

LEAD & GROW

ANNUAL REPORT 2016

Perpetual 

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Want to read more of Perpetual's
market views and insights?



Visit the Perpetual website at

WWW.PERPETUAL.COM.AU/INSIGHTS

SHAREHOLDER CALENDAR

Final dividend payment
28 September 2016

Annual general meeting
3 November 2016

Interim profit and dividend announcement
23 February 2017

Final profit and dividend announcement
24 August 2017

Please note these dates
are subject to change.

Perpetual Limited
ABN 86 000 431 827



LEAD
EXTEND
EXPLORE

ABOUT US

Perpetual is a diversified and independent financial services company with a rich history and a firm focus on the future.

CONSISTENT DELIVERY OVER TIME

Three businesses – Perpetual Investments, Perpetual Private and Perpetual Corporate Trust – together make up one of Australia’s most respected financial services organisations.

We protect, manage and grow wealth through an unwavering commitment to clients and to quality.

Perpetual has \$29.4 billion in funds under management, \$12.7 billion in funds under advice and \$620.5 billion in funds under administration, at 30 June 2016.



Award-winning asset management

PERPETUAL INVESTMENTS

Perpetual Investments is one of Australia's most highly regarded and awarded investment managers, providing a broad range of investment strategies and products to individuals, advisers and institutions. Perpetual manages money across a range of asset classes including Australian and global equities, multi-asset strategies and credit and fixed income.

Perpetual's disciplined investment process has been tested and proven over time.

Perpetual actively manages investments based on fundamental research and analysis of quality, value and risk. Perpetual's aim is to choose the best quality investments at prices that represent good value, based on their potential risk and return.

To further strengthen its investment process, Perpetual constantly invests in the quality and depth of its investment team. Today, Perpetual has one of the most experienced and highly regarded investment teams in Australia.

While delivery to clients is paramount, consistent delivery has seen Perpetual Investments receive significant recognition in industry awards.



Personal wealth advisory and trustee services

PERPETUAL PRIVATE

Perpetual Private provides tailored, holistic financial advice and solutions to high net worth individuals, families and community-based organisations. Fordham, Perpetual Private's professional services arm, acts exclusively for private business owners and their families to manage their businesses and build and protect their wealth.

Perpetual Private's hallmark is the breadth of services available to clients. Perpetual Private's advisers provide strategic advice on superannuation

and retirement planning, general investment, asset protection, insurance, tax management, estate planning, succession planning and philanthropy.

As one of Australia's largest managers of philanthropic funds, Perpetual Private advises more than 1,100 charitable trusts and endowment funds and is proud to be one of Australia's largest independent distributors of funds to Australia's not-for-profit sector.

Perpetual Private has also become a key partner in the prudent and effective management of native title trusts, a new and growing part of its business.

One of Perpetual Private's strengths is its expertise in protecting and growing wealth over the long term - reflected in client relationships spanning generations of the same family. Perpetual Private has been awarded the highest rank by Euromoney for a range of advisory services, and has \$12.7 billion in funds under advice (at 30 June 2016).



Corporate fiduciary services

PERPETUAL CORPORATE TRUST

Perpetual Corporate Trust is the leading provider of corporate trustee services to the funds management sector and debt capital markets in Australia. In debt capital markets, its clients include banks, large financial institutions, non-bank lenders and loan originators.

Having been involved in the Australian securitisation industry since its inception in the 1980s, Perpetual Corporate Trust plays a leading role in growing the industry and managing regulatory and technological change. For example, Perpetual Corporate Trust's enhanced data services, such as ABSPerpetual, provide

the link between issuers, the Reserve Bank of Australia and the investment community. Perpetual Corporate Trust is innovating into data analytics and insights backed by digital technologies.

The acquisition of The Trust Company in late 2013 has cemented Perpetual Corporate Trust's position as the leading provider of fiduciary solutions to the funds management sector, and it services a broad range of clients across multiple asset classes. Perpetual is the only trustee with licences to provide corporate trustee services in Australia and Singapore.

Perpetual Corporate Trust's extensive knowledge of financial markets, its trustee heritage and the expertise and experience of its team allow it to be the trusted partner of some of the world's largest financial institutions. Perpetual Corporate Trust has \$620.5 billion in funds under administration (at 30 June 2016).

A FINE BALANCE

“Sustainability is not a buzzword for the team who work at Perpetual. We have a flagship managed fund that has served thousands of investors for 50 years – and it is our job to nurture and grow a business that has already lived for 130 years.”



Dear Shareholder

Looking at the year we have all experienced, what strikes me is that driving the progress of a listed company is a constant search for balance. We need to be constantly balancing the needs of shareholders, customers and our people – while protecting and shaping the future of the business.

At Perpetual we strive to achieve that balance in a very structured way – we have a scorecard that sets stringent and rigorous financial goals. It's designed to ensure we meet the needs of our shareholders for income whilst always investing in the business for the future. A balanced approach also requires us to manage capital carefully. We are a low debt company because it reduces the risks to our business and for our shareholders during uncertain business and economic cycles.

We are a company that is prudent with your capital and one that will continue to invest in the capabilities of the business.

The financial results we have delivered have enabled a 6% increased dividend this year on last year, and this report contains more details on the financial strength of the company.

Geoff Lloyd's CEO report provides examples of how we are investing in all aspects of the business under our Lead & Grow strategy. Among other initiatives, we are investing in new partner growth in our Fordham professional services business, in new data opportunities in Perpetual Corporate Trust and in expanding the products that offer investors access to the expertise in Perpetual Investments.

A PEOPLE BUSINESS

We regularly, methodically and independently measure two very important aspects of our business. The Net Promoter Score measures client advocacy – how our clients rate our service and the solutions we provide. Employee engagement is another important component of our balanced scorecard. It provides an opportunity for our people to give feedback on how they feel about their work environment and their level of engagement as part of the Perpetual team.

We have achieved improvements across the company on both employee engagement and Net Promoter Score metrics over the past few years. In my view it is no coincidence we have improved our financial results at the same time.

CULTURE AS A STRATEGY

I remain convinced the sense of balance in our business extends beyond the management disciplines we have put in place – scorecards, independent measurement and so on. I believe it is ingrained in our people. We are constantly looking at ways we can improve our services by listening and better understanding our clients, shareholders, people and business partners.

Across all parts of the business there is a strong and enduring fiduciary culture that guides the way we treat all stakeholders in the business.

Interestingly, this year we have hosted some top thinkers from Stanford University, experts in the implications the digital revolution has for philanthropy and civil society. We are now in a world where managing data is a key way to provide solutions to your clients. But we also live in a world where the security and ethical handling of that data is key.

I believe our long-held fiduciary values – that we can be trusted to act in the interests of our clients – will continue to give us a distinct advantage in a more digital world – but also in all aspects of the business.

CONSISTENCY, RESILIENCE, TRUST

The consistency and conservatism of our approach creates another virtuous circle – clients know the way we work, how we manage money, the values of the organisation. They know we are built to last, that we aim to be resilient in tough times.

I believe next year – as our Lead & Grow strategy continues to be implemented in a disciplined and well-planned manner – our balanced approach will remain a key factor in maintaining the trust of all of our stakeholders. In the end, that trust is our company's greatest asset.

THANK YOU

I wish to thank all shareholders, my board colleagues and the whole team at Perpetual for their support this year.



Peter Scott
Chairman

2016 HIGHLIGHTS

DELIVERING FOR OUR PEOPLE, CLIENTS, SHAREHOLDERS AND COMMUNITY



PEOPLE

- Highest Perpetual employee engagement score in five years.
- Workplace flexibility is highly valued, with 76% of our people enjoying greater balance in their lives through flexible working practices.
- The superannuation contribution paid to Perpetual employees was increased, as part of a multi-year program to pay superannuation increases ahead of the legislated schedule to help our people plan for and live well in retirement.



COMMUNITY

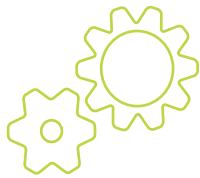
- Perpetual Private launched a new Native Title and Community Trust to provide cost-effective investment options to indigenous communities with native title determination.
- Perpetual announced its inaugural IMPACT Philanthropy Partnership grants, which saw eight not-for-profit organisations receive a total of \$6.2 million.
- A.S. Patric' won Australia's most prestigious literary award, the Miles Franklin Literary Award, for his novel *Black Rock White City*. Perpetual is trustee of the award.



RECOGNITION

- Winner, Best Australian Share Fund - Money magazine's Best of the Best Awards.
- Winner, Australian Equities Provider - SMSF Adviser SMSF Awards.
- Winner, Responsible Investments: Wholesale Ethical SRI Fund - Money Management / Lonsec Fund Manager of the Year Awards.
- Best New Product Launch: Diversified Real Return Fund - Financial Standard's MAX Awards.
- Marketing Team of the Year - Financial Standard's MAX Awards.

2016 saw Perpetual record the highest profitability, dividend, client advocacy and employee engagement scores in five years.



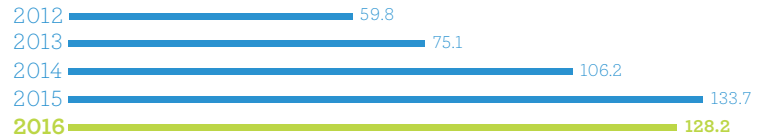
BUSINESS

- Highest score in five years for client advocacy, one of the most reliable measures of client satisfaction and loyalty.
- 93% of Perpetual's flagship funds were in the first or second quartile of the performance tables over five years¹.
- The Perpetual SHARE-PLUS Long-Short Fund exceeded \$1 billion in funds under management.
- Perpetual acquired Fintuition and its related brands, a specialist wealth advice group focusing on healthcare professionals.
- Perpetual was selected as trustee for the biggest listing on the Singapore stock exchange since 2013. Perpetual is the only trustee with licences to provide trustee services in both Australia and Singapore.

1. Perpetual flagship funds included in the Mercer wholesale surveys - quartile ranking.

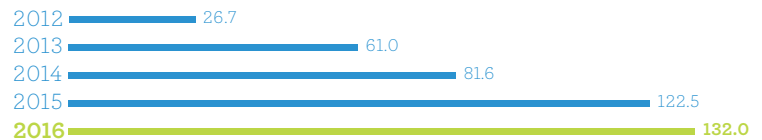
UNDERLYING PROFIT AFTER TAX

Year ended 30 June (\$m)



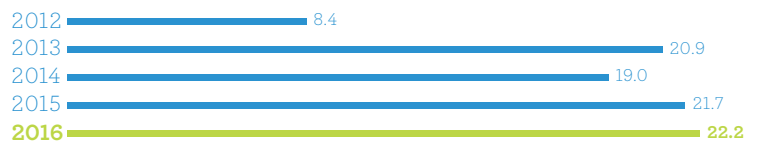
NET PROFIT AFTER TAX (NPAT)

Year ended 30 June (\$m)



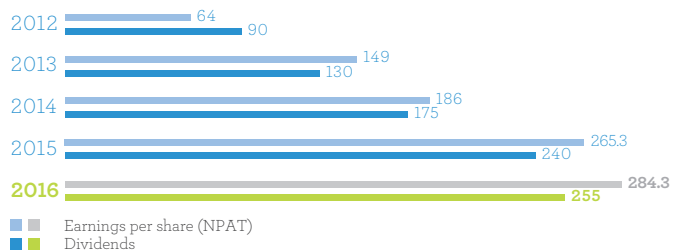
RETURN ON EQUITY ON NPAT

Year ended 30 June (%)



EARNINGS PER SHARE ON NPAT VERSUS DIVIDENDS

Year ended 30 June (cents per share)



A STRATEGY THAT'S



“Achieving these positive results in a volatile market is testament to the disciplined execution of our strategy.”

PAYING DIVIDENDS

Dear Shareholder

I am pleased to report that Perpetual has achieved a solid result in FY16 despite challenging conditions. Statutory net profit after tax (NPAT) of \$132 million is up 8% on FY15, and our dividend payment increased by 6% over the same period. This means shareholders receive a fully franked final dividend of 130 cents per share, taking fully franked dividends for the year to 255 cents per share.

Achieving these positive results in a volatile market is testament to the disciplined execution of our strategy – indeed the greater diversity of our revenue streams that underpin this result are a key part of that strategy.

We've diversified and invested in the business, while remaining true to our underlying values – values which have stood the test of time. The success of Perpetual's Industrial Share Fund – turning 50 this year – validates our disciplined approach to value investment. In that fund, as in all our others, we continue to avoid investments that don't pass our value and quality filters.

A particular highlight for me over the past year was seeing a great result from our investment in and commitment to the native title segment. Perpetual has been named Trustee-in-Waiting for the Noongar Boodja Trust, the largest and most comprehensive agreement to settle Aboriginal interests over land in Australia's history. It's an opportunity that's been welcomed across the business – as we wrote in our tender letter:

'We recognise the opportunity acting as Trustee gives us. To learn more of the Noongar culture every day. Patiently, respectfully, in country, listening to Noongar Elders, representatives and others talk about their history and their future, their connection to country. That, to us, is what partnership means.'

THE YEAR THAT WAS

Looking back at the year that was, we measure ourselves on the outcomes we have delivered for our shareholders, our clients and our people. Not only have we issued our largest dividend to shareholders in five years, we have also achieved our highest profitability, client advocacy and employee engagement scores over that period. I think this is an outstanding result.

Perpetual is a more diversified business than ever before, and this provides significant scope to succeed in a changing market. I'm confident we have positioned the business well with a strong balance sheet and the agility to capitalise on future opportunities – whether they're in new investment products, data services, the digital space, native title, philanthropy or financial planning services for private clients and professionals.

PERPETUAL INVESTMENTS

Perpetual Investments delivered a solid result despite the effect of market volatility over the year. The results it achieved flowed from disciplined investing, tight cost control and long-term outperformance of the funds.

6%

TOTAL DIVIDENDS 255 CENTS PER SHARE, UP 6% ON FY15

\$132m

STATUTORY NET PROFIT AFTER TAX \$132 MILLION, UP 8%

Lead & Grow

LEAD & GROW STRATEGY DELIVERING EARLY MOMENTUM

Our Australian equities team proved particularly strong in the extensions from our core equity strategy. To take one example, the Perpetual SHARE-PLUS Long-Short Fund exceeded \$1 billion in funds under management this year. With arguably the most highly regarded Australian equities capability in Australia, we are well positioned to capitalise on the growing pool of superannuation assets.

We are pleased with the performance of our Diversified Real Return Fund and Global Share Fund, both achieving top quartile performance over five years, and with our Pure Credit Alpha Fund delivering rolling three year outperformance. As envisaged in our Lead & Grow strategy, our proven value investing philosophy and increasing diversity across our multi-asset, global equities, and credit and fixed income capabilities has allowed us to bring more relevant solutions to our clients and maintain good revenue margins.

PERPETUAL PRIVATE

Our target for Perpetual Private has always been clear – we want it to be Australia’s premier high net worth advice business. We took more steps in that direction this year with further moves in our targeted segmentation strategy – for example in the medical segment where the acquisition of Fintuition and its education arm, The Private Practice, really bolstered our offer.

We added six new partners to our Fordham accounting business, which has a strategy to grow up the Eastern seaboard and saw revenue grow strongly. The results of these moves – and the hard work of our people – can be seen in Perpetual Private’s six consecutive halves of positive net flows and the welcoming of more than 100 new clients this year.

PERPETUAL CORPORATE TRUST

This year we saw Perpetual Corporate Trust again deliver a very strong and sustainable performance. Perpetual Corporate Trust is continuing to diversify the business – there’s now a good balance of income between Fund Services and Trust Services.

Within those areas, we have seen Managed Funds grow strongly via the managed investment trust (MIT) structure – as a result of record inbound capital flows and the continuing attractiveness of commercial property and infrastructure in Australia. There is an opportunity for us to lock down a sustainable annuity revenue stream from that business.

In Trust Services the big driver was the higher margin residential mortgage-backed security (RMBS) business – we saw compound annual growth of 7% in the mortgage market. The ABS (asset-backed securities) business was boosted by auto and consumer financing.

In the Trust Services business, we are also seeing the fruits of genuine innovation. Data services is a new growth area that is underpinned by our trusted position as the repository of vast amounts of mortgage data but realised through the latest digital data analytics technologies. We are only beginning to scratch the surface as to the ways in which we can package this service to meet the varied needs of our clients.

BIG STEPS FORWARD, A LONG WAY TO GO...

At Perpetual, we start work every day with some great advantages – a long, rich heritage, a strong brand, a proven value proposition for our clients and a great team of people.

In this, the first year of our Lead & Grow strategy, we’ve tried to build on those strengths, to shape a business our clients and partners can rely on in good times – and when times are tough.

This year has seen greater volatility and therefore greater uncertainty for our clients. It has tested our business model, but we’re really proud of the service we’ve delivered for clients and the returns we’ve delivered for shareholders.

Our strategy is deeply understood across our company – and that clarity and focus, along with our values of integrity, partnership and excellence, give me great confidence in the next steps on that strategic path and in what we can deliver for clients, shareholders and our people as a result.



Geoff Lloyd

Chief Executive Officer
and Managing Director

“Perpetual is a more diversified business than ever before, and this provides significant scope to succeed in a changing market. I’m confident we have positioned the business well with a strong balance sheet and the agility to capitalise on future opportunities.”



INTEGRITY
PARTNERSHIP
EXCELLENCE

2016 GROUP RESULTS

In 2016, Perpetual achieved a solid result for shareholders in challenging conditions, while investing in the business for further growth.

FIVE YEAR PROFILE

| | | JUNE 2012 ^{10,11} | JUNE 2013 ^{10,11} | JUNE 2014 ^{10,11} | JUNE 2015 ¹¹ | JUNE 2016 |
|--|---------|----------------------------|----------------------------|----------------------------|-------------------------|-----------|
| Total revenue ¹ | \$m | 357.9 | 362.9 | 443.2 | 500.7 | 489.6 |
| Underlying EBITDA ² | \$m | 110.5 | 128.1 | 180.6 | 217.2 | 208.4 |
| Underlying profit before tax ³ | \$m | 85.4 | 105.0 | 151.3 | 188.6 | 177.9 |
| Underlying profit after tax (UPAT) ³ | \$m | 59.8 | 75.1 | 106.2 | 133.7 | 128.2 |
| Net profit after tax (NPAT) ⁴ | \$m | 26.7 | 61.0 | 81.6 | 122.5 | 132.0 |
| Earnings per share (UPAT) ⁵ | cents | 143 | 183 | 242 | 290 | 276 |
| Earnings per share (NPAT) ⁵ | cents | 64 | 149 | 186 | 265 | 284 |
| Return on average shareholders' equity - UPAT ⁶ | % | 18.9 | 25.8 | 24.7 | 23.7 | 21.6 |
| Return on average shareholders' equity - NPAT ⁷ | % | 8.4 | 20.9 | 19.0 | 21.7 | 22.2 |
| Dividend per share - ordinary ⁸ | cents | 90 | 130 | 175 | 240 | 255 |
| Total equity at 30 June | \$m | 280.5 | 323.7 | 556.4 | 583.7 | 605.5 |
| Capital expenditure | \$m | 10.2 | 14.2 | 6.6 | 15.8 | 20.7 |
| Market capitalisation | \$m | 961 | 1,486 | 2,207 | 2,252 | 1,915 |
| No. of shares on issue - weighted average ⁹ | m | 41.7 | 41.0 | 43.8 | 46.2 | 46.4 |
| No. of shares on issue at 30 June ⁹ | m | 42.0 | 42.0 | 46.6 | 46.6 | 46.6 |
| Share price at 30 June | \$ | 22.90 | 35.40 | 47.38 | 48.36 | 41.12 |
| Share price range for year | \$ low | 19.24 | 22.30 | 34.76 | 41.69 | 37.87 |
| | \$ high | 27.35 | 45.54 | 52.93 | 58.24 | 50.66 |

1. Excludes income from structured investments.

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

3. Excludes significant items and costs of major strategic initiatives.

4. Attributable to equity holders of Perpetual Limited.

5. Diluted earnings per share calculated using the weighted average number of ordinary shares and potential ordinary shares on issue.

6. Calculated using underlying profit after tax.

7. Calculated using net profit after tax.

8. Dividends declared with respect to the financial year.

9. Includes ordinary shares and potential ordinary shares.

10. Total revenue, underlying EBITDA, underlying profit before tax and underlying profit after tax exclude discontinued operations.

11. In FY16, the Board approved a proposal to change the recognition of realised gains or losses resulting from the disposal of Perpetual's seed fund investments from significant items to UPAT. Comparatives have been adjusted to reflect this change.

Up 8%

NET PROFIT AFTER TAX
OF \$132 MILLION

255 cents

FULLY FRANKED FULL YEAR
DIVIDEND UP 6% PER SHARE

FINANCIAL RESULTS

Perpetual's statutory net profit after tax for the period ended 30 June 2016 was \$132 million, an increase of 8% on FY15. Underlying profit after tax was \$128.2 million, 4% lower than in FY15.

Perpetual generated \$494.2 million in operating revenue, a decrease of 1% on FY15.

The FY16 result reflects a more volatile investment environment and lower average equity markets compared to prior periods. Average levels of the Australian equity market were 6% lower in FY16, which reduced average funds under management and advice.

The S&P/ASX All Ordinaries Price Index (All Ords) closed at 5,310 on 30 June 2016, down 3% on the closing level of 5,451 on 30 June 2015. The average All Ords in FY16 (5,238) was down 6% on the average All Ords in FY15 (5,562). It is the volatility within the last 12 months that has dented investor confidence the most, and impacted valuations.

This was partially offset by underlying new business growth (positive flows and net new clients), cost discipline and synergies from the acquisition of The Trust Company.

FINAL DIVIDEND

The Board determined a FY16 fully franked final dividend of 130 cents per share, bringing total fully franked dividends for the 12 months to 255 cents per share.

This is up 6% on the past year, reflecting the strength of Perpetual's business model and the diversity of revenue and earnings from across the business. The final dividend is payable on 28 September.

LEAD, EXTEND, EXPLORE

On 1 July 2015, Perpetual formally commenced its new Lead & Grow strategy, following the successful three year Transformation 2015 strategy.

The Lead & Grow strategy seeks to 'Lead' in each of the Group's core businesses, 'Extend' into logical adjacencies and 'Explore' new markets and new ventures for the Group over the long term to capture sustainable growth.

The Lead & Grow strategy is delivering good early momentum, and Perpetual is pleased with progress one year into this multi-year strategy.

MARKET ENVIRONMENT

Two of the main drivers of total revenue are the value of funds under management (FUM) in Perpetual Investments and funds under advice (FUA) in Perpetual Private, which are primarily influenced by the level of the Australian equity market. At the end of FY16, Perpetual Investments' FUM and Perpetual Private's FUA were around 80% and 56% exposed to equity markets respectively.

DISCIPLINED
PROCESS
STRONG
LONG-TERM
PERFORMANCE

\$118.1m

PROFIT BEFORE TAX, DOWN 6%

\$29.4bn

FUNDS UNDER MANAGEMENT

Outperform

93% OF PERPETUAL'S FLAGSHIP FUNDS
ARE IN THE FIRST OR SECOND QUARTILE
OVER FIVE YEARS¹

1. Perpetual flagship funds included in the Mercer
wholesale surveys - quartile ranking.



Perpetual Investments delivered a solid result. In volatile markets, we continued our unwavering commitment to our proven value investment process.

FINANCIAL

Perpetual Investments generated revenue of \$227.9 million in FY16, \$12.1 million or 5% lower than FY15. The key factor that reduced revenue in FY16 was lower average FUM, as a result of prior period distributions (30 June 2015) and a lower average level of the All Ords which decreased by 6% on FY15. Higher performance-related fees in FY16 and good cost control positively offset this.

The average FUM in FY16 was \$30 billion, 7% lower than in FY15.

Average FUM revenue margins in FY16 were 75 basis points (bps), 1 bps higher than in FY15. Excluding higher performance fees in FY16, underlying average margins were relatively stable on FY15.

In FY16 total expenses for Perpetual Investments, comprising operating expenses, depreciation, amortisation and equity remuneration, of \$109.8 million, were \$4.6 million lower than in FY15. The decrease in expenses was primarily due to lower variable remuneration, savings associated with the in-house manufacturing of the global equities fund in FY15, and one-off launch costs for the initial public offering of Perpetual Equity Investment Company Limited incurred in FY15.

FOCUS

Under Perpetual's Lead & Grow strategy, Perpetual Investments will focus on growth in contemporary strategies where there has been strong client demand and where there is excellent capability - including global equities, multi-asset strategies and credit and fixed income.

The consistent delivery of investment performance for clients is paramount in Perpetual Investments. At 30 June 2016, 93% of Perpetual's flagship funds were in the top or second quartile over five years, and over a 10 year performance horizon 83% are first or second quartile.

DELIVERY

Perpetual Investments is seeing solid progress on its strategy. Perpetual remains strong in its core business of Australian equities, with more room for growth. Through Lead & Grow, Perpetual Investments has delivered more contemporary offers to the market through Perpetual's multi-asset, credit and fixed income, and global equities capabilities.

The Perpetual Diversified Real Return Fund had positive net flows and exceeded its targeted return of CPI +5%p.a. The fund is top quartile. Perpetual also has an established and well-respected team on track to deliver substantial opportunities in multi-asset.

Perpetual is confident in its diversification into global equities and Perpetual has achieved top quartile performance over 3 and 5 year periods and been included on 15 platforms.

Contemporary fixed income and credit strategies continue to deliver strong returns with the Active Fixed Interest Fund having top quartile performance over 1, 3, 5 and 10 years. Perpetual's Pure Credit Alpha Fund is generating rolling 3-year outperformance of +3 to +5%.

PERPETUAL INVESTMENTS

| FOR THE 12 MONTH PERIOD ENDED 30 JUNE | 2016 \$M | 2015 \$M | CHANGE \$M | CHANGE % |
|---------------------------------------|--------------|--------------|--------------|------------|
| Revenue | 227.9 | 240.0 | (12.1) | (5) |
| Total expenses | (109.8) | (114.4) | 4.6 | 4 |
| Profit before tax | 118.1 | 125.6 | (7.5) | (6) |

TARGETED INVESTMENT AND DIVERSIFIED GROWTH

\$167.6m

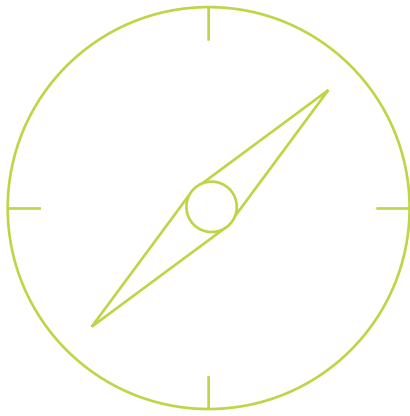
REVENUE, UP 1%

\$34.2m

PROFIT BEFORE TAX, DOWN 9%

\$12.7bn

FUNDS UNDER ADVICE



Perpetual Private has achieved six consecutive halves of positive net flows and net client growth. And we continue to invest for future growth.

