangible assets	(10.6)	(4.1)	-	(14.5)	(14.7)	(14.5)
Total impairment of assets	(10.6)	(4.1)	-	(17.9)	(14.7)	(17.9)
Tax benefit	-	-		5.4	-	5.4
Total impairment of assets after tax	**(10.6)**	**(4.1)**	**-**	**(12.5)**	**(14.7)**	**(12.5)**

The Group announced in 2H12 that it had commenced a formal evaluation of all of its existing information technology (IT) arrangements and that it had called for request for proposals for its IT infrastructure, including hardware, networks and application software. In addition, the Group is reviewing options to outsource its unit registry operations.

The Group undertakes an annual review of the carrying value of its IT assets and forms a view as to their remaining useful lives, residual values and amortisation methods. In FY12, this review also took into consideration the impact arising from initiatives from the Transformation 2015 strategy announced on 25 June 2012 (for further information on Transformation 2015 refer to 'Restructuring Expenses' below).

In 2H12, it was determined that an impairment charge of $12.5 million should be incurred in recognition of the need to align the carrying value of these IT assets with the revised assessment of their expected useful life and residual value based on the results of the above evaluation.

In FY11, impairment charges of $14.7 million after tax related to the carrying value of the smartsuper business. This business was sold in August 2011 on terms slightly above its revised carrying value. Proceeds from the sale were not material.

Refer to 'Events subsequent to balance date' regarding IT outsourcing

3. Restructuring expenses

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Restructuring expenses	-	(9.1)	(11.1)	(17.8)	(9.1)	(28.9)
Tax benefit	-	2.7	0.9	5.4	2.7	6.3
Restructuring expenses after tax	**-**	**(6.4)**	**(10.2)**	**(12.4)**	**(6.4)**	**(22.6)**

Restructuring expenses after tax in FY12 were $22.6 million.

In 1H12, the Group incurred $10.2 million in after tax restructuring expenses. These expenses relate to the Group's decision to:

- close its global equities manufacturing capability in Dublin and transfer the management of funds to Wellington Management, as announced in August 2011;
- restructure its domestic retail distribution in Perpetual Investments to support product flows and take advantage of growth opportunities; and
- close its in-house creative agency within the Marketing function.

Following the appointment of Geoff Lloyd as Chief Executive Officer and Managing Director in February 2012, the Group advised the market that it would focus on:

- refinement of growth strategy;
- further meaningful cost reductions; and
- reinvigoration of sales and distribution.

To assist in the delivery of the meaningful cost reductions, the Group formed a dedicated internal team, working together with an international consulting firm, to identify initiatives.

On 25 June 2012, the Group announced its Transformation 2015 strategy, which seeks to significantly simplify its corporate structure, refocus its operational activities and capture new opportunities for growth. The initiative targets $50 million of annualised pre-tax run-rate cost reductions by FY15. These savings will be achieved through a series of initiatives that are designed to improve productivity in Perpetual Private, further outsourcing where appropriate, a more efficient operating model and a reduction in property related expenditure.

Total implementation costs are expected to be around $70 million before tax (including IT asset impairment). In 2H12, the Group incurred $12.4 million after tax in restructuring costs associated with this program as well as a $12.5 million asset impairment charge (discussed above under the heading of 'Impairment of assets'). The Group advised that it expects to incur additional restructuring expenses in the next 18 months as initiatives are implemented.

In FY11, the Group commenced a business review with the objective of improving both revenue and profitability. Restructuring costs totalling $9.1 million before tax ($6.4 million after tax) were incurred to implement the review's initiatives. This restructuring expense was greater than the $4.7 million after tax restructuring expense foreshadowed by the Group in its 26 May 2011 announcement. The increase of $1.7 million after tax in restructuring costs resulted from the decision to sell the smartsuper business and capacity adjustments in the Mortgage Services business in line with its operational environment, including the impact of a major bank client's decision to reduce the scope of their outsourced services and consolidate the remaining outsourced services with another provider. The annualised net benefit before tax from the restructuring costs incurred in FY11 is expected to be around $9 million.

4. Gain on disposal of businesses

In FY12, the Group sold two businesses, smartsuper in 1H12 and a third party registry business in 2H12. Both of these sales exceeded the carrying value of each of the above businesses, resulting in a gain of $1.2 million after tax for FY12.

