

3 December 2010

Perpetual: update on Mahogany Capital

Perpetual Trustee Company Limited (Perpetual) advises it has reached agreement with Lehman Brothers Special Financing, Inc (LBSF) to settle litigation on behalf of the more than 1,000 retail investors from Australia, New Zealand and Papua New Guinea for whom it acts as trustee in credit-linked notes issued by Mahogany Capital Limited (Mahogany).

Under the agreed settlement terms, which are subject to a number of conditions precedent, Perpetual cannot disclose key financial details of the settlement for a period of approximately six months from the agreement date of 24 November 2010. Perpetual will disclose financial details of the agreement and of the payment amounts to Mahogany investors once the conditions precedent have been satisfied and the confidentiality period has expired.

Perpetual expects Mahogany investors will receive one or more payments in late May or early June 2011.

After thoroughly considering all options and with the relevant advice of third parties and the court, Perpetual believes the settlement agreement works in the collective best interests of Mahogany investors and will ultimately deliver concrete outcomes for them.

Please refer to the '[Summary timeline of events](#)' below for background on this matter.

Investors are advised to contact Perpetual's Call Centre on 1800 022 033 or on +61 2 9229 9633 if calling from overseas.

For further information, please contact:

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Summary timeline of events

2005 - 2007

- Grange Securities, now a wholly-owned Australian subsidiary of Lehman Brothers Holdings Inc (LBH), sells Mahogany notes valued at \$125 million to retail investors
- Mahogany uses the money to purchase credit-linked notes issued by Saphir Finance plc (Saphir), which was the source of funds for paying the interest and principal on the Mahogany notes
- Saphir uses the proceeds of the notes to purchase 'collateral' to secure its obligations under the credit default swap agreement with Lehman Brothers Special Financing (LBSF) and under the relevant credit-linked notes sold to Mahogany

- The obligations of LBSF under the credit default swap agreement are guaranteed by LBH
- BNYT, a member company of the Bank of New York Mellon Corporation and a United Kingdom-based trustee, acts as the trustee for the Saphir note holders and holds security from Saphir over the collateral for the benefit of certain creditors, including the holder of the Saphir notes

2008

- LBH files for Chapter 11 Bankruptcy on 15 September 2008 and LBSF filed for Chapter 11 Bankruptcy on 3 October 2008
- No payments are made to Mahogany or ultimately to Mahogany investors from September 2008

2009

- In May, Perpetual issues a letter to BNYT demanding it recognise 'note holder priority' for Mahogany investors by selling the collateral to pay amounts owing on the Saphir notes
- BNYT advises it cannot comply due to LBSF's opposing claim in relation to the collateral
- Perpetual commences legal proceedings against BNYT in the High Court of England and Wales and LBSF applies to join the proceedings – Perpetual is successful on all accounts and the judgment confirms the 'note holder priority' provisions
- LBSF files legal proceedings against BNY in the United States Bankruptcy Court seeking declaratory judgment that the 'note holder priority' provisions in the Saphir documents are unenforceable as a matter of US law – the Court declares the 'note holder priority' provisions are unenforceable under US law – BNY appeals this decision
- LBSF appeals the English decision in the English Court of Appeal – the court again confirms the 'note holder priority' provisions - LBSF appeals again
- Perpetual enters into discussions with LBSF with a view to settling the dispute in the best interests of Mahogany investors

2010

- Perpetual reaches a settlement with LBSF which will see Mahogany investors receive one or more payments in late May or early June 2011