FINANCIAL

Perpetual Private's revenue was \$167.6 million, up 1%, or \$1.3 million on FY15. Its profit before tax was \$34.2 million, down 9%.

The main drivers of FY16 revenue were higher non-market-related activity (tax and accounting - Fordham and property), higher funds management activity, and lower average FUA due to equity market declines. These were partially offset by positive net inflows.

Perpetual Private's market-related revenue margin was flat in FY16 compared to FY15.

Total expenses, made up of operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Private in FY16 were \$133.4 million, \$4.6 million or 4% higher than in FY15. The increase on FY15 was primarily due to investments in Lead & Grow initiatives, continued investment into Fordham, and integration costs associated with the acquisition of Fintuition, one of Australia's leading business, financial and lifestyle educators for medical specialists.

Perpetual Private's funds under advice at the end of FY16 were \$12.7 billion, \$0.4 billion lower than FY15, primarily due to lower equity markets, offset by positive net flows and net new clients.

FOCUS

Under Perpetual's Lead & Grow strategy, Perpetual Private will maintain its strategic objective to lead in high net worth advice and wealth management to its key client segments of 'business owners', 'established wealthy' and 'professionals'. These segments represent 75% of the high net worth market and play to Perpetual Private's existing strengths across research, investments, advisory expertise, fiduciary services and philanthropy.

DELIVERY

Lead & Grow initiatives are well underway. For the third consecutive year, Perpetual Private delivered growth in the net number of high net worth clients and not-for-profit and philanthropy clients.

Perpetual Private has made strong progress growing its presence within the medical sector. During the year, Perpetual acquired Fintuition and its education arm The Private Practice. The acquisition has allowed Perpetual to offer greater breadth of services across accounting, tax, estate planning and financial advice to meet the specific advice needs of medical specialists.

Perpetual continues to invest in Fordham following strong, ongoing demand. Growth up the Eastern seaboard has commenced with six new partners in Sydney and further opportunity for growth over the coming year.

Perpetual Private also launched a new Native Title and Community Trust, to provide cost-effective investment options to indigenous communities with native title determination.

Perpetual was named Trustee-in-Waiting for the Noongar Boodja Trust, the largest and most significant of its kind in Australia. Perpetual's role as trustee will be to work with the community to help achieve their aspirations - and oversee the growing asset base, expected to reach \$1.3 billion over time and up to 320,000 hectares of land.

Perpetual is one of Australia's largest managers of philanthropic funds, with \$2.4 billion in funds under advice for charitable trusts and endowment funds at 30 June 2016 and more than \$118 million distributed through the year.

During the year, Perpetual announced its inaugural IMPACT Philanthropy Partnership grants, which saw eight not-for-profit organisations receive a total of \$6.2 million. This followed the announcement in 2015 of IMPACT Philanthropy, bringing together the best thinking from Perpetual and The Trust Company.

PERPETUAL PRIVATE

| FOR THE 12 MONTH PERIOD ENDED 30 JUNE | 2016 \$M | 2015 \$M | CHANGE \$M | CHANGE % |
|---------------------------------------|-------------|-------------|--------------|------------|
| Revenue | 167.6 | 166.3 | 1.3 | 1 |
| Total expenses | (133.4) | (128.8) | (4.6) | (4) |
| Profit before tax | 34.2 | 37.5 | (3.3) | (9) |

STRONG
FOUNDATIONS
INNOVATION
FOCUS

\$34.1m

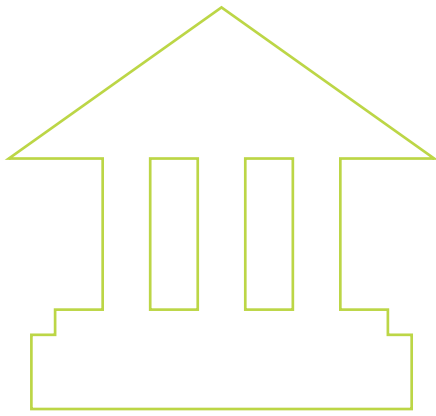
PROFIT BEFORE TAX, UP 9% ON FY15

\$87.3m

REVENUE, UP 6%

\$620.5bn

FUNDS UNDER ADMINISTRATION



Perpetual Corporate Trust has delivered strong results from growth in securitised assets and benefited from capital flows into property and infrastructure assets.

FINANCIAL

Perpetual Corporate Trust's FY16 profit before tax was \$34.1 million, \$2.8 million or 9% higher than FY15. This increase on FY15 reflected growth in the underlying Trust and Fund Services businesses. The cost to income ratio in FY16 was 61%, 1% lower than FY15.

Perpetual Corporate Trust generated total revenues of \$87.3 million in FY16, \$4.8 million or 6% higher than FY15. The main driver of increased revenue was the continued growth in the securitisation market in Australia and inbound capital flows into property and infrastructure investments.

In FY16 Trust Services revenue was \$48.3 million, \$4.5 million or 10% higher than in FY15. The primary drivers for the increase on FY15 were:

- the improvement in the securitisation markets for asset-backed securities in Australia, in particular, auto finance and consumer finance markets, and
- further uptake of Perpetual's data services solution in response to changes mandated by the Reserve Bank of Australia to standardise and enhance reportable data in the securitisation market.

Revenue also benefited from higher average FUA levels of RMBS in FY16 compared to FY15.

In FY16 Fund Services revenue was \$39 million, \$0.8 million or 2% higher than in FY15, driven primarily by continued inbound capital flows into property and infrastructure investments. Excluding the previously disclosed \$2 million of non-recurring revenue in FY15, the underlying Fund Services business grew by 8% in FY16.

Perpetual Corporate Trust incurred total expenses of \$53.2 million in FY16, comprising operating expenses, depreciation, amortisation and equity remuneration expenses. Total expenses were \$2 million or 4% higher than in FY15.

FOCUS

Under Lead & Grow, Perpetual Corporate Trust's primary opportunity is to harness growth in its market leading businesses. Trust Services will enhance its market leading position in the provision of trust, custody and standby services to debt capital and securitisation markets through the provision of value-added services via its data services capability, including ABSPerpetual. Fund Services will continue to leverage its scale in the market and expand into adjacencies such as providing responsible entity and investment management services to managed investment trusts.

DELIVERY

Perpetual Corporate Trust has continued its diversification into the adjacencies of trust management, standby servicing, document custody and accounting, allowing its debt market services to continue to grow.

Data services represents a new growth segment with regulatory reporting and digital insights representing key opportunities.

The managed fund services business has also delivered a more diversified business and strong growth.

During the year, Perpetual announced it had been selected as trustee for the biggest listing on the Singapore stock exchange since 2013. Perpetual is the only trustee with licences to provide trustee services in both Australia and Singapore. This marks the fifth listed trusteeship for Perpetual (Asia).

PERPETUAL CORPORATE TRUST

| FOR THE 12 MONTH PERIOD ENDED 30 JUNE | 2016 \$M | 2015 \$M | CHANGE \$M | CHANGE % |
|---------------------------------------|-------------|-------------|---------------|-------------|
| Revenue | 87.3 | 82.5 | 4.8 | 6 |
| Total expenses | (53.2) | (51.2) | (2.0) | (4) |
| Profit before tax | 34.1 | 31.3 | 2.8 | 9 |

DIRECTORS' REPORT

For the year ended 30 June 2016

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:



The Directors present their report together with the consolidated financial report of Perpetual Limited, ('Perpetual' or the 'Company') and its controlled entities (the 'consolidated entity'), for the year ended 30 June 2016 and the auditor's report thereon.

PETER B SCOTT

BE (Hons) MEngSc (Age 62)

CHAIRMAN AND INDEPENDENT DIRECTOR

Appointed Director in July 2005 and Chairman on 26 October 2010. Mr Scott was formerly the Chief Executive Officer of MLC, an Executive General Manager of National Australia Bank and held a number of senior positions with Lend Lease. He is Chairman of Perpetual Equity Investment Company Limited and a Non-executive Director of Transurban Group. Mr Scott is also an advisory board member of Igniting Change. He is Chairman of Perpetual's Nominations Committee.

Mr Scott has more than 20 years of senior business experience in publicly listed companies and extensive knowledge of the wealth management industry.

Listed company directorships held during the past three financial years:

- Stockland Corporation Limited (from August 2005 to August 2016)
- Perpetual Equity Investment Company Limited (from August 2014 to present)
- Transurban Group (from March 2016 to present)

PHILIP BULLOCK

BA MBA GAICD Dip Ed (Age 63)

INDEPENDENT DIRECTOR

Appointed Director in June 2010. Mr Bullock was formerly Vice President, Systems and Technology Group, IBM Asia Pacific, Shanghai, China. Prior to that he was Chief Executive Officer and Managing Director of IBM Australia and New Zealand. His career with IBM spanned almost 30 years in the Asia Pacific region. Mr Bullock is a Non-executive Director of Hills Limited and formerly of Healthscope Limited and CSG Limited. He also provided advice to the Federal Government, through a number of organisations, most notably as Chair of Skills Australia. He is a member of Perpetual's Audit, Risk and Compliance Committee and People and Remuneration Committee.

Mr Bullock brings to the Board extensive management experience in Australia and Asia in technology, client relationships, marketing, talent development and government.

Listed company directorships held during the past three financial years:

- CSG Limited (from August 2009 to November 2015)
- Hills Limited (from June 2014 to the present)



SYLVIA FALZON

MIR (Hons) BBus GAICD SF Fin (Age 51)

INDEPENDENT DIRECTOR

Appointed Director in November 2012. Ms Falzon has worked in the financial services industry for over 27 years and during that time has held senior executive positions responsible for institutional and retail funds management businesses, both domestically and internationally. Her roles have included Head of Business Development at Aviva Investors Australia, an equity partner at Alpha Investment Management and Chief Manager International Sales & Service at National Mutual Funds Management/AXA. Ms Falzon is currently a Non-executive Director of SAI Global Limited, Regis Healthcare Limited, Cabrini Health Ltd and the Museums Board of Victoria. She is Chairman of Perpetual's People and Remuneration Committee and a member of Perpetual's Investment Committee and Nominations Committee.

Ms Falzon brings to the Board her extensive knowledge and insight in the development of asset management businesses with a particular focus on marketing, sales/distribution, client service and operations including risk and compliance.

Listed company directorships held during the past three financial years:

- SAI Global Limited (from October 2013 to present)
- Regis Healthcare Limited (from September 2014 to present)



NANCY FOX

BA JD (Law) FAICD (Age 59)

INDEPENDENT DIRECTOR

Appointed Director in September 2015. Ms Fox has more than 30 years' experience in financial services, securitisation and risk management gained in Australia, the US and across Asia. A lawyer by training, she was Managing Director for Ambac Assurance Corporation from 2001 to 2011 and previously Managing Director of ABN Amro Australia from 1997 to 2001. She is currently a director of HCF Life, APA Ethane Limited and Kinetic Superannuation Ltd and also sits on the Boards of the Taronga Conservation Society Australia and the Australian Theatre for Young People. She is a member of Perpetual's Audit, Risk and Compliance Committee and People and Remuneration Committee.

Ms Fox brings to the Board a deep knowledge of developing and leading successful financial services businesses and extensive experience with securitisation, regulatory frameworks, risk management and governance.



IAN HAMMOND

BA (Hons) FCA FCPA GAICD (Age 58)

INDEPENDENT DIRECTOR

Appointed Director in March 2015. Mr Hammond was a partner at PricewaterhouseCoopers for 26 years and during that time held a range of senior management positions including lead partner for several major financial institutions. He has previously been a member of the Australian Accounting Standards Board and represented Australia on the International Accounting Standards Board. Mr Hammond is a Non-executive Director of Citibank Australia and Stadium Australia Group and a board member of a number of not-for-profit organisations including Mission Australia and Chris O'Brien Lifehouse. He is Chairman of Perpetual's Audit, Risk and Compliance Committee and a member of Perpetual's Investment Committee and Nominations Committee.

Mr Hammond has deep knowledge of the financial services industry and brings to the Board expertise in financial reporting and risk management.

DIRECTORS' REPORT

For the year ended 30 June 2016



P CRAIG UELAND

BA (Hons and Distinction) MBA (Hons)
CFA (Age 58)

INDEPENDENT DIRECTOR

Appointed Director in September 2012. Mr Ueland was formerly President and Chief Executive Officer of Russell Investments, a global leader in multi-manager investing. He previously served as Russell's Chief Operating Officer, Chief Financial Officer, and Managing Director of International Operations, which he led from both London and the firm's headquarters in the US. Earlier in his career he opened and headed Russell's first office in Australia. Mr Ueland chairs the Endowment Investment Committee for The Benevolent Society, is a member of the board of the Stanford Australia Foundation and the Supervisory Board of OneVentures Innovation and Growth Fund II. He is Chairman of Perpetual's Investment Committee and a member of Perpetual's Audit, Risk and Compliance Committee and Nominations Committee.

Mr Ueland brings to the Board detailed knowledge of global financial markets and the investment management industry, gleaned from more than 20 years as a senior executive of a major investment firm, along with a strong commitment to leadership development and corporate strategy development and execution.



GEOFF LLOYD

Barrister at Law LLM (Distinction) (UTS)
Adv Mgt Program (Harvard) (Age 48)

CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR

Mr Lloyd joined Perpetual in August 2010 and was appointed CEO and Managing Director in February 2012. In 2012, Mr Lloyd and his senior leadership team rolled out Perpetual's Transformation 2015 strategy designed to simplify, refocus and grow Perpetual. Growth initiatives put in place as part of this strategy include the successful acquisition of The Trust Company in December 2013 and the launch of a new Global Equity capability in September 2014.

Prior to being appointed CEO and Managing Director, Mr Lloyd was Group Executive of Private Wealth at Perpetual, where he led the development and implementation of the growth strategy for this business. He took on the additional responsibility of head of retail distribution in September 2011.

Before commencing at Perpetual, Mr Lloyd held a number of senior roles at BT Financial Group and St. George's Wealth Management business including General Manager, Advice and Private Banking and Group Executive Wealth Management.

Mr Lloyd was appointed Chair of the Financial Services Council (FSC) in July 2016. Prior to this appointment, he held a number of positions in the FSC including Co-Deputy Chairman, Deputy Chairman of the FSC's Administration & Risk Board Committee, Deputy Chairman of the FSC's Nominations Board Committee and Co-Chairman of the FSC's Advice Board Committee.

Mr Lloyd is an Advisory Board member of The Big Issue, and the Patron of the Financial Industry Community Aid Program. He is a patron of the Emerge Foundation and also sits on the University of Technology Sydney Law Advisory Board.

Mr Lloyd has a Masters of Law (Distinction) from the University of Technology, Sydney and has completed the Harvard University Advanced Management Program.

DIRECTORS WHO RETIRED DURING THE YEAR

PAUL V BRASHER

BEC (Hons) FCA (Age 66)

INDEPENDENT DIRECTOR

Appointed Director in November 2009. On 31 August 2015, Mr Brasher retired as a Director of Perpetual Limited, as Chairman of Perpetual's Audit, Risk and Compliance Committee and as a member of the Nominations Committee and People and Remuneration Committee.

ELIZABETH M PROUST AO

BA (Hons) LLB FAICD (Age 65)

INDEPENDENT DIRECTOR

Appointed Director in January 2006. On 5 November 2015, Ms Proust retired as a Director of Perpetual Limited, as Chairman of Perpetual's People and Remuneration Committee and as a member of Perpetual's Audit, Risk and Compliance Committee and Nominations Committee.

COMPANY SECRETARIES

JOANNE HAWKINS

BCom LLB Grad Dip CSP FGIA GAICD

Appointed Company Secretary in June 2003. Ms Hawkins is head of Perpetual's Legal, Compliance and Company Secretariat teams.

Prior to joining Perpetual, Ms Hawkins was Assistant Company Secretary of Macquarie Bank and Ord Minnett and was Company Secretary, National Bank of the Solomon Islands. Ms Hawkins has also worked as a solicitor and legal adviser in New Zealand.

GLENDIA CHARLES

Grad Dip Corp Gov ASX Listed Entities GIA (Cert)

Joined Perpetual in August 1994. Ms. Charles was appointed Assistant Company Secretary of Perpetual in 1999 and Deputy Company Secretary in 2009. She has over 20 years' experience in company secretarial practice and administration and has worked in the financial services industry for over 30 years.

DIRECTORS' MEETINGS

The number of Directors' meetings which Directors were eligible to attend (including meetings of Board Committees) and the number of meetings attended by each Director during the financial year to 30 June 2016 are shown in the table below.

| DIRECTOR | BOARD | | AUDIT, RISK AND COMPLIANCE COMMITTEE (ARCC) | | INVESTMENT COMMITTEE | | NOMINATIONS COMMITTEE | | PEOPLE AND REMUNERATION COMMITTEE (PARC) | |
|-------------|--------------------|----------|---|----------|----------------------|----------|-----------------------|----------|--|----------|
| | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED | ELIGIBLE TO ATTEND | ATTENDED |
| P B Scott | 10 | 9 | - | - | - | - | 2 | 2 | - | - |
| P V Brasher | 3 | 2 | 1 | 1 | - | - | - | - | 1 | 1 |
| P Bullock | 10 | 10 | 4 | 4 | 1 | 1 | - | - | 6 | 6 |
| S Falzon | 10 | 10 | 2 | 2 | 4 | 4 | 2 | 2 | 5 | 5 |
| N Fox | 7 | 7 | 4 | 4 | - | - | - | - | 4 | 4 |
| I Hammond | 10 | 10 | 6 | 6 | 3 | 3 | 2 | 2 | - | - |
| E M Proust | 5 | 5 | 2 | 2 | - | - | - | - | 2 | 2 |
| P C Ueland | 10 | 9 | 6 | 6 | 4 | 4 | 2 | 2 | - | - |
| G Lloyd | 10 | 10 | - | - | - | - | - | - | - | - |

- Ian Hammond was appointed as Director of Perpetual Limited effective 24 March 2015 and a member of the ARCC from 12 May 2015.
- Paul Brasher resigned from the Perpetual Limited Board and the ARCC, PARC and Nominations Committee on 31 August 2015.
- Ian Hammond was appointed as Chairman of the ARCC and a member of the Investment Committee and Nominations Committee from 31 August 2015.
- Sylvia Falzon retired from the ARCC and was appointed to the PARC on 28 September 2015.
- Philip Bullock was appointed to the ARCC and resigned from the Investment Committee on 28 September 2015.
- Nancy Fox was appointed as a Director of Perpetual Limited effective 28 September 2015 and a member of the ARCC and PARC on the same date.
- Elizabeth Proust retired from the Perpetual Limited Board at the conclusion of the Annual General Meeting on 5 November 2015 and from the ARCC, PARC and Nominations Committee on the same date.
- Sylvia Falzon was appointed as Chairman of the PARC and became a member of the Nominations Committee on 5 November 2015.

DIRECTORS' REPORT

For the year ended 30 June 2016

CORPORATE RESPONSIBILITY STATEMENT

Perpetual's Corporate Responsibility Statement, which meets the requirements of ASX Listing Rule 4.10.3, is located on the Corporate Governance page of Perpetual's website at www.perpetual.com.au/About/Corporate-Governance

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were funds management, portfolio management, financial planning, trustee, responsible entity and compliance services, executor services, investment administration and custody services.

There were no significant changes in the nature of activities of the consolidated entity during the year.

REVIEW OF OPERATIONS

A review of operations is included in the Operating and Financial Review section of the Annual Report.

For the financial year to 30 June 2016, Perpetual reported a net profit after tax of \$132.0 million compared to the net profit after tax for the financial year to 30 June 2015 of \$122.5 million.

The reconciliation of net profit after tax to underlying profit after tax for the 2016 financial year is as follows:

| | 30 JUNE 2016 \$'000 | 30 JUNE 2015 \$'000 |
|--|---------------------------|---------------------------|
| Net profit after tax attributable to equity holders of Perpetual Limited | 132,005 | 122,484 |
| Significant items after tax | | |
| TrustCo integration costs | - | 11,327 |
| Net recoveries ¹ | (3,659) | - |
| Gain on sale of business | (153) | (113) |
| Underlying profit after tax attributable to equity holders of Perpetual Limited | 128,193 | 133,698 |

1. Relates to TrustCo.

Underlying profit after tax (UPAT) attributable to equity holders of Perpetual Limited reflects an assessment of the result for the ongoing business of the consolidated entity as determined by the Board and management. 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 our external auditor; however, the adjustments to net profit after tax attributable to equity holders of Perpetual Limited have been extracted from the books and records that have been audited.

During the year, a change in the classification of realised gains or losses resulting from the disposal of Perpetual's seed fund investments has been made. These activities form a part of the Group's operating model, and the disposal of investments occurs on a regular basis. Therefore, it was determined that it was more appropriate to reflect these gains (or losses) as a part of UPAT rather than as significant items. Comparatives have been restated.

DIVIDENDS

Dividends paid or provided by the Company to members since the end of the previous financial year were:

| | CENTS PER SHARE | TOTAL AMOUNT \$'000 | FRANKED ¹ / UNFRANKED | DATE OF PAYMENT |
|--|--------------------|---------------------------|-------------------------------------|--------------------|
| Declared and paid during the financial year 2016 | | | | |
| Final 2015 ordinary | 125 | 58,218 | Franked | 25 Sep 2015 |
| Interim 2016 ordinary | 125 | 58,218 | Franked | 24 Mar 2016 |
| Total | | 116,436 | | |
| Declared after the end of the financial year 2016 | | | | |
| After balance date, the Directors declared the following dividend: | | | | |
| Final 2016 ordinary | 130 | 60,547 | Franked | 28 Sep 2016 |
| Total | | 60,547 | | |

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

The financial effect of dividends declared after year end are not reflected in the 30 June 2016 financial statements and will be recognised in subsequent financial reports.

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

EVENTS SUBSEQUENT TO REPORTING DATE

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

LIKELY DEVELOPMENTS

Information about the business strategies and prospects for future financial years of the consolidated entity are included in the Operating and Financial Review. Further information about business strategies, future prospects, likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity because the information is commercially sensitive.

ENVIRONMENTAL REGULATION

The consolidated entity acts as trustee or custodian for a number of property trusts which have significant developments throughout Australia. These fiduciary operations are subject to environmental regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The licence requirements relate to air, noise, water and waste disposal. The responsible entity or manager of each of these property trusts is responsible for compliance and reporting under government legislation.

The consolidated entity is not aware of any material non-compliance in relation to these licence requirements during the financial year.

The consolidated entity has determined that it is not required to register to report under the *National Greenhouse and Energy Reporting Act 2007*, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the financial year.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company and its controlled entities indemnify the current Directors and officers of the companies against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as

Directors of the consolidated entity, except where the liabilities arise out of conduct involving a lack of good faith. The Company and its controlled entities will meet the full amount of any such liabilities, including costs and expenses.

INSURANCE

In accordance with the provisions of the *Corporations Act 2001*, the Company has a directors and officers' liability policy which covers all Directors and officers of the consolidated entity. The terms of the policy specifically prohibit disclosure of details of the amount of the insurance cover and the premium paid.

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S DECLARATION

The CEO and Managing Director, and the CFO declared in writing to the Board, in accordance with section 295A of the *Corporations Act 2001*, that the financial records of the Company for the financial year have been properly maintained, and that the Company's financial reports for the year ended 30 June 2016 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

DIRECTORS' REPORT

REMUNERATION REPORT

For the year ended 30 June 2016

Dear Shareholder

This year I was delighted to be appointed to the position of Chairman, People and Remuneration Committee for your Board and accordingly am pleased to present our Remuneration Report for the year ended 30 June 2016. My appointment comes at an exciting time as we look to enhance our people agenda as a key enabler to execute on our Lead & Grow strategy.

REMUNERATION PHILOSOPHY

Our remuneration philosophy at Perpetual is designed to create value for our shareholders, clients and employees, to differentiate rewards based on performance in line with our risk management framework, and to provide competitive rewards that attract, motivate and retain talented people.

FY16 RESULTS

In financial year 2016 (FY16), Perpetual delivered solid financial results in a challenging environment. We achieved a NPAT result of \$132.0 million, being an 8% increase on our FY15 result. The Perpetual Board has assessed the FY16 performance for each category of the Company's balanced scorecard of annual objectives, which are aligned to Perpetual's long-term strategic goals.

Highlights of note are the results of our people engagement and Net Promoter Score (NPS). We are pleased to report both measures have increased significantly over the year despite difficult and volatile market conditions. Our people engagement score is positioned in the top quartile of organisations in Australia and 10% above our peers in financial services which is an outstanding result. We also achieved a strong increase in our client NPS. This has come about as a direct result of our dedicated focus on what matters most to our clients and creating a more valued client experience. We believe these measures are leading indicators underpinning our future growth.

EMPLOYEE BENEFITS

Continued strong financial performance has enabled us to further improve our benefits to our people in areas we believe are meaningful and contribute to our ongoing ability to attract and retain talent. In addition to increasing employee superannuation contributions to 12% by 2020, this year we introduced superannuation contributions on the unpaid portion of parental leave. These undertakings reflect Perpetual's strong belief that the purpose of our industry is to help Australians save for and live well in retirement, and we are pleased to be leading by example.

We also enhanced our health benefits by offering a personal health check and establishing a mental health program to improve awareness and management of mental health conditions.

NEW PERFORMANCE AND REWARD FRAMEWORK

During the year, we also undertook a review of our performance and reward frameworks. We identified an opportunity to evolve our approach to be more meaningful, transparent and simpler for our people while driving greater alignment of our people to shareholder value creation.

In FY17, two of our divisions will be involved in a pilot of a new Performance and Reward Framework aimed at creating more frequent performance and career discussions, and increasing the level of individual ownership and empowerment of performance and development. The pilot will inform our decision whether to roll out the new framework throughout Perpetual in FY18 and creates an opportunity for us to test and learn from new approaches.