5. Sale costs associated with PLMS

The Group announced on 25 June 2012 that it had decided to exit the mortgage processing business (PLMS) and that the sales process was well advanced. In 2H12, the Group incurred $1.4 million after tax in sales costs associated with this process.

On 12 July 2012, the Group announced that it had entered into an agreement to sell PLMS to FAF International Property Services (Australia) Pty Limited, an affiliate of First Mortgage Services (FMS).

On 1 August 2012, the Group announced that it had completed the sale of PLMS to FMS.

The gain on disposal of PLMS will be recorded in FY13. After taking into account the sales costs incurred in FY12, the gain on sale is not expected to be material to the Group's net profit after tax.

6. EMCF gains

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

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Hold to maturity gains versus benchmark	8.5	5.4	-	-	13.9	-
Tax expense	(2.5)	(1.6)	-	-	(4.1)	-
Profit after tax(1)(2)	**6.0**	**3.8**	**-**	**-**	**9.8**	**-**

(1) Under the swap agreement, over and underperformance against the index is cash settled on a monthly basis between the Group and the EMCF.
(2) As the majority of the unrealised losses in EMCF1 were recognised at the end of FY11, its financial performance forms part of UPAT from the beginning of 1H12. The EMCF1 gains after tax for FY12 were $1.4 million.

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

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

The majority of the unrealised mark-to-market losses from prior periods in the EMCF1 portfolio have now been recovered and the remainder are expected to be recovered as the portfolio matures. The average maturity of the portfolio at the end of FY12 was around 2.1 years. The portfolio's maturity profile is considered to be appropriately structured to meet a level and pattern of redemptions consistent with past experience. The recovery rate of unrealised losses is expected to decline over time as securities in the portfolio continue to mature at their face value.

EMCF liabilities at end of	1H11 $m	FY11 $m	1H12 $m	FY12 $m
EMCF1	514.9	383.6	287.3	180.1
EMCF2	504.0	512.8	513.7	515.1
Total EMCF liabilities	**1,018.9**	**896.4**	**801.0**	**695.2**

Total funds invested in the EMCF products have reduced over the last 12 months by around 20% and by 30% over the last 18 months. Since the end of 1H09, the EMCF1 has reduced by around $1.6 billion, whilst the EMCF2 has experienced growth of around $200 million.

At the end of FY12, the carrying value of EMCF1 assets was $178.4 million (compared to $382.9 million at the end of FY11) and was at a deficit to the fair value of its liabilities by $1.7 million, compared to a deficit of $0.7 million at the end of FY11. The financial performance of EMCF1 from the beginning of FY12 is reported within UPAT in the cash & fixed income asset class in Perpetual Investments.

EMCF2 was established in July 2008. It has a similar structure to EMCF1 but has specific rules that govern the withdrawal of funds. EMCF2 assets are held on a hold-to-maturity basis for unit pricing purposes. At the end of FY12, the carrying value of EMCF2 assets was $516.2 million (unchanged from the end of FY11), which exceeded their liabilities by $1.1 million, compared to an excess of $3.4 million at the end of FY11. The financial performance of EMCF2 is reported within UPAT in the cash & fixed income asset class in Perpetual Investments.

7. Private equity proposal response costs

No such costs were incurred in FY12.

Capital Management

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

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

The Group uses a risk-based capital model based on the Basel II framework to assess its capital requirements. The model, revised during the year, requires capital to be set aside for operational, credit and market risk and any known capital commitments. At the end of FY12, the total amount of economic capital assessed by the model exceeds the Group's $57.6 million of regulatory capital needs by around 2.1 times. At the end of FY12, total economic capital requirements were $121 million, compared to around $168 million of available liquid funds.

In November 2011, ASIC released new financial requirements for responsible entities (REs) of managed investment schemes (MISs) that will apply from 1 November 2012. The changes aim to ensure REs have adequate resources to meet operating costs and appropriate alignment with the interest of investors. Under the changes, which are the first significant changes in more than a decade to the rules covering financial requirements for MISs, REs must prepare 12 month cash flow projections, which must be approved at least quarterly by directors.

To meet the new net tangible asset (NTA) capital requirements, REs must hold the greater of $150,000; 0.5% of the average value of scheme property (capped at $5 million); or 10% of the average RE revenue (uncapped).

A liquidity requirement has also been introduced, where an RE must hold at least 50% of its NTA requirement in cash or cash equivalents, and an amount equal to the NTA requirement in liquid assets.

Had the new rules been in existence as at the end of FY12, the Group's regulatory capital requirements would have increased by approximately $15 million to approximately $72.6 million. This compares to around $167 million of available liquid funds that the Group held at that time.

The Group maintains a conservative balance sheet, which has continued to be de-risked following the difficult trading environment experienced in prior periods. During FY12, the Group has continued to execute a number of strategies to strengthen its balance sheet, including:

- continuing to improve the overall credit quality and liquidity of the Group's risk assets and continuing to reduce exposure to structured products on the balance sheet;
- maintaining a committed debt facility from its long-term banking partner for $70.0 million, drawn to $45.0 million. $25.0 million remains undrawn as at 30 August 2012; and
- focusing on ensuring strong discretionary expense discipline across each business unit and support group.

Interest rate risk

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

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

Perpetual has both corporate and operational debt facilities. The corporate facility has a variable interest rate. As at 30 August 2012, there are no interest rate hedges against the drawn portion ($45.0 million) of this facility.

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

Credit risk

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

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

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

The Group limits the number of counterparties upon which it is willing to take credit risk. This can lead to concentrations of credit risk. However the Group operates under a Treasury policy that limits its financial exposure to any one counterparty. The Group does not expect any counterparties to fail to meet their obligations beyond what has been provided for in the carrying value of those assets.

Equity risk

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

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

Market risk

The Group's revenue is significantly dependent on FUM and FUA, which are influenced by equity market movements. Management calculates the expected impact on revenue, across all of its businesses, for each 1% movement in the All Ords. Based on the level of the All Ords at the end of FY12, a 1% movement in the market changes annualised revenue by approximately $1.5 million to $2.0 million. It is worth noting that this movement is not linear to the overall movement in the market. This means that as the market reaches higher or lower levels, a 1% movement may have a larger or smaller effect on revenue as FUM and FUA are comprised of both equity market and non-equity market-sensitive asset

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

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

Operational risk

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

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

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

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

Financial strength

At end of		1H11	2H11	1H12	2H12	FY11	FY12
Total equity	$m	371.8	376.1	290.0	280.5	376.1	280.5
Cash	$m	175.3	220.3	122.6	153.1	220.3	153.1
Corporate debt	$m	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)	(45.0)
Net cash	$m	130.3	175.3	77.6	108.1	175.3	108.1
Corporate debt to capital ratio (corporate debt/(corporate debt + equity)) [1]	%	10.8	10.7	13.4	13.8	10.7	13.8
Interest coverage calculation for continuing operations (EBITDA/interest expense) [2] for the period ended	times	45x	33x	47x	46x	38x	46x
Net tangible assets per share	$	4.56	4.50	2.91	3.23	4.50	3.23

(1) Excludes structured product debt, which is operational debt used to fund PPI loans.
(2) EBITDA for continuing operations represents earnings before financing costs, taxation, depreciation, amortisation of intangible assets, equity remuneration expense, and significant items.

At the end of FY12, Perpetual's gross corporate debt was $45.0 million. The Group's gearing ratio (corporate debt to capital ratio) remains low at 13.8% and is well within its stated risk appetite limit of 30%. FY12 interest coverage for continuing operations, at 46 times, was well in excess of financial covenant requirements. Financial covenants under the debt facilities include minimum shareholders' funds, leverage and interest coverage ratios and caps on operational debt. At the end of FY12, the Group was in compliance with all of its debt covenants.

At the end of FY12, the Group had a committed bank corporate debt facility of $70.0 million. At 30 August 2012, $45.0 million was drawn under this facility.

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

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

Net tangible assets per share decreased from $4.50 at the end of FY11 to $3.23 at the end of FY12, primarily due to the impact of the off-market buy-back completed in 1H12.