In relation to our CEO and Group Executives, we have also introduced a new Variable Incentive Plan. This new plan combines our existing short-term incentive (STI) and long-term incentive (LTI) arrangements into a simplified variable incentive. The primary purpose of the new plan underpins your Board's commitment to further align your shareholder experience with our CEO and Group Executives through increased share ownership.

While full reporting of the new Variable Incentive Plan is not required until next year, we have taken the opportunity to provide details of the new arrangements in our report this year. Refer Section 7 on page 50.

Our Remuneration Report has been prepared with the aim of providing you with important information and, as always, we welcome your feedback.

Sylvia Falzon

Chairman, People and Remuneration Committee

This Report sets out the remuneration arrangements for all Key Management Personnel (KMP), being the CEO and Managing Director, and the Group Executives (Executives), and the Non-executive Directors of Perpetual Limited for the year ended 30 June 2016. The information in this Remuneration Report has been audited against the disclosure requirements of section 308(3C) of the *Corporations Act 2001*.

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DIRECTORS' REPORT

REMUNERATION REPORT

For the year ended 30 June 2016

1. REMUNERATION OVERVIEW

1.1. Key Management Personnel (KMP)

Below are Perpetual's KMP this year:

| NAME | POSITION | TERM AS KMP IN FY16 |
|--|---|-----------------------------|
| CEO and Managing Director | | |
| Geoff Lloyd | Chief Executive Officer and Managing Director | Full year |
| Current Group Executives | | |
| Christopher Green | Group Executive, Perpetual Corporate Trust | Full year |
| David Kiddie ¹ | Group Executive, Perpetual Investments | Commenced 22 February 2016 |
| Gillian Larkins | Chief Financial Officer | Full year |
| Rebecca Nash | Group Executive, People and Culture | Full year |
| Mark Smith | Group Executive, Perpetual Private | Full year |
| Former Group Executive | | |
| Michael Gordon | Group Executive, Perpetual Investments | Ceased 24 February 2016 |
| Current Non-executive Directors | | |
| Peter Scott | Chairman | Full year |
| Philip Bullock | Independent Director | Full year |
| Sylvia Falzon | Independent Director | Full year |
| Nancy Fox | Independent Director | Commenced 28 September 2015 |
| Ian Hammond | Independent Director | Full year |
| Craig Ueland | Independent Director | Full year |
| Former Non-executive Directors | | |
| Paul Brasher | Independent Director | Ceased 31 August 2015 |
| Elizabeth Proust | Independent Director | Ceased 5 November 2015 |

1. David Kiddie was appointed as Group Executive, Perpetual Investments succeeding Michael Gordon.

1.2 Remuneration outcomes in FY16

A summary of the remuneration outcomes for the KMP for FY16 is set out below.

| REMUNERATION COMPONENT | FY16 OUTCOMES |
|---------------------------|---|
| Fixed remuneration | |
| CEO and Managing Director | <p>Over the last four years, Mr Lloyd, as CEO and Managing Director has led an outstanding transformation program at Perpetual, successfully acquired and integrated The Trust Company and has now launched our Lead & Grow strategy. This is on the back of continued growth year on year in NPAT, increasing employee engagement to top levels in Australian financial services and strong improvements in client advocacy.</p> <p>In May 2015, Perpetual reviewed Executive remuneration as part of the annual remuneration review process to determine salaries for FY16. Increases across the team ranged from 0% to 5%. The CEO's fixed remuneration was increased by 3% effective 1 September 2015.</p> <p>In November 2015, Perpetual conducted an out of cycle review of the CEO's remuneration following receipt of newly released market remuneration data from public reports of a defined peer group. Relevant benchmark information indicated that the CEO's fixed remuneration was below market median and Perpetual sought to address this as part of the review. Consequently the Perpetual Board increased Mr Lloyd's fixed remuneration by 7% to \$1,250,000 effective 1 October 2015. The remuneration level now effectively recognises the skill and experience he brings to the role.</p> <p>More information on the remuneration of the CEO and Managing Director, including a summary of contractual arrangements, is on page 49.</p> |

| REMUNERATION COMPONENT | FY16 OUTCOMES |
|------------------------------------|--|
| Group Executives | Incumbent Group Executives were awarded average fixed remuneration increases of 2% in FY16 based on market salary movements (inclusive of employer superannuation contributions for FY16). |
| Short-term incentives | |
| STI pool | <p>Given the 8% increase in NPAT from FY15 and performance against other measures in the Company balanced scorecard, Perpetual was able to fully fund the FY16 divisional scorecard outcomes.</p> <p>A summary of the FY16 balanced scorecard, including an assessment of performance against the measures, is set out on page 35.</p> |
| CEO and Managing Director | <p>Based on the Board's assessment of the performance of the Managing Director, a short-term incentive of \$1,320,362 was awarded to Mr Lloyd. Of this, 40% (or \$528,145) will be deferred in the form of Perpetual shares with vesting after two years subject to service conditions and claw-back provisions.</p> <p>This equates to an achievement rate of 107% of his short-term incentive target for FY16, compared to an achievement rate of 103% awarded in FY15.</p> |
| Group Executives | The Board approved short-term incentive awards to Group Executives ranging between 91% and 116% of their respective targets, based on the recommendations of the CEO and Managing Director, 40% of the short-term incentive award for each Group Executive for FY16 will be deferred in the form of Perpetual shares with vesting after two years subject to service conditions and claw-back provisions. Details of STI outcomes for Group Executives are included in the remuneration tables on pages 38 and 42. |
| Long-term incentives | |
| CEO and Managing Director | <p>Effective 1 October 2012, Mr Lloyd was awarded an LTI grant (2012 LTI) of 37,383 shares for which vesting was subject to Relative TSR and EPS growth performance targets over a three year period.</p> <p>100% of Mr Lloyd's LTI grant vested on 1 October 2015 with Perpetual's Relative TSR performance over the performance period ranked at the 78th percentile and EPS growth over the period being above 10%.</p> <p>Details of the LTI arrangements at Perpetual are on page 38.</p> |
| Group Executives | <p>As a result of the 2012 LTI vesting outcomes (as mentioned above for the CEO and Managing Director), Group Executives' vestings were as follows:</p> <ul style="list-style-type: none"> • 13,806 shares vested to Mr Green • 11,894 shares vested to Mr Smith • 4,800 shares vested to Ms Larkins • 4,237 shares vested to Ms Nash. |
| Non-executive Director fees | |
| | <p>The total remuneration available to Non-executive Directors remains at \$2,250,000, as approved by shareholders at the 2006 Annual General Meeting.</p> <p>Total fees paid to Non-executive Directors in FY16 were \$1,285,450 which represented an increase of \$55,392 from the total fees of \$1,230,058 paid in FY15. This increase was a conscious decision to overlap service of departing Directors and ensure continuation of knowledge as new Directors joined the Perpetual Board.</p> <p>Further detail on Non-executive Director remuneration is provided on page 52.</p> |

1.3 Executive remuneration changes for FY17

Following adoption of Perpetual's Lead & Grow strategy, performance and reward arrangements across Perpetual were reviewed during the year. As a result of the review, a new Variable Incentive Plan for our Executives was introduced with effect from 1 July 2016. Whilst the new incentive plan does not impact on the FY16 remuneration arrangements disclosed in this Report, for the benefit of our shareholders, the new approach is detailed in Section 7 of this Report.

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2. GOVERNANCE

2.1 The People and Remuneration Committee

The role of the People and Remuneration Committee (PARC) is to evaluate and monitor people and remuneration practices to ensure the performance of the organisation is optimised with an appropriate level of governance while balancing the interests of shareholders, clients and employees.

The PARC operates under delegated authority from the Board. The PARC's terms of reference are available on our website (www.perpetual.com.au) and are shown alongside.

The terms of reference are intentionally broad, encompassing remuneration as well as the key elements of Perpetual's people strategy. This enables the PARC to focus on ensuring high quality talent management, succession planning and leadership development at all levels of Perpetual.

The PARC members for FY16 were:

- [Elizabeth Proust](#)
(Chairman - retired 5 November 2015)
- [Sylvia Falzon](#)
(Chairman - appointed Chairman 5 November 2015)
- [Paul Brasher](#)
(retired 31 August 2015)
- [Philip Bullock](#)
(appointed 31 August 2010) and
- [Nancy Fox](#)
(appointed 28 September 2015)

The PARC met ten times during the year (six times for committee meetings and four times for workshops including all Directors to reflect on and discuss the performance and reward framework changes). A standing invitation exists to all Directors to attend PARC meetings. Attendance at these meetings is set out on page 23 of the Directors' Report.

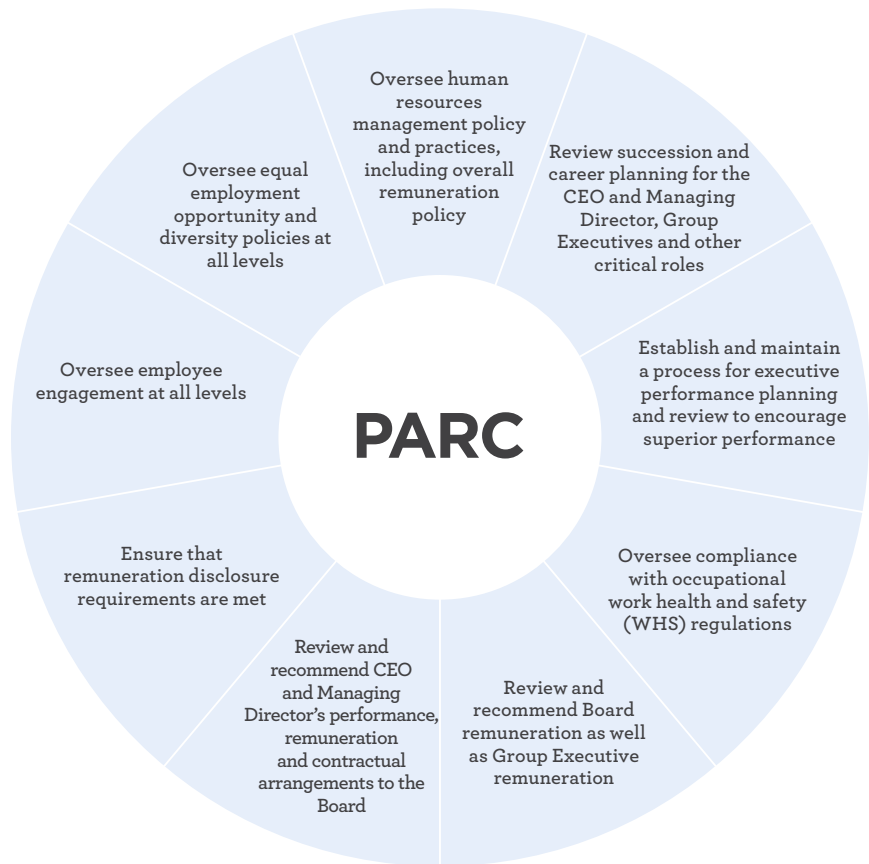
At the PARC's invitation, the CEO and Managing Director and Group Executive People and Culture attended meetings, except where matters associated with their own performance evaluation, development and remuneration were considered.

The PARC considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including remuneration advisers.

2.2 Use of external advisers

In March 2011, the PARC appointed PricewaterhouseCoopers (PwC) as its principal remuneration adviser to provide specialist advice on executive remuneration and other Group-wide remuneration matters.

During the year, PwC provided general information to the PARC in respect of Executive and Non-executive Director remuneration practices and trends. This information did not include any specific recommendations in relation to the remuneration or fees paid to KMP. In addition, PwC was engaged during the year to support the review of Perpetual's Performance and Reward framework.



3. OUR PEOPLE

3.1 Diversity and inclusion

Perpetual has a long-standing commitment to diversity and inclusion and recognises the value of attracting and retaining employees with different backgrounds, knowledge, experiences and abilities. Perpetual strongly believes that promoting diversity amongst employees and creating an inclusive environment results in tangible improvements to corporate performance, and better results for shareholders, due to the benefits of diversity of thought. Perpetual has an established Diversity and Inclusion strategy that is reviewed and refreshed regularly to ensure continued progress and impact. The strategy includes three focus areas: Flexibility, Gender Equality and Cultural Diversity.

Recognised as a key lever in driving a high performance environment, Perpetual's continued commitment to workplace flexibility ensures employees can successfully balance life, family and client commitments, and the organisation can continue to attract and retain a diverse and inclusive workforce. To further support flexibility, in 2016, *Flexibility is Perpetual* was launched – a program focused on embedding flexible work practices. Revised processes, tools, education and communication approaches were developed to support an 'all roles flexible environment'. Perpetual's increased focus on flexibility has resulted in an extremely positive experience for our people, with 81% of our people strongly believing that Perpetual cultivates a culture that embraces flexibility (2016 Employee Engagement Survey).

This year has also seen further progress towards our target of achieving a minimum of 38% women in senior leader roles (currently 36%).

For further information about Diversity and Inclusion at Perpetual, refer to the Corporate Responsibility Statement, 2016 which can be found on Perpetual's website: <https://www.perpetual.com.au/About/Corporate-Governance>.

3.2 Employee benefits




At Perpetual we are passionate about protecting and growing the wealth of all Australians and positioning them for financial security in retirement. With our strengthened business performance we are pleased to be able to extend improved benefits to our employees to help them reach their personal goals.

A key part of the Company's superannuation policy is to increase employer contributions to 12% by 2020 (by 0.5% increments applied annually). As highlighted in our report last year, effective 1 September 2015 all employees received the first 0.5% increase in employer superannuation contributions to 10%, with the next 0.5% increase to 10.5% to be effective 1 September 2016.

During FY16, we introduced superannuation benefits for employees on parental leave. All eligible employees returning to work from parental leave will now receive superannuation payments on the unpaid portion of their parental leave, up to a maximum of 40 weeks. These initiatives are about helping our employees to build stronger superannuation balances.

With the aim of increasing employee share ownership, last year Perpetual introduced the One Perpetual employee share grant program with the first grant of \$1,000 being made to employees on 1 September 2015 following our strong financial performance.

Enhancing our employee benefits portfolio has been a priority over the past 12 months as we strive to improve the wellbeing of our employees through our range of Wealth, Health and Lifestyle benefits outlined below.

| | | |
|---|--|---|
| <p>Wealth</p>  | <ul style="list-style-type: none"> \$1,000 share grant Superannuation to 12% by 2020 Superannuation on parental leave Free financial health check Discounted financial advice | <ul style="list-style-type: none"> Salary continuance insurance Death & TPD insurance Salary packaging Talent Referral Incentive Plan Investment employee offers |
| <p>Health</p>  | <ul style="list-style-type: none"> Employee health checks Flu vaccinations BUPA health plans Meditation and yoga sessions | <ul style="list-style-type: none"> Mental health program Employee assistance programs Healthy workplace snacks |
| <p>Lifestyle</p>  | <ul style="list-style-type: none"> Contribution leave Purchased leave Flexible working Shopping and lifestyle discounts | <ul style="list-style-type: none"> Education assistance Paid parental leave Parental return to work bonus Sabbatical leave |

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4. OUR REMUNERATION PHILOSOPHY AND STRUCTURE

Perpetual's remuneration philosophy is designed to align with and support the achievement of our Lead & Grow strategy, whilst ensuring that remuneration outcomes are aligned with our shareholder interests and are market competitive. To that end, we have created a set of guiding principles that direct our remuneration approach.

4.1 Remuneration principles

Our remuneration policy is designed around the following guiding principles:

1. The remuneration structure should attract, motivate and retain the desired talent within Perpetual.
2. The remuneration structure should balance value creation for shareholders, clients and employees.
3. The remuneration structure should facilitate the meaningful accumulation of Perpetual shares that drives an ownership mentality.
4. The remuneration structure should embed sound risk management.
5. The remuneration structure should be simple, transparent and easily understood and administered.
6. The remuneration structure should be supported by a governance framework that avoids conflict of interest and ensures proper controls are in place.

The PARC has also adopted a number of practices that collectively contribute to each remuneration principle.

4.2 Remuneration policy and practice

ALIGNMENT WITH SOUND RISK MANAGEMENT

When determining the variable (or 'at risk') elements of remuneration, we ensure that risk management is a key performance metric using specific performance goals and targets. Sound risk management practices include:

- deeming employees to be ineligible for the payment of STI if they exhibit poor risk behaviours
- incorporating goals that are specifically related to risk management performance measures in individual employee scorecards; these goals are approved by the Board and cascade down to all employees
- performing scenario testing on potential outcomes under any new incentive plans
- regularly reviewing the alignment between remuneration outcomes and performance achievement for existing incentive plans
- deferring a portion of STI into Perpetual shares to align remuneration outcomes with longer-term Company performance
- including provisions in incentive plans for the Board under the recommendation of the PARC to adjust incentive payments downwards, if required, to protect Perpetual's financial soundness, or to respond to significant unexpected or unintended consequences
- including a provision for the Board under the recommendation of the PARC to 'claw back' deferred STI shares in certain circumstances, and
- continuous monitoring of remuneration outcomes by the Board, the PARC and management, to ensure that results are promoting behaviours that support Perpetual's long-term financial soundness and the desired culture.

LINK TO LEAD & GROW STRATEGY

The remuneration structure for the Executives is designed to drive our Lead & Grow strategy with outcomes being aligned to our shareholders. In FY16, the structure was as follows:

| | | | |
|--------------------|--------------------|---|--|
| Fixed | Fixed remuneration | Set in consideration of the total target remuneration package and the desired remuneration mix for the role, taking into account the remuneration of market peers, internal relativities and the skill and expertise brought to the role. Calculated on a 'total cost to company' basis, consisting of cash salary, superannuation, packaged employee benefits and associated fringe benefits tax (FBT). | Paid as cash |
| Variable 'at risk' | STI | 60% of STI awards are paid in cash for meeting annual targets aimed at delivering our longer-term strategic plan. Awards are based on individual, divisional and Company (CEO: Company and Individual only) performance against stretch targets using financial and longer-term, value-creation measures. | |
| | Deferred STI | 40% of the STI award is deferred into Perpetual shares for two years, with vesting subject to service conditions and claw-back provisions. | Awarded as equity subject to performance hurdles and/or service conditions |
| | LTI | Granted in the form of performance rights and are subject to service conditions and performance targets measured over a three year period. | |

MINIMUM SHAREHOLDING GUIDELINE

A minimum shareholding guideline applies to the CEO and Managing Director and Group Executives. The purpose of this guideline is to strengthen the alignment between Executives' and shareholders' interests in the long-term performance of Perpetual. Under this guideline, Executives are expected to establish and hold a minimum shareholding to the value of:

- CEO and Managing Director: 1.5 times fixed remuneration
- Group Executives: 0.5 times fixed remuneration

The value of each vested performance right or share still held in trust for the Executive is treated as being equal to 50% of that share or performance right, as this represents the value of the share in the hands of the Executive after allowing for tax. Unvested shares or performance rights do not count towards the target holding.

A five year transition period, from the later of 1 July 2010 or the start of employment, gives Executives reasonable time to meet their shareholding guideline. Where the guideline is not met after the required time period, Executives may be restricted from trading vested shares.

As at 30 June 2016, progress towards the minimum shareholding target for each Executive was as follows:

| | VALUE OF ELIGIBLE SHAREHOLDINGS AS AT 30 JUNE 2016 ¹ \$ | VALUE OF MINIMUM SHAREHOLDING GUIDELINE \$ | DEADLINE TO MEET MINIMUM SHAREHOLDING GUIDELINE |
|----------------------------------|---|---|--|
| CEO and Managing Director | | | |
| G Lloyd | 1,248,362 | 1,875,000 | 6 February 2017 |
| Group Executives | | | |
| C Green | 1,521,687 | 240,007 | 1 October 2013 |
| D Kiddie | - | 375,000 | 22 February 2021 |
| G Larkins | - | 347,000 | 3 October 2017 |
| R Nash | 82,281 | 295,483 | 15 August 2017 |
| M Smith | - | 299,000 | 19 November 2017 |

1. Value is calculated through reference to the closing Perpetual share price at 30 June 2016 of \$41.12.

HEDGING AND SHARE TRADING POLICY

Consistent with Corporations Act obligations, Perpetual's Share Trading Policy prohibits employees and Directors from entering into hedging arrangements in relation to Perpetual securities. Perpetual employees and Directors cannot trade in financial products issued over Perpetual securities by third parties or trade in any associated products which limit the economic risk of holding Perpetual securities. Share dealing can only take place during agreed trading windows throughout the year and is subject to certain approvals (as set out below).

SHARE DEALING APPROVAL

Any share dealings, whether these shares are held personally or were acquired as part of remuneration, require prior approval. The table below shows the approval required:

| PERSON WISHING TO DEAL IN SHARES | APPROVAL REQUIRED FROM |
|--|---|
| CEO and Managing Director | Chairman |
| Director | Chairman |
| Chairman | Nominated Director |
| Group Executive | CEO and Managing Director |
| An employee likely to have price-sensitive information | CEO and Managing Director/Company Secretary |

FIXED REMUNERATION INCREASES FOR FY17

Following a review of market fixed remuneration increase trends, a budget for fixed remuneration increases was set at 3% for all employees, including the Executives.

The Board has reviewed the remuneration package for the Executives, and has decided to provide fixed remuneration increases averaging 2.3% (inclusive of the increased employer superannuation contributions) for FY17.

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ASSET MANAGER REMUNERATION

Asset manager remuneration is developed in consideration of the same principles that apply to all remuneration across Perpetual.

The strategy for asset manager remuneration differentiates between asset managers managing what the Company considers to be funds in a mature state as compared to those managing funds in the growth phase. The Company may also vary its practices for differing asset classes such as equities or credit.

In all cases, the Company seeks to align asset manager remuneration with longer-term value creation for our clients which in turn is expected to benefit shareholder outcomes. The remuneration arrangements for asset managers managing funds in the growth phase is structured to appropriately recognise and reward the importance of growth in revenue. For asset managers managing mature funds, the focus is more biased to rewarding longer-term investment performance as measured against the relevant benchmark.

Asset managers receive a significant proportion of their variable remuneration opportunity in the form of deferred pay which may vest over several years. Senior asset managers may elect to receive a percentage of their deferred incentives as a notional investment in the products they manage or as Perpetual shares. This arrangement further builds alignment with clients and/or shareholders over the longer term and aims to ensure that investment professionals have a long-term focus on investment performance and clear visibility of their long-term incentives.

Dividends are normally paid on unvested shares as share grants are usually earned through meeting targets in annual performance agreements; therefore, performance hurdles are already met. Where this is not the case, dividends accrue in a trust structure and are released when and if the shares vest.

The most senior asset managers can receive an annual long-term incentive grant in the form of performance rights subject to performance hurdles. No dividends accrue on these unvested grants as the performance hurdle has not been met.

5. ALIGNING COMPANY PERFORMANCE AND REWARD

5.1 Five year company performance

One of Perpetual's remuneration guiding principles is the remuneration structure should balance value creation for our shareholders, clients and employees.

This section demonstrates the strong alignment between Company performance and remuneration outcomes for Executives over the last five years.

The following table shows the Company's five year performance.

| PERPETUAL'S FIVE YEAR PERFORMANCE | | YEAR END | | | | |
|---|-----|--------------|--------------|--------------|--------------|--------------|
| | | 30 JUNE 2012 | 30 JUNE 2013 | 30 JUNE 2014 | 30 JUNE 2015 | 30 JUNE 2016 |
| Net profit after tax reported | \$M | 26.68 | 60.97 | 81.62 | 122.48 | 132.01 |
| Earnings per share - NPAT ¹ | \$ | 0.64 | 1.49 | 1.86 | 2.65 | 2.82 |
| Closing share price | \$ | 22.90 | 35.40 | 47.38 | 48.36 | 41.12 |
| Total dividends paid per ordinary share | \$ | 0.90 | 1.30 | 1.75 | 2.40 | 2.50 |

1. In FY15, UPAT was adopted as the primary scorecard measure. In FY16, this changed to NPAT based on feedback from key stakeholders.

5.2 Short-term incentives

5.2.1 MEASURING PERFORMANCE

At the beginning of each financial year, the Board agrees the balanced scorecard goals for Perpetual and each division for the coming year. The scorecard is considered 'balanced' because it includes a range of short-term financial and longer-term value-creation measures. This approach aims to balance rewards for meeting financial objectives for the year and rewarding activities designed to deliver sustainable future profits. The authors of balanced scorecards, Robert Kaplan and David Norton (1992), identify balanced goals across four categories:

1. Financial perspective - How do we look to shareholders?
2. Customer perspective - How do customers see us?
3. Internal business perspective - What must we excel at?
4. Innovation and Learning perspective - Can we continue to improve and create value?

In FY16, Perpetual's measures included financial, client advocacy, growth, people and building longer-term capabilities to support our Lead & Grow strategy. The appropriate weighting or focus across each category in any one year depends on the strategic priorities for Perpetual.

Our balanced scorecard includes stretch targets approved by the Board, allowing the business to be assessed in the context of the operating environment. Financial performance remains a key performance indicator to ensure that STI outcomes under the STI plan are closely aligned with shareholder interests.