Cash flow

For the period ended	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Net cash from operating activities	25.1	89.4	9.5	56.9	114.5	66.4
Net cash provided by/(used in) investing activities	0.9	(16.9)	(0.8)	(6.4)	(16.0)	(7.2)
Net cash used in financing activities	(38.2)	(27.5)	(106.4)	(20.1)	(65.7)	(126.5)
Net increase/(decrease) in cash and cash equivalents	**(12.2)**	**45.0**	**(97.7)**	**30.4**	**32.8**	**(67.3)**

FY12 operating cash flows of $66.4 million, versus $114.5 million in FY11, represent the underlying cash flows from the operating businesses, including significant items. The decrease in operating cash flows of around $48 million compared to FY11 was primarily due to:

- a $55.2 million reduction in revenue, offset by
- a $10.4 million reduction in income tax paid.

Cash used in investing activities include seed fund investments, capital expenditure within the Group, mainly on software, and the acquisition of new businesses and any subsequent earn-out payments. In FY12, cash used in investing activities declined by around $9 million, from around $16 million in FY11 to around $7 million in FY12, principally as a result of:

- around $4 million of reduced investment in property, plant, equipment and software;
- around $9 million of reduced investment in acquisitions; offset by
- around $4 million of reduced proceeds from sale of investments and loans repaid.

Cash used in financing activities principally relates to the payment of the Group's dividends and share transactions involving cash. Cash flow analysis captures the dividend in the reporting period in which it is paid, not the period in which the profit was earned. Cash used in financing activities increased by $60.8 million on FY11, to $126.5 million in FY12. This was principally driven by:

- a $70 million off-market share buy-back capital management initiative completed in 1H12; offset by
- a decrease of around $27 million in cash dividends paid during FY12 compared to FY11 in response to the reduced financial performance of the Group;
- the absence of any proceeds from the issue of new shares to satisfy DRPs in FY12, compared to around $14 million of proceeds received in FY11; and
- a reduction of around $2 million in proceeds received from the sale of units in seed funds to non-controlling interests in FY12 compared to FY11.

Summary Consolidated Balance Sheet

At end of	1H11 (1) $m	FY11 (1) $m	1H12 (1) $m	FY12 (1) $m
Assets				
Cash and cash equivalents	175.3	220.3	122.6	153.1
Liquid investments	56.8	53.7	42.8	39.7
Assets held for sale	-	0.8	-	14.0
Structured products – PPI loans to customers	160.1	151.1	116.4	109.2
Goodwill and other intangibles	122.3	117.6	116.3	109.5
Software intangibles	30.2	30.7	30.4	13.2
Other assets	152.5	143.5	135.5	119.3
Total assets	**697.2**	**717.7**	**564.0**	**558.0**
Liabilities				
Corporate loan facility	45.0	45.0	45.0	45.0
Liabilities held for sale	-	0.9	-	5.6
Structured products – PPI finance facilities	162.8	151.5	119.5	111.4
Other liabilities	117.6	144.2	109.5	115.5
Total liabilities	**325.4**	**341.6**	**274.0**	**277.5**
Net assets	**371.8**	**376.1**	**290.0**	**280.5**
Shareholder funds				
Contributed equity	224.3	245.1	222.7	236.6
Reserves	53.5	44.2	32.5	24.2
Retained earnings	88.7	76.7	22.9	7.4
Total shareholder funds	**366.5**	**366.0**	**278.1**	**268.2**
Non-controlling interest	5.3	10.1	11.9	12.3
Total equity	**371.8**	**376.1**	**290.0**	**280.5**

(1) Note: excludes the offsetting asset and liability for the EMCF structured product. At 1H11, the EMCF asset was $1,020.0 million, with the liability being $1,018.9 million. At FY11, the EMCF asset was $899.1 million, with the liability being $896.4 million. At 1H12, the EMCF asset was $798.2 million, with the liability being $801.0 million. At FY12, the EMCF asset was $694.6 million, with the liability being $695.2 million. The net asset of $1.1 million at 1H11 and that of $2.7 million at FY11 have been included with Other assets. The net liability of $2.8 million at 1H12 and that of $0.6 million at FY12 have been included with Other liabilities.

Cash and cash equivalents fell from $220.3 million at the end of FY11 to $153.1 million at the end of FY12 due to the use of funds to finance the Group's $70 million off-market share buy-back capital initiative.

Liquid investments decreased due to the combination of the impact of declines in valuation and an increase in investment by minority interests in funds controlled by the Group.

Structured product loans to customers continued to decline in FY12 due to loan repayments from customers. This in turn has reduced the PPI finance facility liability by a similar amount.

Goodwill and other intangibles have decreased during FY12, primarily due to the reclassification of assets associated with PLMS to Assets held for sale. Other intangibles are amortised over their useful life.

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

	FY13 $m	FY14 $m	FY15 $m	FY16 $m
Amortisation of identifiable intangibles (1)	1.8	1.8	1.7	1.6

(1) Based on $12.2 million net book value at end of FY12.

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

Shareholder funds decreased by around $98 million during FY12, principally due to:

- the completion of the $70 million off-market share buy-back in 1H12;
- dividends paid in FY12 of around $61 million; offset by
- FY12 comprehensive income of $22.0 million; and
- a $12.2 million increase in the equity remuneration reserve, reflecting the equity remuneration expense incurred in FY12.

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

Events subsequent to balance date

PLMS

On 12 July 2012, the Group announced that it had entered into an agreement to sell its mortgage processing business known as Perpetual Lenders Mortgage Services (PLMS) to FAF International Property Services (Australia) Pty Limited, an affiliate of First Mortgage Services (FMS).

On 1 August 2012, the Group announced that it had completed the sale of PLMS to FMS.

The sale of PLMS is not expected to be material to the Group's net profit after tax.

IT Outsourcing

Perpetual's announcement to the market on 25 June 2012 included an update on the Company's plan to outsource IT as part of the 'Transformation 2015' strategy. On 29 August 2012, Perpetual entered into an IT Outsourcing arrangement with an external service provider. The arrangement is for a base period of 5 years and the total contract value for Infrastructure and Application services is $68 million over that period.

Refer to Note 15(a) of the Group's 2012 financial statements regarding 'Assets and liabilities held for sale' for additional details.

Appendix A: Segment Results

For the period ended	Operating revenue						EBITDA [1]						Profit before/after tax					
	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m	1H11 $m	2H11 $m	1H12 $m	2H12 $m	FY11 $m	FY12 $m
Perpetual Investments	112.8	112.2	99.1	91.4	225.0	190.5	47.6	46.4	43.9	39.3	94.0	83.2	38.1	35.2	37.7	34.3	73.3	72.0
Perpetual Private	56.9	59.3	56.8	57.9	116.2	114.7	11.8	10.0	8.4	7.8	21.8	16.2	7.7	5.6	4.9	3.4	13.3	8.3
Corporate Trust	28.3	28.9	26.1	25.9	57.2	52.0	11.6	12.0	9.5	9.8	23.6	19.3	10.8	10.7	8.7	8.7	21.5	17.4
Group Support Services	5.1	5.2	3.8	3.3	10.3	7.1	0.2	(1.9)	(0.6)	(2.0)	(1.7)	(2.6)	(2.0)	(4.5)	(2.5)	(4.2)	(6.5)	(6.7)
Continuing operations	**203.1**	**205.6**	**185.8**	**178.5**	**408.7**	**364.3**	**71.2**	**66.5**	**61.2**	**54.9**	**137.7**	**116.1**	**54.6**	**47.0**	**48.8**	**42.2**	**101.6**	**91.0**
Discontinued operations	24.0	16.0	16.6	18.1	40.0	34.7	5.3	0.2	1.3	3.2	5.5	4.5	4.5	(0.7)	0.6	2.6	3.8	3.2
Underlying profit before tax and significant items	227.1	221.6	202.4	196.6	448.7	399.0	76.5	66.7	62.5	58.1	143.2	120.6	59.1	46.3	49.4	44.8	105.4	94.2
Income tax expense													(18.1)	(14.4)	(14.7)	(11.9)	(32.5)	(26.6)
Underlying profit after tax (UPAT)[2] before significant items													**41.0**	**31.9**	**34.7**	**32.9**	**72.9**	**67.6**
Significant items:																		
› Gain/(loss) on sale/impairment of investments													1.6	1.9	(2.2)	(3.4)	3.5	(5.6)
› Impairment of assets													(10.6)	(4.1)	-	(12.5)	(14.7)	(12.5)
› Restructuring costs													-	(6.4)	(10.2)	(12.4)	(6.4)	(22.6)
› Gain on disposal of businesses													-	-	0.6	0.6	-	1.2
› Sale costs associated with PLMS													-	-	-	(1.4)	-	(1.4)
› EMCF gains													6.0	3.8	-	-	9.8	-
› Private equity proposal response costs													(3.0)	(0.1)	-	-	(3.1)	-
Net profit after tax (NPAT) attributable to equity holders of Perpetual Limited													**35.0**	**27.0**	**22.9**	**3.8**	**62.0**	**26.7**