The balanced scorecard measures for FY16 and performance against those measures are summarised below:

| MEASURE | WEIGHTING | FULL YEAR PERFORMANCE | |
|---|------------------|--|---|
| Financial | | Outcome | Comments |
| Delivery of net profit after tax (NPAT) | 40% | Performance exceeded At Plan target | Overall profit is above plan which is a strong result given equity markets have negatively impacted our financial performance. |
| Clients | | Outcome | Comments |
| Improve client advocacy – external net promoter score (NPS) performance | 10% | Performance exceeded the Superior target | Client Net Promoter Score (NPS) increased again in 2016 to 31, reflecting the focused and disciplined approach to understanding client needs, and commitment to providing an outstanding client experience. All client segments in Perpetual Investments, Perpetual Private and Perpetual Corporate Trust were included in the independent research which noted that results were achieved against a backdrop of market volatility and uncertainty. Particularly in this environment, strongly performing Perpetual teams have delivered on the emotional as well as practical needs of clients who have heightened focus on consistency of delivery, integrity of relationship and quality of communication. |
| Growth | | Outcome | Comments |
| Perpetual Corporate Trust (PCT) – New Business Revenue | 30% | Performance was At Plan | Our growth portfolio has benefited from a more diversified mix, given headwinds in investment markets. We have seen strong new business growth in PCT managed fund services markets and in our non-FUA related revenues in PP. Our core product growth drivers in PI have faced challenges with some institutional clients rebalancing their portfolios. We are still making significant progress on establishing new lines of revenue in PI relating to Global Equities, Pure Credit Alpha and Diversified Real Return investment strategies in accordance with our Lead & Grow strategy. Activity is on track for these PI growth initiatives. |
| Perpetual Investments (PI) – Grow Revenue in Core Markets | | Performance was below Threshold | |
| Perpetual Private (PP) – Non-market Related Revenue | | Performance was At Plan | |

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| MEASURE | WEIGHTING | FULL YEAR PERFORMANCE | |
|--|-----------|--|---|
| People | | Outcome | Comments |
| Employee engagement | 10% | Performance exceeded the Superior target | <p>Employee engagement increased again in 2016 to 71%, a 5 point increase since 2015. This means a 20 point increase in engagement since 2014.</p> <p>Employee engagement has been a strong focus for the last few years. This year we:</p> <ul style="list-style-type: none"> drove a combination of company wide and local activities, allowing the benefits of scale and efficiency as well as supporting leaders to take ownership and accountability improved our engagement as a company by developing the capability of our people leaders, ensuring they are equipped to lead their teams through targeted development and leadership summits continued to improve our systems and technology to better equip our people to deliver on their goals improved the benefits offering for employees, including enhanced superannuation, free health checks for all staff and for staff below senior leadership level, the first grant of Perpetual shares to eligible employees (as we had achieved our annual Company profit target) continued the communication regarding our Lead & Grow strategy across the Company, incorporating refreshed Values and People Promise for our people. <p>As reported in last year's annual report, in 2015 we saw a 15 point increase in engagement outcomes as surveyed by AON Hewitt. Only 10% of organisations who work with AON Hewitt globally experience an increase in employee engagement of greater than 14 percentage points in any one year. That is, fewer than one in ten companies sees an increase of this size in one year. In 2016, we saw an additional increase of 5 points. According to AON Hewitt only 30% of organisations globally achieve an increase in engagement of more than 5 points. Perpetual's result is 10 points higher than the Financial Services benchmark.</p> |
| Building Capabilities to Support Lead & Grow Strategy | | Outcome | Comments |
| Delivering Perpetual's Digital Strategy | 10% | Performance exceeded the At Plan target | <p>Recognising client and employee expectations are changing rapidly as a result of digital technologies, Perpetual this year articulated an approach to enabling our Lead & Grow strategy through an increased focus on digital. The new digital direction is strategically designed to: drive growth through connected services which bring us closer to clients, new markets and each other; create digital experiences for clients which are commensurate with our premium brand; and establish a strong base of digital capability for long-term market success. The strategy outlined nine key digital initiatives and four foundation capabilities required for success and in FY16 six of these initiatives were established and/or piloted.</p> |

5.2.2 DETERMINING THE STI POOL

At the conclusion of each financial year, the Perpetual Board considers the Company's performance against each measure of the balanced scorecard, and on the basis of this review recommends the pool that is available for distribution to employees by way of STI payments. This is expressed as a percentage of the aggregate of all STI targets for eligible employees. The outcome of this assessment determines the proportion of the overall pool each division receives.

The performance of each division against their scorecard is assessed by the CEO and Managing Director. Divisional pools are then allocated to the employees of that division based on an individual performance score, and target STI of the respective employees. Each year, performance targets and goals are set for employees in consideration of the balanced scorecards for their division and the Company to ensure alignment of objectives.

5.2.3 DISTRIBUTING THE STI POOL

Performance objectives are assessed throughout the year as part of the performance management process. At year end, an annual assessment of each employee's performance is made and the STI is then allocated.

Individual STI awards are determined through an assessment of overall Company performance against the Company scorecard, divisional performance against a divisional scorecard and individual performance, which includes an assessment of behavioural expectations for all employees. Employees must also meet risk and compliance requirements to be eligible to receive an STI payment.

For the FY16 year, 80% of the CEO and Managing Director's STI outcome was weighted to overall performance against the Company scorecard, with 20% weighted to individual measures. For Group Executives (except David Kiddie), 40% of their STI outcome was weighted to overall performance against the Company scorecard, with 40% weighted to the performance of their division and 20% weighted to individual measures. This equal focus on Company and divisional/individual performance ensures shared accountability for Company performance amongst Group Executives, balanced with divisional and individual priorities. It provides greater scope to differentiate the incentive outcomes for Group Executives to ensure a strong adjustment to individual performance contribution. As David Kiddie commenced in the second half of FY16, he was assessed separately by the CEO and Managing Director and PARC.

The Senior Leadership Team (direct reports to Group Executives) also have a portion (30%) of their STI outcome weighted to overall Company scorecard performance. The remaining 70% is weighted to individual and divisional performance measures.

The CEO and Managing Director makes recommendations to the PARC on STI allocations for the Group Executives, and these are subject to approval by the Board. The PARC makes recommendations to the Board on the STI allocation for the CEO and Managing Director, and this is also approved by the Board.

5.2.4 DELIVERING STI AWARDS

STI payments are delivered in cash and deferred Perpetual shares. Cash payments are made in September following the end of the performance year less applicable tax and superannuation.

Deferral arrangements

The STI plan requires that 40% of an Executive's STI award be delivered in the form of unvested Perpetual shares. Deferred STI shares may vest after a two year vesting period, subject to service conditions and claw-back provisions. Dividends on deferred STI shares are paid during the vesting period as the performance criteria for awarding the STI have already been met.

Termination of employment

In the event of the CEO and Managing Director or a Group Executive ceasing employment with the Company due to resignation, poor performance or dismissal, all unvested STI shares will be forfeited at the termination date. If an Executive is made redundant or retires, dies or exits due to total and permanent disablement, unvested STI shares are retained by the Executive or their estate, with vesting subject to the original two year period and claw-back provisions.

This approach strengthens the alignment between Executives' and shareholders' interests in the long-term performance of Perpetual, extending beyond each Executive's tenure.

Claw-back provisions

The Board retains a discretion to claw back deferred STI shares awarded to Executives prior to the shares vesting if the Board becomes aware of any information that, had it been available at the time STI awards were determined, would have resulted in a different (or zero) STI amount being awarded.

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5.2.5 TOTAL STI OUTCOME RECEIVED FOR FY16

The table below provides the total STI outcomes (both the cash and deferred portions) received by the Executives for the FY16 performance year. STI awards have increased on an annualised basis from FY15 by 1.8% for the Executives. This is in the context of an 8% increase in NPAT over the same period. Note D Kiddie and M Gordon are excluded for the purposes of this calculation as neither participated for a full year.

| NAME | STI CASH \$ | STI DEFERRED \$ | TOTAL STI \$ | 2016 STI (AS % OF TARGET) ¹ | PERCENTAGE FORFEITED |
|----------------------------------|-------------|-----------------|--------------|--|----------------------|
| CEO and Managing Director | | | | | |
| G Lloyd | 792,217 | 528,145 | 1,320,362 | 107% | 0% |
| Current Group Executives | | | | | |
| C Green | 296,072 | 197,381 | 493,453 | 103% | 0% |
| D Kiddie | 159,836 | 106,557 | 266,393 | 100% | 0% |
| G Larkins | 263,373 | 175,582 | 438,955 | 115% | 0% |
| R Nash | 185,090 | 123,394 | 308,484 | 116% | 0% |
| M Smith | 261,206 | 174,138 | 435,344 | 91% | 9% |
| Former Group Executive | | | | | |
| M Gordon | - | - | - | 0% | 100% |
| Total | 1,957,795 | 1,305,197 | 3,262,991 | 90% | |

1. Represents the total STI outcome for FY16 (including the deferred portion) as a percentage of target STI.

5.3 Long-term incentives

Long-term incentives (LTI) provide Executives with remuneration delivered in equity if conditions are met over a three year period. LTI awards are granted annually, which provides ongoing benefits to Executives for increasing shareholder value and are a retention element for the team.

This section explains LTI plans in place in FY16 and how they work.

5.3.1 PERPETUAL LIMITED LONG-TERM INCENTIVE PLAN

Long-term incentives are provided to Executives and selected senior leaders through the Perpetual Limited Long-term Incentive Plan. This plan was introduced in February 2011.

Since 1 October 2012, LTIs have been awarded to Executives in the form of performance rights. A performance right is a right to acquire a fully paid Perpetual share (or, subject to Board discretion, its cash value) at the end of a performance period, subject to tenure and performance hurdles for no consideration. This means that dividends are not received by the Executives on performance rights until they have vested and been converted into Perpetual shares. Performance rights are awarded at no cost to the participant.

Performance targets

LTI grants made to Executives vest subject to two performance measures directly linked to Company performance:

- 50% of each grant is subject to a relative total shareholder return (TSR) performance target, and
- 50% is subject to an earnings per share (EPS) growth target.

LTI grants are generally made on 1 October each year.

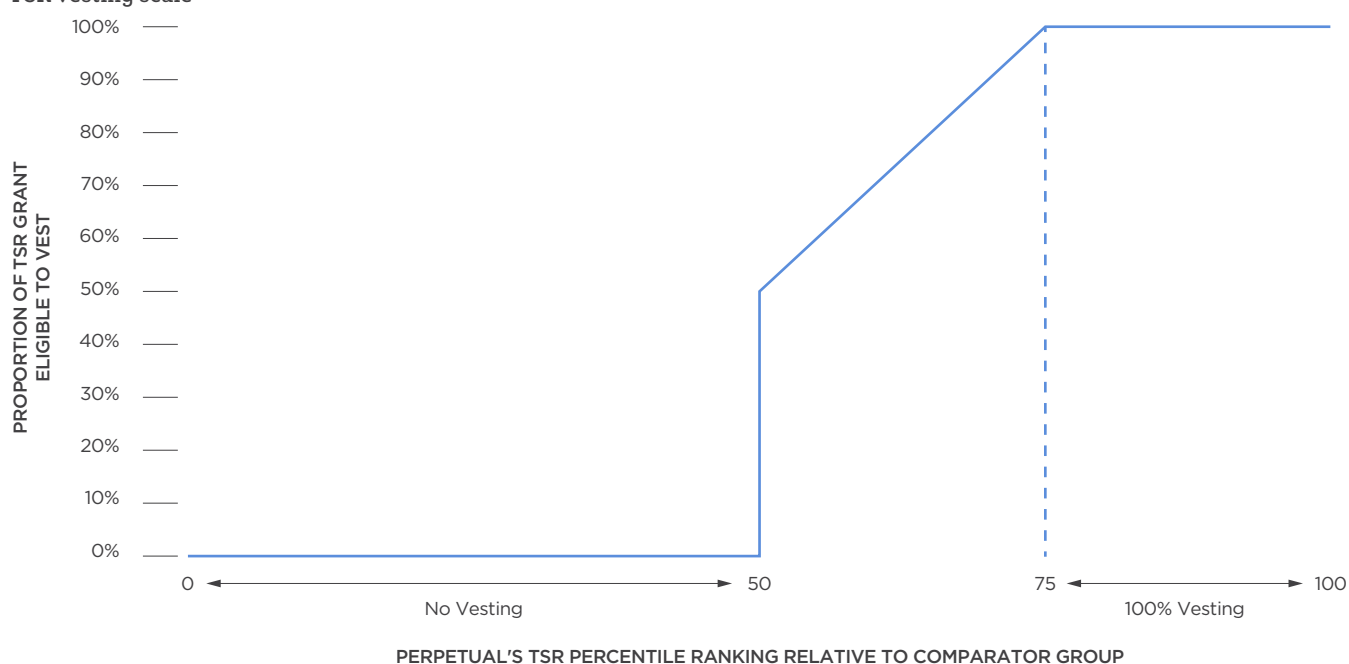
Relative TSR performance target

The TSR performance target requires Perpetual's TSR over the performance period to be equal to or better than the TSR of half of the comparator group, which consists of companies listed on the S&P/ASX 100 (excluding listed property trusts). This comparator group was chosen in the absence of a suitable peer group of direct competitors. For Relative TSR performance greater than median, a sliding scale applies to determine the vesting percentage.

TSR vesting schedule

| PERPETUAL'S TSR RANKING RELATIVE TO THE COMPARATOR GROUP | PERCENTAGE OF SHARES AND OPTIONS THAT WILL VEST |
|--|---|
| Less than median | 0% |
| Median | 50% |
| Greater than median but less than 75th percentile | 2% for every one percentile increase in Perpetual's relative position |
| Greater than 75th percentile | 100% |

TSR vesting scale



TSR is measured independently by Orient Capital and reported to the PARC.

EPS performance target

The EPS performance target requires Perpetual's EPS growth during the performance period to be equal to or greater than the target set by the Board for 100% of the grant to vest. This target, which is currently 10% per annum, may be reviewed by the Board from time to time.

Growth in EPS is defined as compound average annual growth in the Company's earnings per share comprising basic earnings per share (after tax). The Board may adjust EPS for items such as those of a capital nature that do not reflect management and employee performance and day-to-day business operations and activities. The underlying principle for making EPS adjustments is that the vesting outcome should reflect the contribution of participants and that the adjustments should not provide a disadvantage or advantage to participants. The aim is that the resulting EPS outcome fairly reflects management's contribution to the improvement of EPS since the commencement of the performance period.

The achievement of this performance target links the individual's remuneration to the Company's growth in earnings.

DIRECTORS' REPORT

REMUNERATION REPORT

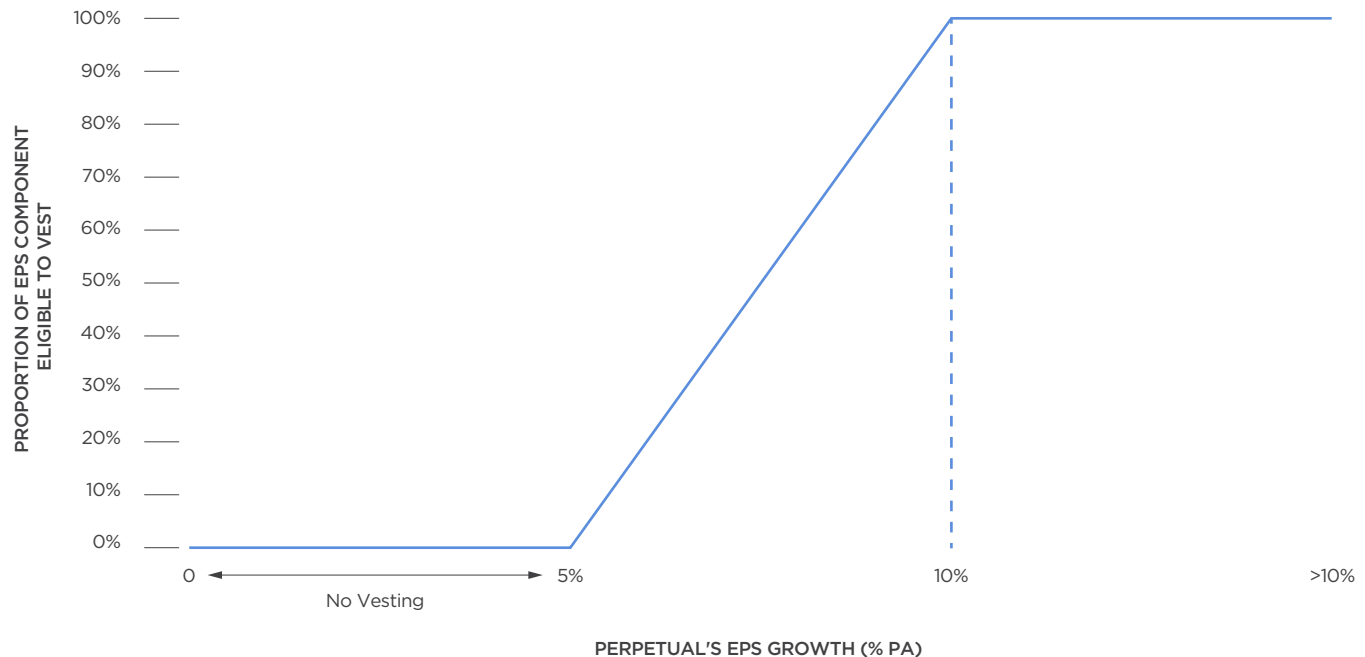
For the year ended 30 June 2016

EPS vesting schedule

For LTI awarded to the Executives, the following vesting schedule applies:

| PERPETUAL'S GROWTH IN EPS | PERCENTAGE OF SHARES THAT WILL VEST |
|--|---|
| EPS growth less than or equal to 5% pa | 0% |
| EPS growth between 5% pa and 10% pa | 2% for every 0.1% of EPS growth above 5% pa |
| EPS growth at or above 10% pa | 100% |

EPS vesting scale



Performance target testing and re-testing guidelines

A three year performance testing period applies to TSR and EPS targets and performance is calculated and tested against the respective target on the third anniversary of the grant date. There is no re-testing of grants.

Termination of employment

In the event of an Executive ceasing employment with the Company, all unvested shares and performance rights will be forfeited at the termination date, except as noted below:

- On death, all unvested shares and performance rights are retained by the Executive's estate, with vesting subject to the same performance conditions as if they had remained employed by Perpetual.
- If an Executive is made redundant or retires, or resigns due to total and permanent disablement, unvested shares and performance rights granted within the past 12 months lapse immediately. Unvested shares and performance rights granted more than 12 months prior to termination are retained by the Executive, with vesting subject to the same performance conditions as if they had remained employed by Perpetual.

This approach strengthens the alignment between Executives' and shareholders' interest in the long-term performance of Perpetual, extending beyond the Executives' tenure.

Treatment of LTI on change in control

If Perpetual were to be taken over or if there were a partial or full change in control, LTI awards may vest in part or in full at the discretion of the Board. Guiding principles have been developed to help the Board determine vesting outcomes that are consistent, fair and reasonable, and balance multiple stakeholder interests.

How LTI aligns to Company performance

The following table shows the vesting outcomes of all LTI issued to Executives with EPS and relative TSR hurdles (past and present) over the last six years.

During FY16, the 2012 grant fully vested in respect of both the EPS growth hurdle and the TSR performance hurdle. This was the first time since the 2004 LTI grant (that vested in 2007) that grants relating to both the EPS hurdle and TSR hurdles have fully vested. These vesting outcomes reflect the improved Company performance since 2012.

| ANNUAL LTI GRANTS OVER THE LAST SIX YEARS: VESTING OUTCOMES | | | | | | |
|---|----------------|----------------|----------------|------------------|------------------|------------------|
| Grant Date | 1 October 2010 | 1 October 2011 | 1 October 2012 | 1 October 2013 | 1 October 2014 | 1 October 2015 |
| Vesting Date | 1 October 2013 | 1 October 2014 | 1 October 2015 | 1 October 2016 | 1 October 2017 | 1 October 2018 |
| HURDLE | | | | | | |
| EPS | 0% | 30% | 100% | yet to be tested | yet to be tested | yet to be tested |
| Relative TSR | 88% | 100% | 100% | yet to be tested | yet to be tested | yet to be tested |

5.3.2 EMPLOYEE SHARE PLANS

Perpetual offers all employees the opportunity to participate in share plans. These are described below.

| OPEN PLANS | DESCRIPTION |
|--|--|
| Perpetual Limited Long-term Incentive Plan 115 members | From February 2011, this is the primary plan to be used for LTI grants to eligible employees, including Executives. |
| One Perpetual Share Plan (OPSP) 575 members | This plan, introduced in FY15, awards eligible employees with annual grants of up to \$1,000 worth of Perpetual shares subject to the Company meeting its profit target. The first grant of shares was made 1 September 2015. |
| PLANS CLOSED TO NEW ISSUE | DESCRIPTION |
| Tax Deferred Share Plan (TDSP) 13 members | This plan was used for awards made under the annual sales incentive plans for eligible employees within the Perpetual Private and Perpetual Corporate Trust teams. The plan was previously used by employees, including Executives, to buy shares using a salary-sacrifice arrangement. The plan was closed to any new salary-sacrifice purchases during FY10. |
| Tax Exempt Share Plan (TESP) 28 members | This plan was superseded by the One Perpetual Share Plan, with the final grant of shares under the TESP being 4 September 2014. All employees could elect to sacrifice up to \$1,000 of their cash STI payment into shares under the TESP. Shares acquired via this sacrifice were not subject to performance targets as they were acquired in lieu of a cash payment by the Company. The plan's trading restrictions continue to apply until the earlier of three years from the date of grant or on termination of employment, before the shares can be released. Employees will hold shares under the TESP until the final vesting date in September 2017. |
| Non-executive Director Share Plan (NEDSP) 1 member | This plan was used only by Non-executive Directors and was closed to new purchases on 1 July 2009, following changes to taxation rules. |

Dilution limits for share plans

Shares awarded under Perpetual's employee share plans may be purchased on market or issued subject to Board discretion and the requirements of the *Corporations Act 2001* and the ASX Listing Rules.

As at 30 June 2016, the proportion of unvested shares and performance rights (excluding unallocated shares as a result of forfeitures) held in Perpetual's employee share plans as a percentage of issued shares was 2%. This has remained flat compared to last year.

The Board will manage the issue of shares under employee incentive plans to balance market-based remuneration for employees with shareholder returns, subject to the relevant regulatory requirements. Refer to page 33 for detail on the share dealing approval process.

Going forward, Perpetual will continue to purchase shares on market, which will minimise the dilutionary impact of the employee share plans on shareholders.

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For the year ended 30 June 2016

6. DATA DISCLOSURES – EXECUTIVES

6.1 Remuneration data

REMUNERATION OF CEO AND MANAGING DIRECTOR AND GROUP EXECUTIVES (STATUTORY REPORTING)

| NAME | SHORT-TERM BENEFITS | | | |
|----------------------------------|--------------------------------|-----------------------------|--|--------------------------|
| | CASH SALARY ¹ \$ | CASH STI ² \$ | NON-MONETARY BENEFITS ³ \$ | OTHER ⁴ \$ |
| CEO and Managing Director | | | | |
| G Lloyd | | | | |
| 2016 | 1,095,630 | 792,217 | 101,452 | 20,930 |
| 2015 | 1,001,678 | 696,795 | 94,775 | 14,334 |
| Current Group Executives | | | | |
| C Green | | | | |
| 2016 | 455,756 | 296,072 | - | (9,868) |
| 2015 | 434,050 | 313,270 | - | 5,468 |
| D Kiddie | | | | |
| 2016 | 242,723 | 159,836 | - | 572,173 |
| G Larkins | | | | |
| 2016 | 663,874 | 263,373 | - | 12,956 |
| 2015 | 640,425 | 289,997 | - | 9,819 |
| R Nash | | | | |
| 2016 | 564,212 | 185,090 | - | 13,201 |
| 2015 | 557,977 | 151,720 | - | 29,805 |
| M Smith | | | | |
| 2016 | 574,779 | 261,206 | - | (1,914) |
| 2015 | 557,550 | 314,027 | - | 18,525 |
| Former Group Executive | | | | |
| M Gordon | | | | |
| 2016 | 273,598 | - | - | 26,500 |
| 2015 | 547,618 | 230,918 | - | 23,570 |
| Total 2016 | 3,870,572 | 1,957,795 | 101,452 | 633,978 |
| Total 2015 | 3,739,298 | 1,996,727 | 94,775 | 101,521 |

1. Cash salary is the ordinary cash salary received in the year including payment for annual, long service, sick or other types of paid leave taken.

2. Cash short-term incentive payments consist of cash payments to be made in September 2016 from the Group STI plan.

3. Non-monetary benefits represents those amounts salary sacrificed from fixed remuneration to pay for benefits such as leased motor vehicles and car parking.

4. Other short-term benefits relate to:

- salary continuance and death and total and permanent disability insurance provided as part of the remuneration package
- the value of accrued annual leave over 1 July 2015 to 30 June 2016, and
- for D Kiddie it also includes a sign-on bonus payable six months after date of commencement, relocation expenses for flights, short-term accommodation and financial advice.

5. Share-based remuneration has been valued using the binomial method which takes into account the performance hurdles relevant to each issue of equity instruments. The value of each equity instrument has been provided by PricewaterhouseCoopers. Share-based remuneration is the amount expensed in the financial statements for the year and includes adjustments to reflect the most current expectation of vesting of LTI grants with non-market condition hurdles. For grants with non-market conditions including earnings per share hurdles, the number of shares expected to vest is estimated at the end of each reporting period and the amount to be expensed in the financial statements is adjusted accordingly. For grants with market conditions such as Total Shareholder Return hurdles, the number of shares expected to vest is not adjusted during the life of the grant and no adjustment is made to the amount expensed in the financial statements (except if service conditions are not met). The accounting treatment of non-market and market conditions are in accordance with accounting standards.

6. The expense value of accrued long service leave for FY16.

7. Deferred short-term incentive payments are costs incurred in FY16 for the deferred portion of the current and previous STI awards.

| POST-EMPLOYMENT BENEFITS | | EQUITY-BASED BENEFITS ⁵ | | | | | |
|--------------------------|---|------------------------------------|-----------------|-----------------------------|-------------------------------|-------------------|--|
| SUPERANNUATION \$ | OTHER LONG-TERM BENEFITS ⁶ \$ | DEFERRED STI ⁷ \$ | SHARES \$ | PERFORMANCE RIGHTS \$ | TERMINATION PAYMENTS \$ | TOTAL \$ | |
| 26,585 | 22,430 | 506,011 | - | 805,971 | - | 3,371,226 | |
| 28,648 | 13,194 | 395,303 | 60,499 | 661,086 | - | 2,966,312 | |
| 20,155 | 19,906 | 199,942 | - | 283,890 | - | 1,265,853 | |
| 18,783 | 14,808 | 160,020 | 29,128 | 259,454 | - | 1,234,981 | |
| 10,162 | 235 | 35,519 | 57,583 | - | - | 1,078,232 | |
| 26,585 | 5,100 | 175,771 | - | 202,795 | - | 1,350,454 | |
| 28,533 | 2,866 | 148,677 | - | 142,441 | - | 1,262,758 | |
| 26,585 | 4,331 | 114,220 | - | 104,130 | - | 1,011,769 | |
| 28,648 | 2,592 | 99,534 | - | 80,136 | - | 950,412 | |
| 20,155 | 4,298 | 180,470 | - | 383,269 | - | 1,422,263 | |
| 18,783 | 2,391 | 154,427 | 37,499 | 296,371 | - | 1,399,573 | |
| 22,547 | (3,296) | (184,908) | (42,669) | (184,829) | 600,000 | 506,943 | |
| 33,738 | 2,210 | 142,993 | 121,606 | 138,485 | - | 1,241,138 | |
| 152,774 | 53,004 | 1,027,025 | 14,914 | 1,595,226 | 600,000 | 10,006,740 | |
| 157,133 | 38,061 | 1,100,954 | 248,732 | 1,577,973 | - | 9,055,174 | |

DIRECTORS' REPORT

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For the year ended 30 June 2016

REMUNERATION COMPONENTS AS A PROPORTION OF TOTAL REMUNERATION

The remuneration components below are determined based on the Remuneration of the Executives (statutory reporting) table on page 42.

| NAME | FIXED REMUNERATION % | PERFORMANCE LINKED BENEFITS | | TOTAL % | VALUE OF PERFORMANCE RIGHTS AS A PROPORTION OF TOTAL REMUNERATION |
|----------------------------------|----------------------------|--------------------------------|-------|---------|---|
| | | STI % | LTI % | | |
| CEO and Managing Director | | | | | |
| G Lloyd | 37% | 39% | 24% | 100% | 24% |
| Current Group Executives | | | | | |
| C Green | 38% | 39% | 23% | 100% | 23% |
| D Kiddie | 50% | 39% | 11% | 100% | 0% |
| G Larkins | 52% | 33% | 15% | 100% | 15% |
| R Nash | 59% | 30% | 10% | 100% | 10% |
| M Smith | 42% | 31% | 27% | 100% | 27% |

This table includes fixed remuneration, STI and LTI. One-off payments such as D Kiddie's sign-on bonus are excluded.