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

[2] UPAT attributable to equity holders of Perpetual Limited excludes certain items, as determined by the Board and management, that are either significant by virtue of their size and impact on NPAT attributable to equity holders of Perpetual Limited, or are deemed to be outside normal operating activities. It reflects an assessment of the result for the ongoing business of the Group. UPAT has been calculated in accordance with the AICD/Finsia principles for reporting underlying profit and ASIC's Regulatory Guide 230 - Disclosing non-IFRS financial information. UPAT attributable to equity holders of Perpetual Limited has not been audited by the Group's external auditors, however the adjustments to NPAT attributable to equity holders of Perpetual Limited have been extracted from the books and records that have been audited.

Analysis of Segment Results

	1H12							2H12							FY12						
	Perpetual Investments	Private Wealth	Corporate Trust	Group Support Services	Continuing Operations	Discontinued Operations	Total	Perpetual Investments	Private Wealth	Corporate Trust	Group Support Services	Continuing Operations	Discontinued Operations	Total	Perpetual Investments	Private Wealth	Corporate Trust	Group Support Services	Continuing Operations	Discontinued Operations	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Operating revenue	99.1	56.8	26.1	3.8	185.8	16.6	202.4	91.4	57.9	25.9	3.3	178.5	18.1	196.6	190.5	114.7	52.0	7.1	364.3	34.7	399.0
Operating expenses	(55.2)	(48.4)	(16.6)	(4.4)	(124.6)	(15.3)	(139.9)	(52.1)	(50.1)	(16.1)	(5.3)	(123.6)	(14.9)	(138.5)	(107.3)	(98.5)	(32.7)	(9.7)	(248.2)	(30.2)	(278.4)
EBITDA	**43.9**	**8.4**	**9.5**	**(0.6)**	**61.2**	**1.3**	**62.5**	**(39.3)**	**7.8**	**9.8**	**(2.0)**	**54.9**	**3.2**	**58.1**	**83.2**	**16.2**	**19.3**	**-2.6**	**116.1**	**4.5**	**120.6**
Depreciation & amortisation	(2.0)	(3.1)	(1.0)	(0.6)	(6.7)	(0.8)	(7.5)	-2.3	(3.2)	(0.9)	(0.4)	(6.8)	(0.5)	(7.3)	(4.3)	(6.3)	(1.9)	(1.0)	(13.5)	(1.3)	(14.8)
Equity remuneration	(4.2)	(0.4)	0.2	0	(4.4)	0.1	(4.3)	-2.7	(1.2)	(0.2)	(0.6)	(4.7)	(0.1)	(4.8)	(6.9)	(1.6)	0	(0.6)	(9.1)	0	(9.1)
EBIT	**37.7**	**4.9**	**8.7**	**(1.2)**	**50.1**	**0.6**	**50.7**	**34.3**	**3.4**	**8.7**	**(3.0)**	**43.4**	**2.6**	**46.0**	**72.0**	**8.3**	**17.4**	**(4.2)**	**93.5**	**3.2**	**96.7**
Interest expense	-	-	-	(1.3)	(1.3)	-	(1.3)	-	-	-	(1.2)	(1.2)	-	(1.2)	-	-	-	(2.5)	(2.5)	-	(2.5)
UPBT	**37.7**	**4.9**	**8.7**	**(2.5)**	**48.8**	**0.6**	**49.4**	**34.3**	**3.4**	**8.7**	**(4.2)**	**42.2**	**2.6**	**44.8**	**72.0**	**8.3**	**17.4**	**(6.7)**	**91.0**	**3.2**	**94.2**