VALUE OF UNVESTED REMUNERATION THAT MAY VEST IN FUTURE YEARS

Estimates of the maximum future cost of equity-based remuneration granted by the Company¹ should all targets be met in the future.

| | 30 JUNE 17 MAXIMUM \$ | 30 JUNE 18 MAXIMUM \$ | 30 JUNE 19 MAXIMUM \$ |
|----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| CEO and Managing Director | | | |
| G Lloyd | 895,554 | 503,236 | 108,309 |
| Current Group Executives | | | |
| C Green | 343,894 | 184,279 | 39,409 |
| D Kiddie | 183,787 | 95,857 | 12,741 |
| G Larkins | 258,165 | 130,074 | 27,818 |
| R Nash | 133,524 | 70,168 | 15,300 |
| M Smith | 403,825 | 216,801 | 46,364 |

1. The minimum value of the grants is \$nil if the performance targets are not met. The values above are determined in accordance with accounting standards. The fair value of granted shares is recognised as an employee expense with a corresponding increase in equity. Fair value is measured at grant date and amortised over the period during which employees become unconditionally entitled to the shares.

DIRECTORS' REPORT

REMUNERATION REPORT

For the year ended 30 June 2016

UNVESTED SHARE AND PERFORMANCE RIGHTS HOLDINGS OF THE EXECUTIVES

The table below summarises the share and performance rights holdings and movements by number granted to the CEO and Managing Director and Group Executives by Perpetual Limited, for the year ended 30 June 2016. For details of the fair valuation methodology, refer to Section 5-6 (ii) of the notes to and forming part of the financial statements.

| NAME | INSTRUMENT | GRANT DATE | ISSUE PRICE | VESTING DATE | HELD AT 1 JULY 2015 |
|----------------------------------|--------------------|------------------------------|-------------|-------------------|-----------------------|
| | | | \$ | | NUMBER OF INSTRUMENTS |
| CEO and Managing Director | | | | | |
| G Lloyd | Shares | 1 October 2013 | 39.63 | 1 October 2015 | 4,946 |
| | Shares | 4 September 2014 | 49.51 | 30 September 2016 | 10,611 |
| | Shares | 1 September 2015 | 42.37 | 30 September 2017 | - |
| | Performance rights | 1 October 2012 | 23.54 | 1 October 2015 | 37,383 |
| | Performance rights | 1 October 2013 | 34.57 | 1 October 2016 | 25,455 |
| | Performance rights | 1 October 2014 | 38.00 | 1 October 2017 | 29,815 |
| | Performance rights | 1 October 2015 | 33.07 | 1 October 2018 | - |
| | | Aggregate Value ¹ | | | |
| Current Group Executives | | | | | |
| D Kiddie | Shares | 22 February 2016 | 39.67 | 30 September 2017 | - |
| | Shares | 22 February 2016 | 39.67 | 30 September 2018 | - |
| | | Aggregate Value | | | |
| C Green | Shares | 1 October 2013 | 39.63 | 1 October 2015 | 1,958 |
| | Shares | 4 September 2014 | 49.51 | 30 September 2016 | 3,910 |
| | Shares | 1 September 2015 | 42.37 | 30 September 2017 | - |
| | Performance rights | 1 October 2012 | 23.54 | 1 October 2015 | 13,806 |
| | Performance rights | 1 October 2013 | 34.57 | 1 October 2016 | 9,401 |
| | Performance rights | 1 October 2014 | 38.00 | 1 October 2017 | 11,184 |
| | Performance rights | 1 October 2015 | 33.07 | 1 October 2018 | - |
| | | Aggregate Value | | | |
| G Larkins | Shares | 1 October 2013 | 39.63 | 1 October 2015 | 2,379 |
| | Shares | 4 September 2014 | 49.51 | 30 September 2016 | 3,199 |
| | Shares | 1 September 2015 | 42.37 | 30 September 2017 | - |
| | Performance rights | 1 October 2012 | 23.54 | 1 October 2015 | 4,800 |
| | Performance rights | 1 October 2013 | 34.57 | 1 October 2016 | 6,682 |
| | Performance rights | 1 October 2014 | 38.00 | 1 October 2017 | 7,894 |
| | Performance rights | 1 October 2015 | 33.07 | 1 October 2018 | - |
| | | Aggregate Value | | | |
| R Nash | Shares | 1 October 2013 | 39.63 | 1 October 2015 | 2,001 |
| | Shares | 4 September 2014 | 49.51 | 30 September 2016 | 2,385 |
| | Shares | 1 September 2015 | 42.37 | 30 September 2017 | - |
| | Performance rights | 1 October 2012 | 23.54 | 1 October 2015 | 4,237 |
| | Performance rights | 1 October 2013 | 34.57 | 1 October 2016 | 3,181 |
| | Performance rights | 1 October 2014 | 38.00 | 1 October 2017 | 3,948 |
| | Performance rights | 1 October 2015 | 33.07 | 1 October 2018 | - |
| | | Aggregate Value | | | |
| M Smith | Shares | 1 October 2013 | 39.63 | 1 October 2015 | 2,422 |
| | Shares | 4 September 2014 | 49.51 | 30 September 2016 | 3,189 |
| | Shares | 1 September 2015 | 42.37 | 30 September 2017 | - |
| | Performance rights | 1 October 2012 | 23.54 | 1 October 2015 | 11,894 |
| | Performance rights | 1 October 2013 | 34.57 | 1 October 2016 | 14,463 |
| | Performance rights | 1 October 2014 | 38.00 | 1 October 2017 | 13,158 |
| | Performance rights | 1 October 2015 | 33.07 | 1 October 2018 | - |
| | | Aggregate Value | | | |
| Former Group Executive | | | | | |
| M Gordon | Shares | 1 July 2013 | 35.70 | 1 July 2015 | 4,482 |
| | Shares | 1 July 2013 | 35.70 | 1 July 2016 | 2,241 |
| | Shares | 1 October 2013 | 39.63 | 1 October 2015 | 1,884 |
| | Shares | 4 September 2014 | 49.51 | 30 September 2016 | 4,046 |
| | Shares | 1 September 2015 | 42.37 | 30 September 2017 | - |
| | Performance rights | 1 October 2013 | 34.57 | 1 October 2016 | 10,124 |
| | Performance rights | 1 October 2014 | 38.00 | 1 October 2017 | 11,184 |
| | | Aggregate Value | | | |

1. Granted aggregate value is calculated by multiplying the number of shares by the issue price. Vested and forfeited aggregate value is calculated by multiplying the number of shares by the Perpetual closing share price on the vesting date.

| MOVEMENT DURING THE YEAR | | | HELD AT 30 JUNE 2015 | FAIR VALUE PER INSTRUMENT AT GRANT TSR HURDLE | FAIR VALUE PER INSTRUMENT AT GRANT NON-TSR HURDLE |
|--------------------------|-------------|-------------|--------------------------|--|--|
| GRANTED | FORFEITED | VESTED | | | |
| NUMBER OF INSTRUMENTS | | | NUMBER OF INSTRUMENTS | \$ | \$ |
| - | - | 4,946 | - | N/A | 39.63 |
| - | - | - | 10,611 | N/A | 49.51 |
| 10,963 | - | - | 10,963 | N/A | 42.37 |
| - | - | 37,383 | - | 14.38 | 23.54 |
| - | - | - | 25,455 | 22.65 | 34.57 |
| - | - | - | 29,815 | 21.82 | 38.00 |
| 35,319 | - | - | 35,319 | 19.50 | 33.07 |
| \$1,632,502 | \$- | \$1,693,160 | | | |
| 5,041 | - | - | 5,041 | N/A | 39.67 |
| 3,781 | - | - | 3,781 | N/A | 39.67 |
| \$349,969 | \$- | \$- | | | |
| - | - | 1,958 | - | N/A | 39.63 |
| - | - | - | 3,910 | N/A | 49.51 |
| 4,929 | - | - | 4,929 | N/A | 42.37 |
| - | - | 13,806 | - | 14.38 | 23.54 |
| - | - | - | 9,401 | 22.65 | 34.57 |
| - | - | - | 11,184 | 21.82 | 38.00 |
| 12,851 | - | - | 12,851 | 19.50 | 33.07 |
| \$633,824 | \$- | \$630,560 | | | |
| - | - | 2,379 | - | N/A | 39.63 |
| - | - | - | 3,199 | N/A | 49.51 |
| 4,562 | - | - | 4,562 | N/A | 42.37 |
| - | - | 4,800 | - | 14.38 | 23.54 |
| - | - | - | 6,682 | 22.65 | 34.57 |
| - | - | - | 7,894 | 21.82 | 38.00 |
| 9,071 | - | - | 9,071 | 19.50 | 33.07 |
| \$493,270 | \$- | \$287,160 | | | |
| - | - | 2,001 | - | N/A | 39.63 |
| - | - | - | 2,385 | N/A | 49.51 |
| 2,387 | - | - | 2,387 | N/A | 42.37 |
| - | - | 4,237 | - | 14.38 | 23.54 |
| - | - | - | 3,181 | 22.65 | 34.57 |
| - | - | - | 3,948 | 21.82 | 38.00 |
| 4,989 | - | - | 4,989 | 19.50 | 33.07 |
| \$266,123 | \$- | \$249,520 | | | |
| - | - | 2,422 | - | N/A | 39.63 |
| - | - | - | 3,189 | N/A | 49.51 |
| 4,941 | - | - | 4,941 | N/A | 42.37 |
| - | - | 11,894 | - | 14.38 | 23.54 |
| - | - | - | 14,463 | 22.65 | 34.57 |
| - | - | - | 13,158 | 21.82 | 38.00 |
| 15,119 | - | - | 15,119 | 19.50 | 33.07 |
| \$709,336 | \$- | \$572,640 | | | |
| - | - | 4,482 | - | N/A | 35.70 |
| - | 2,241 | - | - | N/A | 35.70 |
| - | - | 1,884 | - | N/A | 39.63 |
| - | 4,046 | - | - | N/A | 49.51 |
| 3,633 | 3,633 | - | - | N/A | 42.37 |
| - | 10,124 | - | - | 22.65 | 34.57 |
| - | 11,184 | - | - | 21.82 | 38.00 |
| \$153,930 | \$1,267,232 | \$298,137 | | | |

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ACTUAL REMUNERATION RECEIVED

The table below provides a summary of actual remuneration received by the Executives during FY16. This includes:

- fixed remuneration (consisting of cash salary, superannuation, packaged employee benefits and associated fringe benefits tax)
- the cash component of short-term incentives awarded for performance in FY15 (paid September 2015)
- the value of equity grants awarded in previous years which vested during the year
- cash dividends received during the year on unvested LTI shares received during the year, and
- sign on and termination payments.

This table differs from the remuneration table on page 42, which has been constructed in accordance with the requirements of the relevant accounting standards. It includes remuneration received on a cash basis rather than an accrual basis.

| NAME | TOTAL FIXED REMUNERATION \$ | STI CASH ¹ \$ | EQUITY VESTED DURING YEAR ² \$ | DIVIDENDS PAID ON UNVESTED SHARES DURING YEAR ³ \$ | SIGN-ON AND RELOCATION BENEFITS ⁴ \$ | PAYMENTS MADE ON TERMINATION ⁵ \$ | TOTAL \$ |
|----------------------------------|-----------------------------------|-----------------------------|---|---|---|---|-------------|
| CEO and Managing Director | | | | | | | |
| G Lloyd | 1,223,667 | 696,795 | 1,693,160 | 60,118 | - | - | 3,673,740 |
| Current Group Executives | | | | | | | |
| C Green | 475,911 | 313,270 | 630,560 | 24,545 | - | - | 1,444,286 |
| D Kiddie | 252,885 | - | - | 11,028 | 61,316 | - | 325,229 |
| G Larkins | 690,459 | 289,997 | 287,160 | 22,376 | - | - | 1,289,992 |
| R Nash | 590,797 | 151,720 | 249,520 | 14,431 | - | - | 1,006,468 |
| M Smith | 594,934 | 314,027 | 572,640 | 23,353 | - | - | 1,504,954 |
| Former Group Executive | | | | | | | |
| M Gordon | 296,145 | 230,918 | 298,160 | 14,755 | - | 300,000 | 1,139,978 |
| Totals | 4,124,798 | 1,996,727 | 3,731,200 | 170,605 | 61,316 | 300,000 | 10,384,646 |

1. Represents the cash portion of STI outcome for FY15 paid in September 2015.

2. For G Lloyd, C Green, G Larkins, R Nash and M Smith this represents the value at vesting of the 2012 LTI grant made on 1 October 2012, and the vesting of deferred STI shares granted 1 October 2013. These shares were valued at \$40.00 being the closing market value of Perpetual shares on the vesting date of 1 October 2015.

For M Gordon, this includes the value at vesting of the deferred STI shares vesting 1 October 2015 and the vesting of his sign-on equity grant that vested 1 July 2015. These shares have been valued at \$49.71, being the closing market value of Perpetual shares on the vesting date of 1 July 2015.

D Kiddie recently joined the organisation and had no vested shares or rights in FY16.

3. Dividends paid during FY16 on FY15 deferred STI shares and for D Kiddie and M Gordon unvested sign-on tranches of shares.

4. D Kiddie's relocation expenses for flights, short-term accommodation and financial advice. Subject to certain contractual obligations, D Kiddie's sign-on bonus will be paid six months after commencement of employment in FY17.

5. M Gordon received \$300,000 as a termination payment, and will receive a further \$300,000 in FY17 following execution of contractual obligations.

6.2 Contract arrangements

CONTRACT TERMS FOR THE CEO AND MANAGING DIRECTOR AS AT 30 JUNE 2016

| | |
|----------------------------------|---|
| Contract details | Geoff Lloyd, Chief Executive Officer and Managing Director |
| Term of contract | Open-ended |
| Fixed remuneration | \$1,250,000 per annum, reviewed in accordance with Perpetual's policies. |
| STI | <p>Target STI of 100% of fixed remuneration.</p> <p>STI amounts are determined by the Board taking into account the Executive's performance against performance criteria determined by the Board annually. The performance criteria include threshold risk measures and behaviour objectives which must be met by the Executive for any STI to be awarded.</p> <p>Subject to the Board's discretion, the Executive may be required to apply a proportion of his STI payment to acquire deferred STI shares.</p> |
| LTI | <p>From FY15, eligible to receive LTI grants of 100% of fixed remuneration provided by way of performance shares, performance rights or options in such proportions determined by the Board annually in its discretion.</p> <p>Vesting of LTI grants is subject to performance targets determined by the Board and advised to the Executive prior to the effective date of grant.</p> |
| Termination of employment | <p>The agreement contains provisions for the termination of Mr Lloyd's employment as follows:</p> <ul style="list-style-type: none">(a) Termination by Mr Lloyd on 12 months' notice in writing to the Board (or such shorter period as may be agreed). In the event the Board agrees to a notice period of less than 12 months, the agreement will be subject to no entitlement to receive a payment of fixed remuneration (or any other remuneration or amount) in respect of any period after termination date. There is no entitlement for STI for that financial year; and unvested STI held as shares and all unvested LTI is forfeited.(b) Termination by the Company on 12 months' notice in writing (or such shorter period as may be agreed). The Executive is entitled to be considered for a STI payment for that financial year; and unvested STI held as shares and unvested LTI due to vest within two years of the termination date, will remain eligible for vesting, subject to satisfaction of performance conditions in due course. Unvested LTI due to be tested after two years of the termination date is forfeited.(c) If the Executive becomes incapacitated by illness or injury for an accumulated period of three months in any 12 month period, the Company may terminate this agreement by giving 12 months' notice in writing (or such shorter period as may be agreed). The Executive is entitled to a pro rata STI for that financial year; and unvested STI held as shares and unvested LTI due to vest within two years of the termination date, will remain eligible for vesting, subject to satisfaction of performance conditions in due course. Unvested LTI due to be tested after two years of the termination date is forfeited.(d) Termination without notice following an agreed material diminution event. Upon such termination, the Company must, within seven days, pay the Executive fixed remuneration in lieu of 12 months' notice and a pro rata STI for that financial year. Unvested STI held as shares and unvested LTI due to vest within two years of the termination date, will remain eligible for vesting, subject to satisfaction of performance conditions in due course. Unvested LTI due to be tested after two years of the termination date is forfeited.(e) Termination by the Company for poor performance on six months' notice in writing (or such shorter period as may be agreed) or termination by the Company without notice. There is no entitlement for STI for that financial year; and unvested STI held as shares and all unvested LTI is forfeited.(f) Termination in the event of Mr Lloyd's death - his estate is entitled to pro rata STI for that financial year; and unvested STI held as shares and unvested LTI remain eligible for vesting subject to satisfaction of performance conditions in due course. <p>The agreement also provides that the Company may elect to make a payment in lieu of notice.</p> |

DIRECTORS' REPORT

REMUNERATION REPORT

For the year ended 30 June 2016

TERMINATION TERMS FOR GROUP EXECUTIVES

| TERM | WHO | CONDITIONS |
|---|---|--|
| Duration of contract | All Group Executives | Ongoing until notice is given by either party ¹ . |
| Notice to be provided by Group Executive to terminate the employment agreement | Chris Green | 3 months |
| | All other Group Executives | 6 months |
| Notice to be provided by Perpetual to terminate the employment agreement for poor performance | All Group Executives | 3 months |
| Notice to be provided by Perpetual to terminate the employment agreement without cause | Chris Green | 3 months |
| | All other Group Executives | 6 months |
| Termination payments and/or benefits to be made on termination without cause | Payment in lieu of notice | |
| | All Group Executives | Group Executives are entitled to payment in lieu of any unexpired part of the notice period. |
| | STI | |
| | All Group Executives | Subject to the terms and conditions of the STI plan. |
| Termination for cause | LTI | |
| | All Group Executives | Subject to the terms of the offer and the LTI plan. |
| | Payment in lieu of notice | |
| | Chris Green | 3 months |
| Termination for cause | All other Group Executives | 6 months |
| | STI | |
| | All Group Executives | Subject to the terms and conditions of the STI plan. |
| | LTI | |
| All Group Executives | Subject to the terms of the offer and LTI plan. | |
| Post-employment restraints | All Group Executives | 12 months from the date on which notice of termination is given. |

1. D Kiddie is currently employed on a 457 visa which has a maximum duration of four years from commencement. This visa can be renewed at any time.

7. EXECUTIVE REMUNERATION CHANGES FOR FY17

In late 2015, with the launch of our Lead & Grow strategy earlier that year, the Board decided it was timely to review our performance and reward arrangements across Perpetual. We asked ourselves:

- Are our existing arrangements attracting, retaining and motivating key talent?
- To what extent can the alignment of interest between performance and shareholder outcomes be strengthened? and
- Is there a better way?

Over a six month period, the Board undertook a review, under the guidance of the PARC and the Board appointed remuneration adviser, PwC. This extensive review resulted in the introduction of a new remuneration structure for the CEO and Managing Director and Group Executives for FY17 that will combine our existing short-term and long-term incentive arrangements into a simplified variable incentive plan. Whilst this does not impact the remuneration arrangements in this year's Report, details of the new plan are summarised in this section for the benefit of our shareholders and other interested parties.

The intention of the new plan is to seek to maximise long-term value creation for shareholders while attracting, retaining and motivating our Executives to execute on our Lead & Grow strategy. We strongly believe the new plan will:

- Better align Executives with shareholders via ownership of equity encouraging long-term decision making.
- Reinforce an ownership mentality by accelerating the accumulation of shares in Executives' hands subject to delivering the necessary performance requirements.
- Achieve closer alignment of variable incentives to performance against key business metrics. We believe balanced scorecards remain essential in assessing the performance of the business through the market cycles.
- Deliver greater differentiation of reward for over and underachievement against agreed targets.
- Reduce complexity and opacity.
- Strengthen retention of our Executives.

We believe there is motivational value in a variable pay framework, which provides both greater 'line of sight' and ability to influence the Company's performance outcome.

7.1 The new Variable Incentive Plan

Variable remuneration for our Executives currently consists of short-term incentive (STI) and long-term incentive (LTI) plans. The proposed structure combines these elements into a single variable incentive plan with long-term deferral. The table below summarises key features of the plan changes.

| FEATURE | FROM (OLD PLAN) | TO (NEW PLAN) |
|--------------------------------------|--|--|
| Remuneration components | <ul style="list-style-type: none"> • Fixed • Cash STI • Deferred STI (equity) • LTI | <ul style="list-style-type: none"> • Fixed • Single Variable Incentive (cash and equity) |
| Incentive cap (% of target) | <ul style="list-style-type: none"> • STI = 200% • LTI = 100% | <ul style="list-style-type: none"> • Variable Incentive = 175% |
| Duration to access equity post grant | <ul style="list-style-type: none"> • Deferred STI = 2 years • LTI = 3 years | <ul style="list-style-type: none"> • Variable Incentive = 4 years |
| Performance hurdles | <ul style="list-style-type: none"> • STI = Balanced Scorecard + compliance and behaviours • LTI = EPS and Relative TSR | <ul style="list-style-type: none"> • Balanced Scorecard + compliance and behaviours |
| Performance assessment period | <ul style="list-style-type: none"> • STI = 1 year • LTI = 3 years | <ul style="list-style-type: none"> • Variable Incentive = 1 year |

The initial variable incentive targets for current Executives will be set to the equivalent level of existing STI targets and LTI awards on a 'fair value' basis. Fair value, as calculated by PwC, is a valuation approach based on accepted methodologies and is consistent with accounting standards and disclosures in the Remuneration Report. Fair value considers the probability of an LTI award vesting including volatility, time to maturity, dividend yield and share price movement.

Approximately one third of the variable incentive outcome will be paid in cash at the end of the performance year. The remaining two thirds of the variable incentive outcome will be delivered as share rights, which will vest and be satisfied by the allocation of restricted shares, subject to ongoing employment conditions, after two years. Restricted shares are subject to a holding lock for an additional two years, with no risk of forfeiture other than for summary dismissal. Dividends will be payable to the Executive in respect of restricted shares but not share rights.

As performance has been fully assessed to calculate the amount paid as a variable incentive, no additional performance hurdles apply to the share rights or restricted shares.

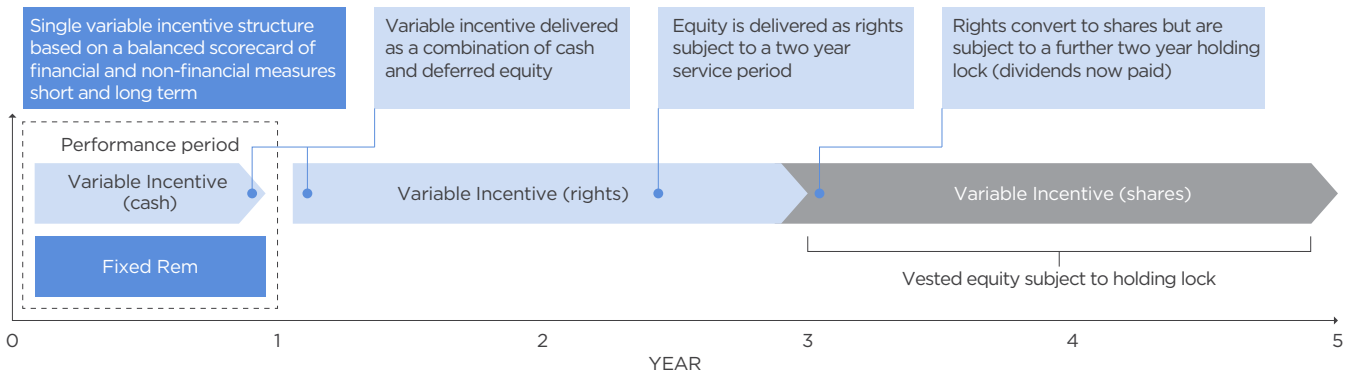
Going forward, awards will be granted on a face value basis using a five day Volume Weighted Average Price and likely to occur around each 1 September.

DIRECTORS' REPORT

REMUNERATION REPORT

For the year ended 30 June 2016

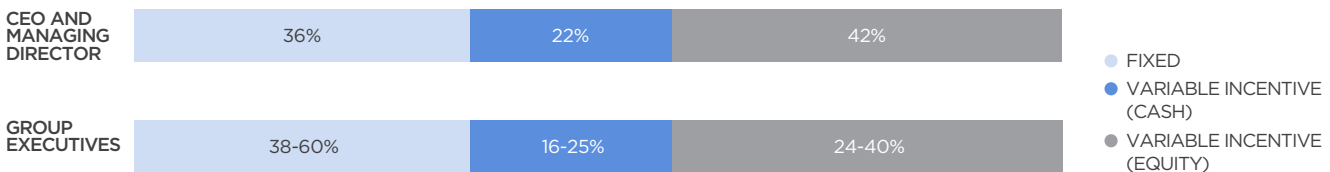
Simple illustrative model



REMUNERATION MIX

The Executives will continue to have a significant portion of their remuneration linked to performance and at risk. For FY17, there continues to be a strong alignment to long-term incentives for the Executives, as Perpetual believes in meaningful equity ownership that increases shareholder alignment for this key group.

Total remuneration will continue to be set within consideration of Perpetual's market peers. The table below shows the FY17 on-target remuneration mix (using full-time equivalent remuneration) for the Executives under the new plan.



8. NON-EXECUTIVE DIRECTOR REMUNERATION

8.1 Remuneration policy and data

The Company's Remuneration Policy for Non-executive Directors aims to ensure that we can attract and retain suitably skilled, experienced and committed individuals to serve your Board.

Non-executive Directors do not receive performance-related remuneration and are not entitled to receive performance shares or options over Perpetual shares as part of their remuneration arrangements.

FEE FRAMEWORK

Non-executive Directors receive a base fee. Except for the Chairman, they also receive fees for participating in Board Committees (other than the Nominations Committee), either as Chairman or as a member of a committee.

| NON-EXECUTIVE DIRECTORS' FEES | FY16 \$ | FY17 \$ |
|---|---------|---------|
| Chairman | 300,000 | 300,000 |
| Directors | 150,000 | 150,000 |
| Audit Risk and Compliance Committee Chairman | 35,000 | 35,000 |
| Audit Risk and Compliance Committee Member | 17,000 | 17,000 |
| People and Remuneration Committee Chairman ¹ | 30,000 | 35,000 |
| People and Remuneration Committee Member ¹ | 15,000 | 17,000 |
| Investment Committee Chairman | 17,500 | 17,500 |
| Investment Committee Member | 10,000 | 10,000 |
| Nominations Committee Member | Nil | Nil |

1. In FY17, the fees for the Chairman and Members of the People and Remuneration Committee will be increased to the equivalent fee level with those of the Audit, Risk and Compliance Committee.

The fees above are inclusive of superannuation contributions, capped at the maximum prescribed under Superannuation Guarantee legislation. Non-executive Directors may receive employer superannuation contributions in one of Perpetual's employee superannuation funds or in a complying fund of their choice. Non-executive Directors may also salary-sacrifice superannuation contributions out of their base fee if they so wish.

Total remuneration available to Non-executive Directors of \$2,250,000 was approved by shareholders at the 2006 Annual General Meeting. Total fees paid to Non-executive Directors in FY16 were \$1,285,450. More details are provided in the table below.

RETIREMENT POLICY

Non-executive Directors who have held office for three years since their last appointment must retire and seek re-election at the Annual General Meeting.

In order to revitalise the Board, Perpetual's Non-executive Directors agree not to seek re-election after three terms of three years. However, the Board may invite a Non-executive Director to continue in office beyond nine years if there is a compelling reason and determined by the Board to be in the best interests of shareholders.

No retirement benefits are paid to Non-executive Directors.

REMUNERATION OF THE NON-EXECUTIVE DIRECTORS (STATUTORY REPORTING)

Details of Non-executive Director remuneration are set out in the table below.

| NAME | SHORT-TERM BENEFITS | POST EMPLOYMENT BENEFITS | TOTAL ¹ \$ |
|--|-------------------------------|-----------------------------|--------------------------|
| | PERPETUAL BOARD FEES \$ | SUPERANNUATION \$ | |
| Current Non-executive Directors | | | |
| P B Scott | | | |
| 2016 | 280,692 | 19,308 | 300,000 |
| 2015 | 269,217 | 18,783 | 288,000 |
| P Bullock | | | |
| 2016 | 164,665 | 15,643 | 180,308 |
| 2015 | 154,338 | 14,662 | 169,000 |
| S Falzon | | | |
| 2016 | 170,303 | 16,179 | 186,482 |
| 2015 | 156,164 | 14,836 | 171,000 |
| N Fox | | | |
| 2016 | 126,043 | 11,974 | 138,017 |
| 2015 | - | - | - |
| I Hammond | | | |
| 2016 | 169,322 | 25,085 | 194,407 |
| 2015 | 35,669 | 3,389 | 39,058 |
| C Ueland | | | |
| 2016 | 149,500 | 35,000 | 184,500 |
| 2015 | 143,000 | 35,000 | 178,000 |
| Former Non-executive Directors | | | |
| P V Brasher | | | |
| 2016 | 30,441 | 2,892 | 33,333 |
| 2015 | 177,169 | 16,831 | 194,000 |
| E M Proust | | | |
| 2016 | 62,468 | 5,935 | 68,403 |
| 2015 | 174,429 | 16,571 | 191,000 |
| Total 2016² | 1,153,434 | 132,016 | 1,285,450 |
| Total 2015 | 1,109,986 | 120,072 | 1,230,058 |

1. Non-executive Directors do not receive any non-cash benefits as part of their remuneration.

2. The total Non-executive Director fee increase from 2015 to 2016 was due to a conscious decision to overlap service of departing Directors and ensure continuation of knowledge as new Directors joined the Perpetual Board.

DIRECTORS' REPORT

REMUNERATION REPORT

For the year ended 30 June 2016

ALIGNMENT WITH SHAREHOLDER INTERESTS

The constitution requires Non-executive Directors to acquire a minimum of 500 Perpetual shares on appointment and hold a total of at least 1,000 shares when they have held office for three years. However, Non-executive Directors are encouraged to hold ordinary Perpetual shares equivalent in value to 100% of their annual base fee within a reasonable period of their appointment.

The Non-executive Directors' Share Purchase Plan (now closed) allowed Non-executive Directors to sacrifice up to 50% of their Directors' fees to acquire shares in Perpetual. Shares acquired in this way are not subject to performance targets, as they are acquired in place of cash payments. Following changes to tax rules, this plan was closed on 1 July 2009.

Shares are held in the plan until the earlier of ten years or retirement from the Board.

Non-executive Directors do not receive share options. Directors' holdings held directly or indirectly (for example, through a superannuation fund) are shown below.

Perpetual Directors are required to comply with Perpetual's Hedging and Share Trading policies.

NON-EXECUTIVE DIRECTOR SHAREHOLDINGS HELD DIRECTLY OR INDIRECTLY

| NAME | BALANCE AT THE START OF THE YEAR | OTHER CHANGES DURING THE YEAR | BALANCE AT THE END OF THE YEAR |
|-----------|--|--|--------------------------------------|
| | NUMBER OF SHARES | | |
| P B Scott | 6,646 | 237 | 6,883 |
| P Bullock | 3,063 | 187 | 3,250 |
| S Falzon | 2,267 | 138 | 2,405 |
| N Fox | - | 2,000 | 2,000 |
| I Hammond | 3,750 | - | 3,750 |
| C Ueland | 3,000 | - | 3,000 |

9. KEY TERMS

9.1 Key terms used in this Report

| | |
|--------------------------------|---|
| Annualised target remuneration | The total remuneration calculated as the sum of fixed remuneration, short-term incentive (STI) at target and the face value of long-term incentive (LTI) grants. |
| Balanced scorecard | The business performance measures agreed by the Board to assess Company performance for the purposes of determining the funding of the short-term incentive pool. More details are on pages 34-37. |
| EPS | Earnings per share for the purpose of determining performance against LTI performance targets. When measuring the growth in EPS to determine the vesting of long-term incentive awards, we define EPS as net profit after tax divided by the average number of issued shares during the year. The Board may adjust EPS for items such as those of a capital nature that do not reflect management and employee performance and day-to-day business operations and activities. The underlying principles for making EPS adjustments is that the vesting outcome should reflect the contribution of participants and that the adjustments should not provide a disadvantage or advantage to participants. |
| Executives | The CEO and Managing Director and the Group Executives. |
| Group Executives | Direct reports of the CEO and Managing Director who are disclosed in this report. |
| KMP | Key Management Personnel. Those people who have the authority and responsibility for planning, directing and controlling the Company's activities, either directly or indirectly. Key Management Personnel disclosed in this Report are the CEO and Managing Director, Group Executives and Non-executive Directors of Perpetual. |
| LTI | Long-term incentive. LTI seeks to align executive remuneration with sustainable shareholder wealth creation. More details are on page 38. |
| Market peers | For the purposes of benchmarking remuneration practices and levels, Perpetual's market peers refers to listed companies in the diversified financial services industry (excluding major banks and other financial services companies in the Standard & Poor's (S&P)/ASX 20). |
| NPAT | Net profit after tax. NPAT is the net profit after tax in accordance with the Australian Accounting Standards. |
| Orient Capital | Independent adviser to Perpetual which provides assessment of Relative Total Shareholder Return performance based on Perpetual's comparative peer group. |
| STI | Short-term incentive. An incentive paid to employees for meeting annual targets aimed at delivering our longer-term strategic plan. Under the STI Plan employees may be paid a discretionary incentive (less applicable taxes and superannuation) based on their individual performance as well as business performance. For Executives, a fixed portion of STI is paid in cash and a portion deferred into Perpetual shares. The Board retains discretion to claw back deferred STI shares in certain circumstances. More details are on page 37. |
| TSR | Total shareholder return. TSR is defined as share price growth plus dividends paid over the measurement period. Dividends are assumed to be reinvested on the ex-dividend date. Note: Perpetual's LTI hurdle is Relative TSR. |

DIRECTORS' REPORT

For the year ended 30 June 2016

NON-AUDIT SERVICES PROVIDED BY THE EXTERNAL AUDITOR

Fees for non-audit services paid to KPMG in the current year were \$35,000 (2015: \$52,500).

The Board has a review process in relation to any non-audit services provided by the external auditor. The Board considered the non-audit services provided by the auditor and is satisfied that the provision of these non-audit services by the auditor is compatible with, and does not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor, and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The Lead Auditor's independence declaration for the 30 June 2016 financial year is included at the end of this report.

ROUNDING OFF

The Company is of a kind referred to in *ASIC Corporations Instrument 2016/191* dated 1 April 2016 and, in accordance with that Instrument, amounts in the financial report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors:



Peter Scott
Chairman



Geoff Lloyd
Chief Executive Officer and Managing Director

Sydney
25 August 2016

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Perpetual Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'M McGrath', written in a cursive style.

Martin McGrath

Partner

Sydney

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

DISCLAIMER

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for the 12 months ended 30 June 2016 and should also be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report for the financial year ended 30 June 2016 (FY16). The Group's audited consolidated financial statements were subject to independent audit by KPMG.

No representation or warranty is made as to the accuracy, adequacy or reliability of any statements, estimates, opinions or other information contained in this review (any of which may change without notice). To the maximum extent permitted by law, the Perpetual Group, its Directors, officers, employees, agents and contractors and any other person disclaim all liability and responsibility (including without limitation any liability arising from fault or negligence) for any direct or indirect loss or damage which may be suffered through use of or reliance on anything contained in or omitted from this review.

This review contains forward looking statements. These forward looking statements should not be relied upon as a representation or warranty, express or implied, as to future matters. Prospective financial information has been based on current expectations about future events but is, however, subject to risks, uncertainties, contingencies and assumptions that could cause actual results to differ materially from the expectations described in such prospective financial information. The Perpetual Group undertakes no obligation to update any forward looking statement to reflect events or circumstances after the date of this review, subject to disclosure requirements applicable to the Group.

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NOTES

Note that in this review:

- 1H16 refers to the financial reporting period for the six months ended 31 December 2015
- 2H16 refers to the financial reporting period for the six months ended 30 June 2016
- FY16 refers to the financial reporting period for the 12 months ended 30 June 2016
- with similar abbreviations for previous and subsequent periods.

This is a review of Perpetual's operations for the 12 months ended 30 June 2016 (FY16). It also includes a review of its financial position as at 30 June 2016.

The following information should be read in conjunction with the Group's audited consolidated financial statements and associated notes for FY16.

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

Additional information is available on the Group's website www.perpetual.com.au.

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

1. REVIEW OF GROUP

Perpetual Limited (Perpetual or the Group) is an Australian independent wealth manager operating in Australia and Singapore and provides asset management, financial advice and trustee services. In each of these businesses, Perpetual earns the majority of its revenue from fees charged on assets under either management, advice or administration. Revenue is influenced by movement in the underlying asset values, margin on assets and net client flows. The business model provides Perpetual with recurring revenue streams and leverage to movement in asset values. As Perpetual is a provider of high quality financial services, employment costs comprise the largest component of expenses.

Factors that affect the performance of the business include, amongst others, the performance of the global and Australian economies and financial markets, consumer and investor confidence and government policy.

1.1 Strategy

Perpetual's vision is to be Australia's largest and most trusted independent wealth manager.

Perpetual's Lead & Grow strategy builds on the foundation of its previous three years' transformation strategy maintaining a focus on three core businesses forming a scalable business model, sharing central services and a strong brand.

LEAD, EXTEND, EXPLORE

The Lead & Grow strategy seeks to 'Lead' in each of the Group's core businesses, 'Extend' into nearby adjacencies and 'Explore' new markets and new ventures for the Group over the long term to capture sustainable growth.

Perpetual Investments will seek to maintain its strong leadership position in Australian equities' manufacturing and leverage its capabilities to move into logical, adjacent products and strategies. The growth opportunities for Perpetual Investments, in addition to global equities, are to lead in credit strategies and in multi-asset strategies; specifically with the Pure Credit Alpha product and the Diversified Real Return Fund.

Perpetual Private will maintain its strategic objective to lead in high net worth (HNW) advice and wealth management to its key client segments of 'business owners', 'established wealthy' and 'professionals'. These segments play to our existing strengths across research, investments, advisory expertise, fiduciary services and philanthropy. Perpetual Private will source new prospects through relevant referral channels (including continuing to develop critical relationships with medical specialists following the acquisition of Fintuition) and deepen existing client relationships to maximise the opportunity to cross-sell products and services whilst continuing to transform the client experience to improve client advocacy.

The primary opportunity for Perpetual Corporate Trust is to harness and reinforce the economics of its market leading businesses. Trust Services will enhance its market leading position in the provision of trust, custody and standby services to debt capital and securitisation markets through the provision of value-added services via its data services capability. Fund Services will continue to leverage its scale in the market and expand into adjacencies such as providing responsible entity and investment management services to managed investment schemes.

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

1.2 Group financial performance

The following table summarises the Group's performance in FY15 (restated – see note A below) and FY16.

Financial summary

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 V FY15 | FY16 V FY15 |
|---|--------------|--------------|----------------|----------------|
| Operating revenue | 494.2 | 501.5 | (7.3) | (1%) |
| Total expenses | (316.3) | (312.9) | (3.4) | (1%) |
| Underlying profit before tax (UPBT) | 177.9 | 188.6 | (10.7) | (6%) |
| Underlying profit after tax (UPAT)^{1,2} | 128.2 | 133.7 | (5.5) | (4%) |
| Significant items | 3.8 | (11.2) | 15.0 | 134% |
| Net profit after tax (NPAT) | 132.0 | 122.5 | 9.5 | 8% |
| UPBT margin on revenue (%) | 36 | 38 | (2) | (2) |
| Diluted earnings per share (EPS) ³ on UPAT (cps) | 276.1 | 289.6 | (13.5) | (5%) |
| Diluted EPS on NPAT (cps) | 284.3 | 265.3 | 19.0 | 7% |
| Dividends (cps) | 255.0 | 240.0 | 15.0 | 6% |
| Return on equity (ROE) ⁴ on UPAT (%) | 22 | 24 | (2) | (2) |

1. UPAT attributable to equity holders of Perpetual Limited reflects an assessment of the result for the ongoing business of the Group as determined by the Board and management. 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.

2. Effective tax rate is 28%.

3. Diluted EPS is calculated using the weighted average number of ordinary shares and potential ordinary shares on issue of 46,431,736 for FY16 (FY15: 46,167,094 shares).

4. The return on equity (ROE) quoted in the above table is an annualised rate of return based on actual results for each period. ROE is calculated using the UPAT attributable to equity holders of Perpetual Limited for the period, divided by average equity attributable to equity holders of Perpetual Limited, multiplied by the number of such periods in a calendar year in order to arrive at an annualised ROE.

For the 12 months to 30 June 2016, Perpetual's UPAT was \$128.2 million and NPAT was \$132.0 million. The result reflects a more volatile investment environment and lower average equity markets compared to prior periods.

The FY16 UPAT was 4% lower than FY15 principally due to:

- average levels of the Australian equity market being 6% lower which negatively impacted average funds under management and advice, partially offset by
- underlying new business growth (positive flows and net new clients) and non-market related revenues
- remaining synergies from the acquisition of The Trust Company Limited (TrustCo), and
- cost discipline while continuing to invest in Lead & Grow initiatives.

Note A: During the year, a change in the classification of realised gains or losses resulting from the disposal of Perpetual's seed fund investments has been made. These activities form a part of the Group's operating model, and the disposal of investments occurs on a regular basis. Therefore, it was determined that it was more appropriate to reflect these gains (or losses) as a part of UPAT rather than as significant items. Refer to Section 3.3, Appendix C for further details on prior period adjustments to reflect this change.

The FY16 NPAT was 8% higher than in FY15 mainly due to significant items from one-off recoveries and expenses no longer being incurred in respect of the TrustCo integration program.

The Perpetual Board determined a FY16 fully franked final dividend of 130 cents per share, up 5 cents per share or 4% on FY15. The final dividend is payable on 28 September 2016. Refer to Section 1.3 for details.

The key drivers of revenue and expenses at a Group level are summarised below. Analysis of performance for each of Perpetual's business units is provided in Section 2.

1.2.1 REVENUE

The main drivers of total revenue are the value of funds under management (FUM) in Perpetual Investments and funds under advice (FUA) in Perpetual Private, which are primarily influenced by the level of the Australian equity market. At the end of FY16, Perpetual Investments' FUM and Perpetual Private's FUA were around 80% and 56% exposed to equity markets respectively.

The S&P/ASX All Ordinaries Price Index (All Ords) closed at 5,310 on 30 June 2016, down 3% on the closing level of 5,451 on 30 June 2015. The average All Ords in FY16 (5,238) was down 6% on the average All Ords in FY15 (5,562).

In FY16, Perpetual generated \$494.2 million of total operating revenue, which was \$7.3 million or 1% lower than in FY15. Revenue was negatively impacted by lower levels of FUM and FUA as a result of lower levels of equity markets.

Management has calculated the expected impact on revenue, across the business, for a 1% movement in the All Ords: based on the level of the All Ords at the end of June 2016, a 1% movement impacts annualised revenue by approximately \$2.25 million to \$2.75 million. It is worth noting that this impact is not linear to the movement in 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 impact 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: the performance of funds under the Group's management and advice; the impact and timing of flows on FUM and FUA – inflows, outflows and distributions; and changes in pricing policy, channel and product mix.

1.2.2 EXPENSES

Total expenses in FY16 were \$316.3 million, \$3.4 million or 1% higher than FY15, comprising:

- investments in Lead & Grow initiatives and an increase in depreciation and amortisation from prior year investments partially offset by
- TrustCo expense synergies of \$6.8 million, and
- ongoing cost discipline.

As previously indicated, the integration of TrustCo is complete and is delivering annualised synergy benefits of \$21 million per annum before tax.

1.2.3 SIGNIFICANT ITEMS

Significant items in FY16 contributed an increase of \$15.0 million profit on FY15 primarily as a result of recoveries and expenses no longer being incurred in respect of the TrustCo integration program.

Significant Items

| FOR THE PERIOD | PROFIT/(LOSS) AFTER TAX | | | | | |
|--------------------------------|-------------------------|-------------|-------------|-------------|-------------|-------------|
| | FY16 \$M | FY15 \$M | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
| Significant items: | | | | | | |
| 1. Net recoveries ¹ | 3.6 | - | 2.9 | 0.7 | - | - |
| 2. TrustCo integration costs | - | (11.3) | - | - | (4.4) | (6.9) |
| 3. Gain on sale of business | 0.2 | 0.1 | - | 0.2 | - | 0.1 |
| Total significant items | 3.8 | (11.2) | 2.9 | 0.9 | (4.4) | (6.8) |

1. Relates to TrustCo.

Note the comments previously regarding the reclassification of gains or losses resulting from the disposal of Perpetual's seed fund investments. Refer to Section 3.3, Appendix C for further details.

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

1.3 Shareholder returns and dividends

Shareholder returns

| FOR THE PERIOD | | FY16 | FY15 | FY16 V FY15 | 2H16 | 1H16 | 2H15 | 1H15 |
|-------------------------------------|-------|-------|-------|----------------|-------|-------|-------|-------|
| Diluted EPS on UPAT ¹ | cents | 276.1 | 289.6 | (5%) | 139.2 | 137.3 | 148.1 | 141.4 |
| Diluted EPS on NPAT | cents | 284.3 | 265.3 | 7% | 145.6 | 139.1 | 138.5 | 126.8 |
| Annualised ROE on UPAT ² | % | 21.6 | 23.7 | (2) | 21.6 | 21.6 | 24.0 | 23.5 |
| Annualised ROE on NPAT | % | 22.2 | 21.7 | - | 22.6 | 21.8 | 22.4 | 21.1 |

Dividends

| FOR THE PERIOD | | FY16 | FY15 | FY16 V FY15 | 2H16 | 1H16 | 2H15 | 1H15 |
|--|-------|-------|-------|----------------|-------|-------|-------|-------|
| Fully franked dividends paid/ payable | \$M | 118.8 | 111.8 | 6% | 60.5 | 58.2 | 58.2 | 53.6 |
| Fully franked dividends per ordinary share | cents | 255.0 | 240.0 | 6% | 130.0 | 125.0 | 125.0 | 115.0 |
| Dividend payout ratio ³ | % | 89.7 | 90.5 | (1) | 89.3 | 89.9 | 90.3 | 90.7 |
| Dividends paid/payable as a proportion of NPAT ⁴ | % | 90.0 | 91.3 | (1) | 89.5 | 90.4 | 91.1 | 91.5 |

1. Diluted EPS is calculated using the weighted average number of ordinary 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 or UPAT attributable to Perpetual Limited to equity holders for the period divided by average equity attributable to the equity holders of Perpetual Limited, multiplied by the number of such periods in a calendar year in order to arrive at an annualised ROE.

3. Dividend payout ratio is calculated using dividend(s) paid or resolved to be paid for the relevant period divided by the diluted earnings per share.

4. Based on ordinary fully paid shares at the end of each reporting period.

Perpetual's dividend policy is to pay dividends within a range of 80% to 100% of statutory NPAT on an annualised basis, with a goal to maximise fully franked dividends to shareholders.

A fully franked final dividend for FY16 of 130 cents per share will be payable on 28 September 2016, which represents a dividend payout of 90% of 2H16 NPAT. This takes the full year dividends paid and payable to 255 cents per share, which represents a dividend payout of 90% of FY16 NPAT.

The Dividend Reinvestment Plan (DRP) will be operational for the final dividend. No discount will apply, and the DRP will be met by existing shares acquired on market. The ten-day volume weighted average price (VWAP) pricing period for the final dividend commences on 8 September 2016 and ends on 21 September 2016. A broker will be appointed to acquire existing shares to satisfy the DRP.

The Group's franking credit balance at the end of FY16, prior to the payment of the FY16 final dividend, was \$45.9 million. This will enable \$107.1 million of cash dividends or around 230 cents per share to be fully franked. After payment of the final dividend for FY16, the franking balance is capable of fully franking a further \$46.6 million of cash dividends, or around 100 cents per share.

As at 30 June 2016, Perpetual Limited, the Group's parent entity, had retained earnings of \$160.6 million (equivalent to around 345 cents per share).

1.4 Segment results summary

Perpetual has three business units: Perpetual Investments, Perpetual Private and Perpetual Corporate Trust. 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 Perpetual Corporate Trust.

The key segment results for FY16 are summarised in the table below.

Segment results summary

| FOR THE PERIOD | OPERATING REVENUE | | EBITDA ¹ | | PROFIT BEFORE/ AFTER TAX | |
|---|-------------------|-------------|---------------------|-------------|-----------------------------|--------------|
| | FY16 \$M | FY15 \$M | FY16 \$M | FY15 \$M | FY16 \$M | FY15 \$M |
| Perpetual Investments | 227.9 | 240.0 | 124.9 | 135.1 | 118.1 | 125.6 |
| Perpetual Private | 167.6 | 166.3 | 47.1 | 49.6 | 34.2 | 37.5 |
| Perpetual Corporate Trust | 87.3 | 82.5 | 40.6 | 36.5 | 34.1 | 31.3 |
| Group Support Services | 11.4 | 12.7 | (4.2) | (4.0) | (8.5) | (5.8) |
| Totals before tax and significant items | 494.2 | 501.5 | 208.4 | 217.2 | 177.9 | 188.6 |
| Income tax expense | | | | | (49.7) | (54.9) |
| UPAT before significant items | | | | | 128.2 | 133.7 |
| Significant items after tax: | | | | | | |
| 1. Net recoveries ² | | | | | 3.6 | - |
| 2. TrustCo integration costs | | | | | - | (11.3) |
| 3. Gain on sale of business | | | | | 0.2 | 0.1 |
| Statutory NPAT attributable to equity holders of Perpetual Limited | | | | | 132.0 | 122.5 |

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

2. Relates to TrustCo.

- Perpetual Investment reported profit before tax in FY16 of \$118.1 million, \$7.5 million or 6% lower than in FY15. The result was driven by lower average FUM, partially offset by higher performance fees and lower expenses.
- Perpetual Private reported profit before tax in FY16 of \$34.2 million, \$3.3 million or 9% lower than in FY15. This decrease was due to lower equity markets and investments in Lead & Grow initiatives, partially offset by higher non-market related revenues. Perpetual Private experienced new client growth across the high net worth segments.
- Perpetual Corporate Trust reported profit before tax in FY16 of \$34.1 million, \$2.8 million or 9% higher than in FY15. This increase reflected growth in the underlying Trust and Fund Services businesses.