	1H11							2H11							FY11						
	Perpetual Investments	Private Wealth	Corporate Trust	Group Support Services	Continuing Operations	Discontinued Operations	Total	Perpetual Investments	Private Wealth	Corporate Trust	Group Support Services	Continuing Operations	Discontinued Operations	Total	Perpetual Investments	Private Wealth	Corporate Trust	Group Support Services	Continuing Operations	Discontinued Operations	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Operating revenue	112.8	56.9	28.3	5.1	203.1	24.0	227.1	112.2	59.3	28.9	5.2	205.6	16.0	221.6	225.0	116.2	57.2	10.3	408.7	40.0	448.7
Operating expenses	(65.2)	(45.1)	(16.7)	(4.9)	(131.9)	(18.7)	(150.6)	(65.8)	(49.3)	(16.9)	(7.1)	(139.1)	(15.8)	(154.9)	(131.0)	(94.4)	(33.6)	(12.0)	(271.0)	(34.5)	(305.5)
EBITDA	**47.6**	**11.8**	**11.6**	**0.2**	**71.2**	**5.3**	**76.5**	**46.4**	**10.0**	**12.0**	**(1.9)**	**66.5**	**0.2**	**66.7**	**94.0**	**21.8**	**23.6**	**(1.7)**	**137.7**	**5.5**	**143.2**
Depreciation & amortisation	(2.7)	(3.0)	(0.5)	(0.4)	(6.6)	(0.8)	(7.4)	(2.7)	(3.3)	(1.0)	(0.4)	(7.4)	(0.9)	(8.3)	(5.4)	(6.3)	(1.5)	(0.8)	(14.0)	(1.7)	(15.7)
Equity remuneration	(6.8)	(1.1)	(0.3)	(0.2)	(8.4)	0.0	(8.4)	(8.5)	(1.1)	(0.3)	(0.2)	(10.1)	0.0	(10.1)	(15.3)	(2.2)	(0.6)	(0.4)	(18.5)	0	(18.5)
EBIT	**38.1**	**7.7**	**10.8**	**(0.4)**	**56.2**	**4.5**	**60.7**	**35.2**	**5.6**	**10.7**	**(2.5)**	**49.0**	**(0.7)**	**48.3**	**73.3**	**13.3**	**21.5**	**(2.9)**	**105.2**	**3.8**	**(109.0)**
Interest expense	-	-	-	(1.6)	(1.6)	-	(1.6)	-	-	-	(2.0)	(2.0)	0.0	(2.0)	-	-	-	(3.6)	(3.6)	-	(3.6)
UPBT	**38.1**	**7.7**	**10.8**	**(2.0)**	**54.6**	**4.5**	**59.1**	**35.2**	**5.6**	**10.7**	**(4.5)**	**47.0**	**(0.7)**	**46.3**	**73.3**	**13.3**	**21.5**	**(6.5)**	**101.6**	**3.8**	**105.4**

Appendix B: Average FUM

Average FUM	1H10 $b	2H10 $b	1H11 $b	2H11 $b	1H12 $b	2H12 $b	FY11 $b	FY12 $b	% change
Australian equities	17.8	18.7	18.9	19.8	16.9	16.4	19.4	16.7	-14%
Global equities	1.3	1.3	1.1	1.0	0.9	0.9	1.0	0.9	-10%
Quantitative investments	0.9	0.4	0.1	0.0	0.0	0.0	0.1	0.0	na
Equities	**20.0**	**20.4**	**20.1**	**20.8**	**17.8**	**17.3**	**20.5**	**17.6**	**-14%**
Cash & fixed income	7.3	6.8	6.2	6.0	5.4	5.1	6.1	5.2	-15%
Other	1.1	1.2	1.2	1.2	1.1	1.1	1.2	1.1	-8%
Total	**28.4**	**28.4**	**27.5**	**28.0**	**24.3**	**23.5**	**27.8**	**23.9**	**-14%**

Appendix C: Recent ASX Announcements

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

26 August 2011	Preliminary Final Report (Appendix 4E) for the year ended 30 June 2011 PPT ASX Announcement Full Year Results PPT ASX Announcement of Buy-Back – Appendix 3C PPT PPT Off Market Share Buy-back MD&A to 30 June 2011 Financial Statements for the year ended 30 June 2011 Directors' Report to 30 June 2011 Market briefing presentation – Full year results for the year ended 30 June 2011
26 August 2011	Funds under Management as at 31 July 2011
30 August 2011	Letter and Booklet re Off Market Buy-Back
01 September 2011	Appendix 3B PPT
09 September 2011	PPT Buy-Back Booklet and Tender Forms
14 September 2011	Funds under Management as at 31 August 2011
20 September 2011	Director Appointment/Resignation – Meredith Brooks
21 September 2011	PPT - DRP Final Dividend Allocation Price
26 September 2011	PPT - Off Market Tender Buy-Back
30 September 2011	Annual Report to Shareholders – PPT Notice of Annual General Meeting/Proxy Form - PPT
05 October 2011	Perpetual targets wider product offer and revenue growth with platform administration agreement
10 October 2011	Perpetual Limited: Fund under Management as at 30 September 2011
14 October 2011	Perpetual Off Market Buy-Back Market Price 14 October 2011
17 October 2011	Final Share Buy-Back Notice – 3F- PPT PPT Buy-Back Result Announcement 17 October 2011
21 October 2011	PPT – Form 484 Lodgement with ASIC
3 November 2011	PPT - 2011 AGM Addresses to Shareholders PPT - 2011 AGM Media Release Results of Meeting - PPT
14 December 2011	Media Release: Appointment of Perpetual Investments Head and Deputy Head of Equities
25 January 2012	PPT – Funds under Management as at 31 December 2011

06 February 2012	Director Appointment/Resignation – PPT Geoff Lloyd appointed as Perpetual's Chief Executive Officer and Managing Director
07 February 2012	Final Director's Interest Notice – C. Ryan Initial Director's Interest Notice – G. Lloyd
15 February 2012	Market update
23 February 2012	Half Year Accounts - Appendix 4D
23 February 2012	Half Yearly Report and Accounts - PPT
23 February 2012	PPT - ASX Announcement Half Year Results
23 February 2012	PPT - MD and A - Half Year 31 December 2011
23 February 2012	PPT - Half Year Results Presentation 31 December 2011
21 March 2012	PPT - Response to Media Speculation
23 March 2012	PPT - DRP Allocation Price 2012 Interim Dividend
20 April 2012	PPT - Funds Under Management at 31 March 2012
14 June 2012	Response to ASX Price Query
25 June 2012	Perpetual Transformation 2015
25 June 2012	PPT - Market Briefing
29 June 2012	PPT - Letter to Shareholders
12 July 2012	PPT - Transformation 2015 Update
26 July 2012	PPT - Funds Under Management at 30 June 2012
1 August 2012	Sale of PLMS to First Mortgage Services Completed
8 August 2012	Director Resignation - Paul McClintock

Glossary

1H09	Six months ended 31 December 2008	2H09	Six months ended 30 June 2009
1H10	Six months ended 31 December 2009	2H10	Six months ended 30 June 2010
1H11	Six months ended 31 December 2010	2H11	Six months ended 30 June 2011
1H12	Six months ended 31 December 2011	2H12	Six months ended 30 June 2012
ABS	Asset backed securities	AICD	Australian Institute of Company Directors
AOFM	Australian Office of Financial Management	APRA	Australian Prudential Regulation Authority
ARCC	Audit Risk and Compliance Committee	ASX	Australian Securities Exchange
b	Billion	bps	Basis point (0.01 of 1%)
CMBS	Commercial mortgage backed securities	DPS	Dividend(s) per share
DRP	Dividend Reinvestment Plan	EBITDA	Earnings before tax, depreciation and amortisation of intangible assets, equity remuneration expense, and significant items
EMCF	Perpetual Exact Market Cash Fund	EPS	Earnings per share
Finsia	Financial Services Institute of Australasia	FUA	Funds under advice or funds under administration
FUM	Funds under management	FY09	12 months ended 30 June 2009
FY10	12 months ended 30 June 2010	FY11	12 months ended 30 June 2011
FY12	12 months ended 30 June 2012	Group	Perpetual Limited and its controlled entities (the consolidated entity) and the consolidated entity's interests in associates
m	Million	NPAT	Net profit after tax
PLMS	Perpetual Lenders Mortgage Services	PPI	Perpetual Protected Investments
RBA	Reserve Bank of Australia	RMBS	Residential mortgage backed securities
ROE	Return on equity	SMSF	Self managed superannuation fund
UPAT	Underlying profit after tax	US	United States of America