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1.5 Group financial position

1.5.1 SUMMARY CONSOLIDATED BALANCE SHEET

| AT END OF | 2H16' \$M | 1H16' \$M | 2H15' \$M | 1H15' \$M |
|--|--------------|--------------|--------------|--------------|
| Assets | | | | |
| Cash and cash equivalents | 278.2 | 240.2 | 289.4 | 265.8 |
| Liquid investments | 75.5 | 76.0 | 52.0 | 50.2 |
| Structured products – Perpetual Protected Investments (PPI) loans to clients | - | - | - | 36.0 |
| Goodwill and other intangibles | 310.6 | 314.5 | 304.4 | 307.4 |
| Software | 28.7 | 28.6 | 28.4 | 22.3 |
| Other assets | 160.3 | 151.4 | 157.7 | 159.8 |
| Total assets | 853.3 | 810.7 | 831.9 | 841.5 |
| Liabilities | | | | |
| Corporate loan facility | 87.0 | 87.0 | 87.0 | 87.0 |
| Structured products – PPI finance facilities | - | - | - | 37.0 |
| Other liabilities | 160.8 | 128.3 | 161.2 | 150.2 |
| Total liabilities | 247.8 | 215.3 | 248.2 | 274.2 |
| Net assets | 605.5 | 595.4 | 583.7 | 567.3 |
| Shareholder funds | | | | |
| Contributed equity | 493.5 | 493.2 | 481.9 | 482.1 |
| Reserves | 17.2 | 17.2 | 23.5 | 19.2 |
| Retained earnings | 94.8 | 85.0 | 78.3 | 66.0 |
| Total equity | 605.5 | 595.4 | 583.7 | 567.3 |

1. Excludes the asset and liability for the Perpetual Exact Market Cash Fund (EMCF) structured product.

1.5.2 BALANCE SHEET ANALYSIS

Key movements in Perpetual's consolidated balance sheet are described below.

Cash

Cash and cash equivalents decreased from \$289.4 million at the end of FY15 to \$278.2 million at the end of FY16, a decrease of \$11.1 million or 4%.

Further detail can be found in Section 1.6.1, 'Cash flow'.

Liquid investments

Liquid investments increased to \$75.5 million at the end of FY16 from \$52.0 million at the end of FY15. This increase was predominantly due to the investment of Perpetual Superannuation Limited's operational risk financial requirement in the Perpetual Wholesale Balanced Growth Fund which was previously held as cash. In addition, further investments were made in seed funds and products to hedge against the future cost of certain deferred incentives of the asset managers that have been notionally invested in those products. These increases were offset by depreciation in market valuations.

Goodwill and other intangibles

Goodwill and other intangibles increased by \$6.2 million to \$310.6 million as at 30 June 2016.

Other assets and liabilities

Other assets increased to \$160.3 million from \$157.7 million at the end of FY15 and other liabilities decreased to \$160.8 million from \$161.2 million at the end of FY15. The increase in other assets is primarily attributable to an increase in property, plant and equipment of \$9.5 million. Other liabilities remained relatively flat.

Loans

Movements in loans balances are described in Section 1.6.2, 'Debt'.

Contributed equity

Contributed equity has increased by \$11.6 million since 30 June 2015. This increase is primarily attributable to the vesting of shares under employee share plans.

Reserves

Total reserves have decreased by \$6.3 million to \$17.2 million as at 30 June 2016 due primarily to a decrease in the Equity Compensation Reserve. The decrease in the Equity Compensation Reserve has resulted from a \$12.6 million movement on employee shares, mainly due to the vesting of shares, offset by the FY16 equity remuneration expense.

1.6 Capital management

Perpetual's principles for its capital management are as follows:

- (i) maximising returns to shareholders
- (ii) enabling strategy
- (iii) ensuring compliance with the Group's risk appetite statement and regulatory requirements
- (iv) withstanding shocks to the market.

Perpetual maintains a conservative balance sheet with low gearing levels. As part of its capital management strategy, the Group continually reviews options to ensure that it is optimising its use of capital and maximising returns to shareholders.

The Group uses a risk-based capital model based on the Basel II framework to assess its capital requirements. The model requires capital to be set aside for operational, credit and market risk and any known capital commitments.

At the end of FY16, total base capital requirements were \$179 million (\$160 million for operational risk including regulatory capital requirements, \$13 million for credit risk and \$6 million for market risk), compared to \$340 million of available liquid funds.

During FY16, the Group has continued to focus on a number of initiatives to strengthen its balance sheet, including:

- rationalising the number of licences maintained and reducing the amount of capital required to be held by licensed entities within the Group
- continuing to improve the overall credit quality of the Group's risk assets and reduce exposure to structured products on the balance sheet
- maintaining committed debt facilities of \$130 million, drawn to \$87 million as at 30 June 2016, and
- focusing on ensuring strong discretionary expense discipline across each business unit and support group.

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1.6.1 CASH FLOW

| FOR THE PERIOD | FY16 \$M | FY15 \$M | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|---|---------------|-------------|-------------|---------------|-------------|---------------|
| Net cash from operating activities | 149.8 | 129.2 | 108.3 | 41.5 | 83.5 | 45.7 |
| Net cash provided by/(used in) investing activities | (44.5) | (18.8) | (12.0) | (32.5) | (6.4) | (12.4) |
| Net cash (used in)/provided by financing activities | (116.4) | (103.6) | (58.2) | (58.2) | (53.5) | (50.1) |
| Net increase/(decrease) in cash and cash equivalents | (11.1) | 6.8 | 38.1 | (49.2) | 23.6 | (16.8) |

In FY16, cash and cash equivalents decreased by \$11.1 million compared to an increase of \$6.8 million in FY15. This represented a net decrease in cash flow of \$17.9 million, principally because:

- net cash provided by operating activities increased by \$20.5 million on FY15, primarily due to an increase in net operating cash flows of \$40.9 million offset by an increase in tax payments of \$18.6 million (timing differences)
- net cash used in investing activities increased by \$25.7 million on FY15, primarily due to an increase in net payments for investments of \$22.5 million
- net cash used in financing activities increased by \$12.8 million on FY15, due to an increase in dividend payments of \$18.6 million offset by a decrease in outflows to non-controlling interests of \$5.8 million.

1.6.2 DEBT

| AT END OF | | FY16 | FY15 | 2H16 | 1H16 | 2H15 | 1H15 |
|--|-------|-------------|-------------|-------------|-------------|-------------|-------------|
| Corporate debt | \$M | 87.0 | 87.0 | 87.0 | 87.0 | 87.0 | 87.0 |
| Corporate debt to capital ratio (corporate debt/(corporate debt + equity)) ¹ | % | 12.6 | 13.0 | 12.6 | 12.7 | 13.0 | 13.3 |
| Interest coverage calculation for continuing operations (EBIT/interest expense) | times | 66x | 51x | 69x | 64x | 55x | 48x |
| Net tangible assets per share | \$ | 5.50 | 5.16 | 5.50 | 5.39 | 5.16 | 4.88 |

1. Excludes structured product debt, which is operational debt used to fund PPI loans.

Perpetual's key debt metrics shown in the table above are described as follows.

Debt level: At the end of FY16, Perpetual's gross corporate debt was \$87 million. The Group's gearing ratio at the end of FY16 was 12.6%, compared to 13.0% at the end of FY15. The gearing ratio remains well within Perpetual's stated risk appetite limit of 30%.

Lenders and debt maturity: Perpetual's corporate debt is currently sourced solely from a long-term banking relationship with National Australia Bank. At the end of FY16, the Group had a committed bank corporate debt facility of \$130 million, and \$87 million was drawn. The facility has greater than 12 months to its expiry date of 31 October 2017.

Covenants: Financial covenants related to the debt facility include minimum shareholders' funds, leverage, interest cover, capital adequacy ratios and limits on operational debt. At the end of FY16, the Group was in compliance with all its debt covenants.

Liquidity: 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.

1.7 Regulatory environment

The financial services industry continues to be subject to legislative and regulatory reform which affects or could affect the Group's operations. The table below provides an overview of key regulatory reforms and their impact on the Group.

| REGULATION | OVERVIEW | IMPACT/MANAGEMENT |
|---|---|--|
| Foreign Account Tax Compliance Act (FATCA) | FATCA is a United States (US) law imposing obligations on financial institutions to identify and report on the holdings of US taxpayers. Australia and the US have signed an intergovernmental agreement to implement FATCA, and corresponding legislation has been introduced for Australian financial institutions. | Perpetual entities that are financial institutions under FATCA have implemented the required processes to comply with their FATCA obligations, including Australian Tax Office (ATO) reporting. The Group's FATCA compliance project is now complete. |
| The Common Reporting Standard (CRS) | The CRS is a new global tax reporting regime, modelled on FATCA that requires financial institutions to identify and report foreign resident account holder information to tax authorities (the ATO in Australia). Australian legislation introducing the CRS has been passed and CRS becomes effective on 1 July 2017. | A Group compliance project to implement the CRS has commenced. |
| Australian Securities and Investment Committee (ASIC) policy | ASIC continues to influence the regulatory landscape through the remaking of sun-setting class orders, updates to various ASIC Regulatory Guides and the release of new regulatory instruments. | ASIC's proposed industry funding model will introduce new regulatory costs to the Group. The Group is monitoring for final detail, noting that the framework is proposed to commence in the second half of 2017. ASIC has also provided more certainty in the release of instruments clarifying the product disclosure statement fee and cost disclosure requirements and transitional arrangements. The Group has commenced its implementation response so will be compliant by the required date. |
| Superannuation reforms | Most changes identified in the budget will take effect on 1 July 2017 subject to the passage of supporting legislation. | The Group maintains a watching brief. |

1.8 Business risks

Perpetual's approach to risk management is based on a risk appetite statement set by the Perpetual Board, which outlines the risk boundaries and minimum expectations of Perpetual management. The Board's Audit, Risk and Compliance Committee (ARCC) is responsible for overseeing Perpetual's risk management processes. Perpetual has a dedicated Risk Group function, led by a General Manager, Risk and Internal Audit, which has day-to-day responsibility for the design, implementation and maintenance of Perpetual's risk management framework, and an independent Internal Audit department.

The risk management framework is underpinned by the 'Three Lines of Defence' model. This model sees the first line, being business unit management, accountable for the day-to-day identification and management of risks. The Risk Group represents the second line and is responsible for overseeing first line activities. Internal Audit provides independent assurance, representing the third line, and reports to the ARCC.

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The following table outlines the key business risks faced by Perpetual and the primary mitigants in place to manage those risks.

| RISK | RISK DESCRIPTION/IMPACT | RISK MANAGEMENT |
|-----------------------------|---|---|
| Market | Exposure to, or reliance on, revenue streams linked to equity markets resulting in potentially volatile returns | <ul style="list-style-type: none"> • Diversification of revenue sources • Disciplined and active management of the cost base |
| Investment | The risk of loss resulting from ineffective investment strategies, management or structures resulting in sustained underperformance relative to peers and benchmarks | <ul style="list-style-type: none"> • Well-defined and disciplined investment processes and philosophy for selection • Established investment governance structure in place • Independent mandate monitoring and reporting |
| People | Exposure to changes in personnel, particularly in key investment management roles | <ul style="list-style-type: none"> • Succession planning and talent identification programs, reporting to the People and Remuneration Committee • Alignment of remuneration with long-term investment performance • Remuneration benchmarking • Engagement monitoring |
| Safety | Exposure of staff, customers and suppliers to work health and safety issues with potential detrimental impact | <ul style="list-style-type: none"> • Well-defined policies and procedures • Work health and safety training • Work Health and Safety Committee • Incident and injury management processes |
| Strategic | Adverse strategic decisions, ineffective implementation of strategic decisions, a lack of responsiveness to industry changes or exposure to economic, market or demographic considerations that affect market position | <ul style="list-style-type: none"> • Considered strategic and business planning processes • Strategic measures cascaded through performance management • Application of risk appetite statement in strategic decision making |
| Reputational | The loss of the organisation's reputational capital, arising from adverse events that impact the way Perpetual is perceived in the market. Losses could include destruction of shareholder value, loss of clients and revenue or increased operating, capital or regulatory costs | <ul style="list-style-type: none"> • Application of risk appetite statement • Effective risk management framework that sets out how risk is managed • Effective issues management processes to respond to events that may arise |
| Operational | The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events | <ul style="list-style-type: none"> • Clearly defined policies, procedures, roles and responsibilities • Controls testing in the form of control self-assessment • Independent assurance |
| Financial | Risk of inappropriate use of funds, financial performance not managed to expectations or financial results inappropriately accounted for or disclosed | <ul style="list-style-type: none"> • Budget planning process • Reconciliation and review processes • Regular income and expense reviews • Internal and external auditors |
| Compliance and legal | The risk that Perpetual breaches its compliance and legal obligations, leading to reputation damage, litigation, fines, breach of contract or regulatory intervention and sanctions | <ul style="list-style-type: none"> • Independent Legal and Compliance team, and training across teams • Compliance obligations are documented and monitored • Independent issues assessment |
| Outsourcing | The risk that services performed by external service providers are not managed in line with the servicing contract or the operational standards required, resulting in potential negative impacts to shareholders and/or customers | <ul style="list-style-type: none"> • Partnered with well-regarded and proven strategic partners • Outsourced relationships are managed at a senior level • Outsourcing and vendor management framework, with legal contracts • Service level standards monitored |

| RISK | RISK DESCRIPTION/IMPACT | RISK MANAGEMENT |
|-------------------------------|---|---|
| Cyber | Risk of loss (both data and financial) resulting from unauthorised access to or tampering with Perpetual's IT systems or data | <ul style="list-style-type: none"> • Defined Information Security Program and IT Security policies • Implementation of operational security technology (including firewalls and antivirus) • Security (penetration) testing of key systems |
| Loss of major mandates | Impact upon the profitability and reputation of Perpetual in the event of the loss of key institutional clients | <ul style="list-style-type: none"> • Constant focus on servicing clients to the highest standards • Strong investment governance processes which support transparent and timely reporting to clients • Adherence to long-standing and well-defined investment selection processes and philosophy • Culture of acting in the best interests of our clients |
| Conduct | Manifestation of behaviours and practices that are considered unacceptable, including actions that compromise the best interests of Perpetual's clients and the integrity of the market place | <ul style="list-style-type: none"> • Clearly defined expected behaviours of all individuals that form part of the performance assessment process • Implementation of the 'Three Lines of Defence' risk practices • Whistleblowing arrangements managed by an independent vendor • Enterprise people, risk and compliance training arrangements |

1.9 Outlook

The Group is focused on executing the Lead & Grow strategy. This strategy builds on the strong fundamentals of the Group and is a natural evolution of the Transformation 2015 strategy.

While the long-term outlook for the Group is underpinned by a growing need for savings, advice and income in retirement, the near-term outlook could be impacted by several factors, including investment volatility and economic and political uncertainty that can lower average equity market levels and consumer sentiment. Perpetual will remain disciplined in executing its strategy and in its response to uncertainties.

Given the sensitivity of Perpetual's revenue to Australian equity markets, this outlook is subject to significant variability.

1.10 Events subsequent to balance date

At the time of publication of this report, the Directors were not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report that has affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

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2. REVIEW OF BUSINESSES

The results and drivers of financial performance in FY16 for the three Perpetual business units are described in the following sections. A description of revenues and expenses at the Group Support Services level is also provided.

2.1 Perpetual Investments

2.1.1 BUSINESS OVERVIEW

Perpetual Investments is one of Australia's most highly regarded investment managers, offering a broad range of products for personal investment, superannuation and retirement savings. The business covers a range of asset classes, including Australian and global equities, fixed income and multi-asset strategies. It services a diverse range of client types, from large institutional investors through to smaller retail investors.

2.1.2 FINANCIAL PERFORMANCE

Perpetual Investments financial results

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 v FY15 | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|--|--------------|--------------|----------------|-------------|-------------|-------------|-------------|
| Revenue | 227.9 | 240.0 | (5%) | 117.9 | 110.0 | 120.7 | 119.3 |
| Operating expenses | (103.0) | (104.9) | 2% | (54.0) | (49.0) | (51.7) | (53.2) |
| EBITDA | 124.9 | 135.1 | (8%) | 63.9 | 61.0 | 69.0 | 66.1 |
| Depreciation and amortisation | (2.0) | (1.5) | (33%) | (1.1) | (0.9) | (0.9) | (0.6) |
| Equity remuneration expense | (4.8) | (8.0) | 40% | (1.9) | (2.9) | (2.8) | (5.2) |
| Profit before tax | 118.1 | 125.6 | (6%) | 60.9 | 57.2 | 65.3 | 60.3 |
| Average FUM revenue margin (revenues/average FUM) | 75bps | 74bps | 1bps | 78bps | 73bps | 72bps | 76bps |
| Average FUM | \$30.0B | \$32.3B | (7%) | \$29.9B | \$30.1B | \$33.3B | \$31.2B |

In FY16, profit before tax for Perpetual Investments was \$118.1 million, \$7.5 million or 6% lower than in FY15. The result was driven by lower average FUM, partially offset by higher performance fees and lower expenses. The cost to income ratio in FY16 was 48%, flat on FY15.

2.1.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Investments generated revenue of \$227.9 million in FY16, \$12.1 million or 5% lower than in FY15. The key factor that negatively impacted revenue in FY16 was lower average FUM, as a result of prior period distributions (30 June 2015) and a lower average level of the All Ords, which decreased by 6% on FY15. This was positively offset by higher performance related fees in FY16.

The average FUM in FY16 was \$30.0 billion, 7% lower than in FY15 due to lower average market levels and distributions in the prior period.

Average FUM revenue margins in FY16 were 75 basis points (bps), 1 bps higher than in FY15. 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) and the contribution of performance related fees. Excluding higher performance fees in FY16, underlying average margins were relatively stable on FY15.

Revenues and margins across the mix of asset classes within Perpetual Investments, as well as performance fees, are provided in the tables below.

Revenue by asset class

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 v FY15 | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|-------------------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|
| By asset class: | | | | | | | |
| > Equities | 192.3 | 205.6 | (6%) | 99.2 | 93.1 | 103.7 | 101.9 |
| > Cash and fixed income | 26.5 | 23.3 | 14% | 14.3 | 12.2 | 11.6 | 11.7 |
| > Other FUM related | 8.2 | 9.0 | (9%) | 4.0 | 4.2 | 4.6 | 4.4 |
| > Other non-FUM related | 0.9 | 2.1 | (57%) | 0.4 | 0.5 | 0.8 | 1.3 |
| Revenues | 227.9 | 240.0 | (5%) | 117.9 | 110.0 | 120.7 | 119.3 |

Performance fees

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 v FY15 | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|-------------------------------|-------------|-------------|----------------|-------------|-------------|-------------|-------------|
| By asset class: | | | | | | | |
| > Equities | 9.7 | 8.9 | 9% | 8.2 | 1.5 | 2.1 | 6.8 |
| > Cash and fixed income | 4.5 | 2.1 | 114% | 3.5 | 1.0 | 1.0 | 1.1 |
| Total performance fees | 14.2 | 11.0 | 29% | 11.7 | 2.5 | 3.1 | 7.9 |

Revenue margin

| FOR THE PERIOD | FY16 BPS | FY15 BPS | FY16 v FY15 BPS | 2H16 BPS | 1H16 BPS | 2H15 BPS | 1H15 BPS |
|-------------------------------|-------------|-------------|-----------------------|-------------|-------------|-------------|-------------|
| By asset class: | | | | | | | |
| > Equities | 83 | 82 | 1 | 85 | 81 | 79 | 84 |
| > Cash and fixed income | 44 | 39 | 5 | 48 | 40 | 38 | 40 |
| > Other FUM related | 80 | 85 | (5) | 78 | 83 | 84 | 85 |
| Average revenue margin | 75 | 74 | 1 | 78 | 73 | 72 | 76 |

The drivers of revenue margins by asset class are described below:

- **Equities:** Revenues represent fees earned on Australian and global equities products. Revenue in FY16 was \$192.3 million, a decrease of 6% on FY15. Revenue was mainly negatively impacted by lower average FUM, from lower market levels and the impact of prior year distributions. The average margin in FY16 was 83bps, 1 bps higher than in FY15. The difference was due to channel mix and higher performance fees received in FY16.
- **Cash and fixed income:** Revenues are derived from cash and fixed income products. Revenue in FY16 was \$26.5 million, \$3.2 million or 14% higher than in FY15. The increase in revenue was primarily due to one-off revenue of \$2.5 million from the closure of an internal fund to improve efficiency (which positively impacted margin by 4 bps), and favourable product mix and flows from prior periods.
- **Other FUM related:** Revenue includes management fees for sub-advisory mandates and external funds on the WealthFocus platform. FY16 revenue of \$8.2 million was \$0.8 million or 9% lower than in FY15, mainly due to lower average market levels.
- **Other non-FUM related:** Revenue includes the net interest margin on the structured products loan book and interest earned on operational bank accounts across the business. The revenue decrease in FY16 was mainly due to lower fees earned from the PPI structured products, which has been in run off since 2009 (closed at 30 June 2015) and a lower interest rate environment.

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Expenses

In FY16, total expenses for Perpetual Investments, comprising operating expenses, depreciation, amortisation and equity remuneration, of \$109.8 million were \$4.6 million lower than in FY15. The decrease in expenses was primarily due to:

- lower variable remuneration
- savings associated with the in-house manufacturing of the global equities fund in FY15, and
- one-off launch costs for the initial public offering of Perpetual Equity Investment Company Limited incurred in FY15.

2.1.4 FUNDS UNDER MANAGEMENT

FUM and flows

FUM summary

| AT END OF | FY16 \$B | NET FLOWS \$B | OTHER ¹ \$B | FY15 \$B |
|-------------------------------------|-------------|------------------|---------------------------|-------------|
| Institutional | 9.6 | (0.3) | (0.1) | 10.0 |
| Intermediary (master fund and wrap) | 14.3 | 0.2 | (0.4) | 14.5 |
| Retail | 5.2 | (0.2) | (0.1) | 5.5 |
| Listed Investment Company | 0.3 | - | 0.1 | 0.2 |
| All distribution channels | 29.4 | (0.3) | (0.5) | 30.2 |
| Australian equities | 21.2 | 0.4 | (0.7) | 21.5 |
| Global equities | 1.3 | - | (0.1) | 1.4 |
| Listed Investment Company | 0.3 | - | 0.1 | 0.2 |
| Equities | 22.8 | 0.4 | (0.7) | 23.1 |
| Cash and fixed income | 5.6 | (0.6) | 0.1 | 6.1 |
| Other | 1.0 | (0.1) | 0.1 | 1.0 |
| All asset classes | 29.4 | (0.3) | (0.5) | 30.2 |

1. Includes changes in asset value, income, reinvestments, distributions, and asset class rebalancing within the Group's diversified funds.

Net flows

| FOR THE PERIOD | FY16 \$B | FY15 \$B | 2H16 \$B | 1H16 \$B | 2H15 \$B | 1H15 \$B |
|-------------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|
| Institutional | (0.3) | (0.6) | (0.1) | (0.2) | (1.4) | 0.8 |
| Intermediary (master fund and wrap) | 0.2 | 0.8 | (0.1) | 0.3 | 0.1 | 0.7 |
| Retail | (0.2) | (0.1) | (0.2) | - | - | (0.1) |
| Listed Investment Company | - | 0.2 | - | - | - | 0.2 |
| All distribution channels | (0.3) | 0.3 | (0.4) | 0.1 | (1.3) | 1.6 |
| Australian equities | 0.4 | (0.5) | 0.2 | 0.2 | (1.3) | 0.8 |
| Global equities | - | - | - | - | - | - |
| Listed Investment Company | - | 0.2 | - | - | - | 0.2 |
| Equities | 0.4 | (0.3) | 0.2 | 0.2 | (1.3) | 1.0 |
| Cash and fixed income | (0.6) | 0.6 | (0.5) | (0.1) | - | 0.6 |
| Other | (0.1) | - | (0.1) | - | - | - |
| All asset classes | (0.3) | 0.3 | (0.4) | 0.1 | (1.3) | 1.6 |

Perpetual's FUM as at 30 June 2016 was \$29.4 billion, with net outflows of \$0.3 billion for the full year.

Points of note in relation to the FUM and flows data for FY16:

- inflows were mainly from the intermediary channel, within Australian equities, and
- outflows were primarily from the lower margin institutional channel and cash and fixed income asset classes.

Excess/(under) investment performance per annum – gross as at end June 2016^a

| PERIOD | AUSTRALIAN SHARE FUND | INDUSTRIAL SHARE FUND | SMALLER COMPANIES FUND | CONCENTRATED EQUITY FUND | SHARE PLUS FUND | ETHICAL SHARE FUND | DIVERSIFIED INCOME FUND | PERPETUAL ACTIVE FIXED INTEREST FUND | PERPETUAL GLOBAL SHARE FUND ^b |
|------------|-----------------------|-----------------------|------------------------|--------------------------|-----------------|--------------------|-------------------------|--------------------------------------|--|
| 1 year | - | (3.7%) | (4.2%) | (1.9%) | 0.5% | 6.2% | 1.1% | 0.5% | (4.1%) |
| 3 year pa | (0.2%) | (1.5%) | 6.0% | 0.4% | 3.6% | 5.0% | 2.2% | 0.9% | 4.3% |
| 5 year pa | 1.8% | (0.8%) | 9.8% | 2.9% | 6.8% | 8.7% | 2.6% | 1.3% | 3.5% |
| 7 year pa | 2.5% | (0.6%) | 11.1% | 2.8% | 6.5% | 9.6% | 3.8% | 1.4% | - |
| 10 year pa | 2.1% | 1.0% | 8.6% | 3.3% | 5.0% | 6.7% | 1.1% | 0.9% | - |

a. Compared to relevant benchmarks. The table provides no allowance for management expenses, redemption fees or taxation.

b. Includes performance in the incubation period.

Further to the above, the majority of Perpetual Investments' main funds outperformed over the medium and long-term time horizons and were represented in the first or second quartile of performance rankings over a five, seven and ten-year period¹.

2.2 Perpetual Private

2.2.1 BUSINESS OVERVIEW

Perpetual Private provides financial solutions for high net worth individuals in target segments of 'business owners', 'established wealthy' and 'professionals'. It had \$12.7 billion of FUA at the end of FY16. Perpetual Private aims to be the leading provider of advice and wealth management for high net worth individuals, families, businesses and not-for-profit organisations. A key part of Perpetual Private is its philanthropic business, and Perpetual is one of Australia's largest managers of philanthropic funds, with \$2.4 billion in FUA for charitable trusts and endowment funds as at the end of FY16.

2.2.2 FINANCIAL PERFORMANCE

Perpetual Private financial results

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 v FY15 | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Market related revenue | 107.8 | 110.8 | (3%) | 53.9 | 53.9 | 54.7 | 56.1 |
| Non-market related revenue | 59.8 | 55.5 | 8% | 31.4 | 28.4 | 29.3 | 26.2 |
| Total revenues | 167.6 | 166.3 | 1% | 85.3 | 82.3 | 84.0 | 82.3 |
| Operating expenses | (120.5) | (116.7) | (3%) | (62.0) | (58.5) | (59.2) | (57.5) |
| EBITDA | 47.1 | 49.6 | (5%) | 23.3 | 23.8 | 24.8 | 24.8 |
| Depreciation and amortisation | (9.6) | (9.0) | (7%) | (4.9) | (4.7) | (4.5) | (4.5) |
| Equity remuneration expense | (3.3) | (3.1) | (6%) | (1.4) | (1.9) | (1.7) | (1.4) |
| Profit before tax | 34.2 | 37.5 | (9%) | 17.0 | 17.2 | 18.6 | 18.9 |
| Closing FUA | \$12.7B | \$13.1B | (3%) | \$12.7B | \$12.8B | \$13.1B | \$12.6B |
| Average FUA | \$12.7B | \$13.0B | (2%) | \$12.7B | \$12.8B | \$13.1B | \$12.8B |
| Market related revenue margin | 85bps | 85bps | - | 85bps | 85bps | 83bps | 88bps |

Perpetual Private reported profit before tax of \$34.2 million, \$3.3 million or 9% lower than in FY15. This decrease was due to lower market related revenue due to lower equity markets and continued investments in Lead & Grow initiatives, partially offset by higher non-market related revenues. Perpetual Private experienced new client growth across the high net worth segments. The cost to income ratio in FY16 was 80% compared to 77% in FY15.

1. Mercer wholesale surveys, quartile rankings, June 2016.

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2.2.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Private generated \$167.6 million of total revenue in FY16, \$1.3 million or 1% higher than in FY15. The main drivers of revenue in FY16 were:

- higher non-market related activity (tax and accounting – Fordham and property)
- higher funds management activity, and
- lower average FUA due to equity market declines, which were partially offset by positive net inflows with 100 net new HNWI clients during the year.

Perpetual Private's market related revenue margin was flat in FY16 compared to FY15.

Expenses

Total expenses, comprising operating expenses, depreciation, amortisation and equity remuneration, for Perpetual Private in FY16 were \$133.4 million, \$4.6 million or 4% higher than in FY15. The increase on FY15 was primarily due to:

- investments in Lead & Grow initiatives
- continued investment into Fordham, and
- integration costs associated with the Fintuition acquisition.

2.2.4 FUNDS UNDER ADVICE

Funds under advice

| AT END OF | FY16 \$B | NET FLOWS \$B | OTHER ¹ \$B | FY15 \$B |
|-----------|-------------|------------------|---------------------------|-------------|
| Total FUA | 12.7 | 0.4 | (0.8) | 13.1 |

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

Perpetual Private's FUA at the end of FY16 was \$12.7 billion, \$0.4 billion lower than in FY15 primarily due to lower equity markets, offset by positive net flows and net new clients.

2.3 Perpetual Corporate Trust

2.3.1 BUSINESS OVERVIEW

Perpetual Corporate Trust is a leading provider of corporate trustee services. The business comprises the following:

- **Trust Services** – provision of trustee, custody and standby services to the debt capital and securitisation markets, provision of specialised trust management and accounting services to the debt capital markets, and provision of data warehouse and investor reporting to the Australian securitisation market, and
- **Fund Services** – provision of outsourced responsible entity, trustee and custody services in a variety of asset classes including property, infrastructure, private equity, emerging markets and hedge funds.

2.3.2 FINANCIAL PERFORMANCE

Perpetual Corporate Trust financial results

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 v FY15 | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|-----------------------------------|-------------|-------------|----------------|-------------|-------------|-------------|-------------|
| Trust Services revenue | 48.3 | 43.8 | 10% | 24.6 | 23.7 | 23.0 | 20.8 |
| Fund Services revenue | 39.0 | 38.2 | 2% | 20.3 | 18.7 | 20.2 | 18.0 |
| Total fiduciary services revenues | 87.3 | 82.0 | 6% | 44.9 | 42.4 | 43.2 | 38.8 |
| Sold business RSE ¹ | - | 0.5 | (100%) | - | - | - | 0.5 |
| Total revenues | 87.3 | 82.5 | 6% | 44.9 | 42.4 | 43.2 | 39.3 |
| Operating expenses | (46.7) | (46.0) | (2%) | (24.0) | (22.7) | (23.5) | (22.5) |
| EBITDA | 40.6 | 36.5 | 11% | 20.9 | 19.7 | 19.7 | 16.8 |
| Depreciation and amortisation | (5.1) | (4.1) | (24%) | (2.8) | (2.3) | (2.1) | (2.0) |
| Equity remuneration expense | (1.4) | (1.1) | (27%) | (0.6) | (0.8) | (0.6) | (0.5) |
| Profit before tax | 34.1 | 31.3 | 9% | 17.5 | 16.6 | 17.0 | 14.3 |
| Funds under administration | | | | | | | |
| - Trust Services | \$427.5B | \$379.6B | 13% | \$427.5B | \$413.6B | \$379.6B | \$359.5B |
| - Fund Services | \$193.0B | \$178.6B | 8% | \$193.0B | \$186.5B | \$178.6B | \$178.2B |

1. The Trust Company (Superannuation) Limited (RSE) was sold on 1 July 2014.

Perpetual Corporate Trust's FY16 profit before tax was \$34.1 million, \$2.8 million or 9% higher than in FY15. This increase on FY15 reflected growth in the underlying Trust and Fund Services businesses. The cost to income ratio in FY16 was 61%, 1% lower than in FY15.

2.3.3 DRIVERS OF PERFORMANCE

Revenue

Perpetual Corporate Trust generated total revenues of \$87.3 million in FY16, \$4.8 million or 6% higher than in FY15. The main drivers of the improvement in revenue were the continued growth in the securitisation market in Australia and inbound capital flows into property and infrastructure investments.

In FY16, Trust Services revenue was \$48.3 million, \$4.5 million or 10% higher than in FY15. The primary drivers for the increase on FY15 were:

- the improvement in the securitisation markets for asset-backed securities in Australia, in particular, auto finance and consumer finance markets and
- further uptake of the data services solution in response to changes mandated by the Reserve Bank of Australia to standardise and enhance reportable data in the securitisation market.

Revenue also benefited from higher average FUA levels of RMBS in FY16 compared to FY15.

In FY16, Fund Services revenue was \$39.0 million, \$0.8 million or 2% higher than in FY15, driven primarily by continued inbound capital flows into property and infrastructure investments. Excluding the previously disclosed \$2.0 million of non-recurring revenue in FY15, the underlying Fund Services business grew by 8% in FY16.

Expenses

Perpetual Corporate Trust incurred total expenses of \$53.2 million in FY16, comprising operating expenses, depreciation, amortisation and equity remuneration expenses. Total expenses were \$2.0 million or 4% higher than in FY15.

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2.3.4 FUNDS UNDER ADMINISTRATION

Funds under administration (FUA)

| AT END OF | 2H16 \$B | 1H16 \$B | 2H15 \$B | 1H15 \$B |
|---|--------------|--------------|--------------|--------------|
| Market securitisation | | | | |
| RMBS - bank | 49.9 | 50.7 | 52.9 | 51.0 |
| RMBS - non-bank | 48.7 | 49.2 | 47.8 | 45.5 |
| CMBS and ABS | 44.9 | 42.0 | 28.9 | 31.7 |
| Balance sheet securitisation | | | | |
| RMBS - repos | 212.0 | 203.7 | 183.2 | 168.9 |
| Covered bonds | 72.0 | 68.0 | 66.8 | 62.4 |
| Total FUA – Trust Services¹ | 427.5 | 413.6 | 379.6 | 359.5 |
| Fund Services | 193.0 | 186.5 | 178.6 | 178.2 |
| Total FUA | 620.5 | 600.1 | 558.2 | 537.7 |

¹ Includes warehouse and liquidity finance facilities.

Trust Services

At the end of FY16, FUA in Trust Services was \$427.5 billion, an increase of \$47.9 billion or 13% on FY15.

FUA increased across the majority of asset classes, with significant growth seen in ABS, RMBS – repos and covered bonds, up 48%, 13% and 10% respectively on FY15. The increase in FUA in ABS is attributable to acquisition activity in the auto finance and consumer finance securitised asset portfolios.

The growth in repo and covered bonds FUA is due in part to the banks' response to increased liquidity targets required under Basel III. This growth had the effect of reducing average revenue margins, as these asset classes earn lower fees relative to the other asset classes.

RMBS – non-bank FUA in FY16 was \$48.7 billion, \$0.9 billion or 2% higher than in FY15. RMBS – bank FUA in FY16 was \$49.9 billion, \$3.0 billion or 6% lower than FY15 with lower levels of issuance following widening credit spreads throughout FY16. RMBS runoff rates have been largely consistent to FY15 levels.

Fund Services

At the end of FY16, Fund Services FUA was \$193.0 billion, an increase of \$14.4 billion or 8% on FY15, driven by growth in the Fund Services business. As previously disclosed in 1H16, FY15 FUA was adjusted downwards by \$8 billion or 4%. This correction had no revenue impact.

2.4 Group Support Services

2.4.1 OVERVIEW

Costs that have been retained by Group Support Services reflect costs that management deems to be associated with corporate functions rather than reportable business segment activity. These include costs associated with the Board of Directors and 50% of the costs associated with the Group Executives of each of the Group Support Services business units (CEO, Corporate Services and People and Culture). Costs and revenues associated with the capital structure of the Group, including interest income, financing costs and ASX listing fees are also retained within Group Support Services.

2.4.2 FINANCIAL PERFORMANCE

Group Support Services financial results

| FOR THE PERIOD | FY16 \$M | FY15 \$M | FY16 v FY15 | 2H16 \$M | 1H16 \$M | 2H15 \$M | 1H15 \$M |
|-------------------------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|
| Revenue | 11.4 | 12.7 | (10%) | 5.4 | 6.0 | 4.7 | 8.0 |
| Operating expenses | (15.6) | (16.7) | 7% | (8.3) | (7.3) | (9.5) | (7.2) |
| EBITDA | (4.2) | (4.0) | (5%) | (2.9) | (1.3) | (4.8) | 0.8 |
| Depreciation and amortisation | (0.2) | (0.2) | - | (0.1) | (0.1) | (0.1) | (0.1) |
| Equity remuneration expense | (1.3) | 1.9 | (168%) | (1.0) | (0.3) | 2.1 | (0.2) |
| Interest expense | (2.8) | (3.5) | 20% | (1.4) | (1.4) | (1.7) | (1.8) |
| Profit before tax | (8.5) | (5.8) | (47%) | (5.4) | (3.1) | (4.5) | (1.3) |

FY16 revenue from the Group's cash and principal investments of \$11.4 million was \$1.3 million or 10% lower than in FY15, mainly due to lower average cash balances and lower gains from the disposal of Perpetual's seed fund investments.

Operating expenses in FY16 of \$15.6 million were \$1.1 million lower than in FY15. Savings were primarily due to premises costs being lower, with the movement in equity remuneration expense due to the write-back of some allocated equity in FY15.

Note the comments previously regarding the reclassification of gains or losses resulting from the disposal of Perpetual's seed fund investments. Refer to Section 3.3, Appendix C for further details.

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3. APPENDICES

3.1 Appendix A: Segment results

| PERIOD | FY16 | | | | 2H16 | |
|-------------------------------|---------------------------|-----------------------|-------------------------------|----------------------------|--------------|---------------------------|
| | PERPETUAL INVESTMENTS \$M | PERPETUAL PRIVATE \$M | PERPETUAL CORPORATE TRUST \$M | GROUP SUPPORT SERVICES \$M | TOTAL \$M | PERPETUAL INVESTMENTS \$M |
| Operating revenue | 227.9 | 167.6 | 87.3 | 11.4 | 494.2 | 117.9 |
| Operating expenses | (103.0) | (120.5) | (46.7) | (15.6) | (285.8) | (54.0) |
| EBITDA | 124.9 | 47.1 | 40.6 | (4.2) | 208.4 | 63.9 |
| Depreciation and amortisation | (2.0) | (9.6) | (5.1) | (0.2) | (16.9) | (1.1) |
| Equity remuneration | (4.8) | (3.3) | (1.4) | (1.3) | (10.8) | (1.9) |
| EBIT | 118.1 | 34.2 | 34.1 | (5.7) | 180.7 | 60.9 |
| Interest expense | - | - | - | (2.8) | (2.8) | - |
| UPBT | 118.1 | 34.2 | 34.1 | (8.5) | 177.9 | 60.9 |

| PERIOD | FY15 | | | | 2H15 | |
|-------------------------------|---------------------------|-----------------------|-------------------------------|----------------------------|--------------|---------------------------|
| | PERPETUAL INVESTMENTS \$M | PERPETUAL PRIVATE \$M | PERPETUAL CORPORATE TRUST \$M | GROUP SUPPORT SERVICES \$M | TOTAL \$M | PERPETUAL INVESTMENTS \$M |
| Operating revenue | 240.0 | 166.3 | 82.5 | 12.7 | 501.5 | 120.7 |
| Operating expenses | (104.9) | (116.7) | (46.0) | (16.7) | (284.3) | (51.7) |
| EBITDA | 135.1 | 49.6 | 36.5 | (4.0) | 217.2 | 69.0 |
| Depreciation and amortisation | (1.5) | (9.0) | (4.1) | (0.2) | (14.8) | (0.9) |
| Equity remuneration | (8.0) | (3.1) | (1.1) | 1.9 | (10.3) | (2.8) |
| EBIT | 125.6 | 37.5 | 31.3 | (2.3) | 192.1 | 65.3 |
| Interest expense | - | - | - | (3.5) | (3.5) | - |
| UPBT | 125.6 | 37.5 | 31.3 | (5.8) | 188.6 | 65.3 |

| 2H16 | | | | | 1H16 | | | | |
|-----------------------|-------------------------------|----------------------------|--------------|---------------------------|-----------------------|-------------------------------|----------------------------|--------------|--|
| PERPETUAL PRIVATE \$M | PERPETUAL CORPORATE TRUST \$M | GROUP SUPPORT SERVICES \$M | TOTAL \$M | PERPETUAL INVESTMENTS \$M | PERPETUAL PRIVATE \$M | PERPETUAL CORPORATE TRUST \$M | GROUP SUPPORT SERVICES \$M | TOTAL \$M | |
| 85.3 | 44.9 | 5.4 | 253.5 | 110.0 | 82.3 | 42.4 | 6.0 | 240.7 | |
| (62.0) | (24.0) | (8.3) | (148.3) | (49.0) | (58.5) | (22.7) | (7.3) | (137.5) | |
| 23.3 | 20.9 | (2.9) | 105.2 | 61.0 | 23.8 | 19.7 | (1.3) | 103.2 | |
| (4.9) | (2.8) | (0.1) | (8.9) | (0.9) | (4.7) | (2.3) | (0.1) | (8.0) | |
| (1.4) | (0.6) | (1.0) | (4.9) | (2.9) | (1.9) | (0.8) | (0.3) | (5.9) | |
| 17.0 | 17.5 | (4.0) | 91.4 | 57.2 | 17.2 | 16.6 | (1.7) | 89.3 | |
| - | - | (1.4) | (1.4) | - | - | - | (1.4) | (1.4) | |
| 17.0 | 17.5 | (5.4) | 90.0 | 57.2 | 17.2 | 16.6 | (3.1) | 87.9 | |

| 2H15 | | | | | 1H15 | | | | |
|-----------------------|-------------------------------|----------------------------|--------------|---------------------------|-----------------------|-------------------------------|----------------------------|--------------|--|
| PERPETUAL PRIVATE \$M | PERPETUAL CORPORATE TRUST \$M | GROUP SUPPORT SERVICES \$M | TOTAL \$M | PERPETUAL INVESTMENTS \$M | PERPETUAL PRIVATE \$M | PERPETUAL CORPORATE TRUST \$M | GROUP SUPPORT SERVICES \$M | TOTAL \$M | |
| 84.0 | 43.2 | 4.7 | 252.6 | 119.3 | 82.3 | 39.3 | 8.0 | 248.9 | |
| (59.2) | (23.5) | (9.5) | (143.9) | (53.2) | (57.5) | (22.5) | (7.2) | (140.4) | |
| 24.8 | 19.7 | (4.8) | 108.7 | 66.1 | 24.8 | 16.8 | 0.8 | 108.5 | |
| (4.5) | (2.1) | (0.1) | (7.6) | (0.6) | (4.5) | (2.0) | (0.1) | (7.2) | |
| (1.7) | (0.6) | 2.1 | (3.0) | (5.2) | (1.4) | (0.5) | (0.2) | (7.3) | |
| 18.6 | 17.0 | (2.8) | 98.1 | 60.3 | 18.9 | 14.3 | 0.5 | 94.0 | |
| - | - | (1.7) | (1.7) | - | - | - | (1.8) | (1.8) | |
| 18.6 | 17.0 | (4.5) | 96.4 | 60.3 | 18.9 | 14.3 | (1.3) | 92.2 | |

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3.2 Appendix B: Bridge for FY16 statutory accounts and OFR

| | FY16 STATUTORY ACCOUNTS \$'000 | OFR UPAT ADJUSTMENTS \$'000 | FY16 OFR \$'000 |
|---|---|-----------------------------------|-----------------------|
| Revenue | 507,729 | (13,529) | 494,200 |
| Staff related expenses excluding equity remuneration expense | (174,427) | - | (174,427) |
| Occupancy expenses | (17,152) | - | (17,152) |
| Administrative and general expenses | (95,706) | 1,653 | (94,053) |
| Distributions and expenses relating to structured products | (6,496) | 6,496 | - |
| Equity remuneration expense | (10,703) | - | (10,703) |
| Depreciation and amortisation expense | (16,933) | - | (16,933) |
| Impairment of assets | (191) | - | (191) |
| Financing costs | (2,809) | - | (2,809) |
| Net profit before tax | 183,312 | (5,380) | 177,932 |
| Income tax expense | (51,307) | 1,568 | (49,739) |
| Net profit after tax | 132,005 | (3,812) | 128,193 |
| Net profit after tax consolidated entity | 132,005 | (3,812) | 128,193 |
| Net profit after tax attributable to equity holders of Perpetual Limited | 132,005 | (3,812) | 128,193 |
| Net recoveries | | | 3,659 |
| Gain on sale of businesses | | | 153 |
| Net profit after tax attributable to equity holders | | | 132,005 |

| | EMCF \$'000 | GAIN ON SALE OF BUSINESSES \$'000 | NET RECOVERIES \$'000 | TOTAL ADJUSTMENTS \$'000 |
|--|----------------|---|-----------------------------|--------------------------------|
| | (6,496) | (153) | (6,880) | (13,529) |
| | | | | - |
| | | | | - |
| | | | 1,653 | 1,653 |
| | 6,496 | | | 6,496 |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| | - | (153) | (5,227) | (5,380) |
| | - | - | 1,568 | 1,568 |
| | - | (153) | (3,659) | (3,812) |
| | - | (153) | (3,659) | (3,812) |
| | - | (153) | (3,659) | (3,812) |

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

3.3 Appendix C: Reclassification from significant items to UPAT

UPAT movement FY16

| FOR THE PERIOD | POST ADJUSTMENT OF SEED FUNDS DISPOSAL | | |
|--|--|-------------|-------------|
| | FY16 \$M | 2H16 \$M | 1H16 \$M |
| Operating revenue | 494.2 | 253.5 | 240.7 |
| Total expenses | (316.3) | (163.5) | (152.8) |
| Underlying profit before tax (UPBT) | 177.9 | 90.0 | 87.9 |
| Underlying profit after tax (UPAT) | 128.2 | 64.7 | 63.5 |
| Significant items | 3.8 | 2.9 | 0.9 |
| Net profit after tax (NPAT) | 132.0 | 67.6 | 64.4 |

UPAT movement FY15

| FOR THE PERIOD | POST ADJUSTMENT OF SEED FUNDS DISPOSAL | | |
|--|--|-------------|-------------|
| | FY15 \$M | 2H15 \$M | 1H15 \$M |
| Operating revenue | 501.5 | 252.6 | 248.9 |
| Total expenses | (312.9) | (156.2) | (156.7) |
| Underlying profit before tax (UPBT) | 188.6 | 96.4 | 92.2 |
| Underlying profit after tax (UPAT) | 133.7 | 68.3 | 65.4 |
| Significant items | (11.2) | (4.4) | (6.8) |
| Net profit after tax (NPAT) | 122.5 | 63.9 | 58.6 |

As previously mentioned, during the year a change in the classification of realised gains or losses resulting from the disposal of Perpetual's seed fund investments has been made. These activities form a part of the Group's operating model, and the disposal of investments, either those held directly or within the underlying investments of the seed funds themselves, occurs on a regular basis. Therefore, it was determined that it was more appropriate to reflect these gains (or losses) as a part of UPAT rather than as significant items. The table above illustrates the movements.

| PRE ADJUSTMENT OF SEED FUNDS DISPOSAL | | | MOVEMENT IN UPAT | | |
|---------------------------------------|-------------|-------------|------------------|-------------|--------------|
| FY16 \$M | 2H16 \$M | 1H16 \$M | FY16 \$M | 2H16 \$M | 1H16 \$M |
| 492.1 | 251.4 | 240.7 | 2.1 | 2.1 | - |
| (316.2) | (163.5) | (152.7) | (0.1) | - | (0.1) |
| 175.9 | 87.9 | 88.0 | 2.0 | 2.1 | (0.1) |
| 125.9 | 62.3 | 63.6 | 2.3 | 2.4 | (0.1) |
| 6.1 | 5.3 | 0.8 | (2.3) | (2.4) | 0.1 |
| 132.0 | 67.6 | 64.4 | - | - | - |

| PRE ADJUSTMENT OF SEED FUNDS DISPOSAL | | | MOVEMENT IN UPAT | | |
|---------------------------------------|-------------|-------------|------------------|--------------|-------------|
| FY15 \$M | 2H15 \$M | 1H15 \$M | FY15 \$M | 2H15 \$M | 1H15 \$M |
| 497.1 | 252.6 | 244.5 | 4.4 | - | 4.4 |
| (312.8) | (156.2) | (156.6) | (0.1) | - | (0.1) |
| 184.3 | 96.4 | 87.9 | 4.3 | - | 4.3 |
| 130.5 | 68.4 | 62.1 | 3.2 | (0.1) | 3.3 |
| (8.0) | (4.5) | (3.5) | (3.2) | 0.1 | (3.3) |
| 122.5 | 63.9 | 58.6 | - | - | - |

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

3.4 Appendix D: Average funds under management

Average FUM by asset class

| FOR THE PERIOD | FY16 \$B | FY15 \$B | FY16 v FY15 | 2H16 \$B | 1H16 \$B | 2H15 \$B | 1H15 \$B |
|---------------------------|-------------|-------------|----------------|-------------|-------------|-------------|-------------|
| Australian equities | 21.4 | 23.7 | (10%) | 21.5 | 21.3 | 24.4 | 22.9 |
| Global equities | 1.3 | 1.4 | (7%) | 1.3 | 1.4 | 1.5 | 1.3 |
| Listed Investment Company | 0.3 | 0.1 | 200% | 0.3 | 0.3 | 0.2 | - |
| Total equities | 23.0 | 25.2 | (9%) | 23.1 | 23.0 | 26.1 | 24.2 |
| Cash and fixed income | 6.0 | 6.0 | - | 5.8 | 6.1 | 6.1 | 5.9 |
| Other | 1.0 | 1.1 | (9%) | 1.0 | 1.0 | 1.1 | 1.1 |
| Total average FUM | 30.0 | 32.3 | (7%) | 29.9 | 30.1 | 33.3 | 31.2 |

3.5 Appendix E: Full time equivalent employees (FTE)

Total FTE employees

| AT END OF | 2H16 | 1H16 | 2H15 | 1H15 |
|---------------------------|------------|------------|------------|------------|
| Perpetual Investments | 171 | 170 | 168 | 163 |
| Perpetual Private | 378 | 377 | 369 | 373 |
| Perpetual Corporate Trust | 158 | 162 | 163 | 156 |
| Group Support Services | 176 | 157 | 166 | 194 |
| Total operations | 883 | 866 | 866 | 886 |
| Permanent | 849 | 845 | 837 | 857 |
| Contractors | 34 | 21 | 29 | 29 |
| Total operations | 883 | 866 | 866 | 886 |

3.6 Appendix F: Dividend history

In February 2009, Perpetual announced that it had revised its dividend policy to a payout ratio range of between 80% and 100% of net profit after tax on an annualised basis.

| YEAR | DIVIDEND | DATE PAID | DIVIDEND PER SHARE | FRANKING RATE | COMPANY TAX RATE | DRP PRICE |
|------|----------|-------------|--------------------|---------------|------------------|---------------------------------------|
| FY16 | Final | 28 Sep 2016 | 130 cents | 100% | 30% | Not determined at time of publication |
| FY16 | Interim | 24 Mar 2016 | 125 cents | 100% | 30% | \$42.93 |
| FY15 | Final | 25 Sep 2015 | 125 cents | 100% | 30% | \$40.61 |
| FY15 | Interim | 27 Mar 2015 | 115 cents | 100% | 30% | \$54.20 |
| FY14 | Final | 3 Oct 2014 | 95 cents | 100% | 30% | \$45.54 |
| FY14 | Interim | 4 Apr 2014 | 80 cents | 100% | 30% | \$50.32 |
| FY13 | Final | 4 Oct 2013 | 80 cents | 100% | 30% | \$38.66 |
| FY13 | Interim | 5 Apr 2013 | 50 cents | 100% | 30% | \$40.71 |
| FY12 | Final | 5 Oct 2012 | 40 cents | 100% | 30% | \$27.00 |
| FY12 | Interim | 29 Mar 2012 | 50 cents | 100% | 30% | \$24.34 |
| FY11 | Final | 27 Sep 2011 | 90 cents | 100% | 30% | \$22.40 |
| FY11 | Interim | 30 Mar 2011 | 95 cents | 100% | 30% | \$28.44 |
| FY10 | Final | 28 Sep 2010 | 105 cents | 100% | 30% | \$29.60 |
| FY10 | Interim | 1 Apr 2010 | 105 cents | 100% | 30% | \$35.21 |
| FY09 | Final | 30 Sep 2009 | 60 cents | 100% | 30% | \$37.78 |
| FY09 | Interim | 13 Mar 2009 | 40 cents | 100% | 30% | N/A |
| FY08 | Final | 12 Sep 2008 | 141 cents | 100% | 30% | N/A |
| FY08 | Interim | 14 Mar 2008 | 189 cents | 100% | 30% | N/A |
| FY07 | Final | 14 Sep 2007 | 187 cents | 100% | 30% | N/A |
| FY07 | Interim | 16 Mar 2007 | 173 cents | 100% | 30% | N/A |
| FY06 | Special | 12 Sep 2006 | 100 cents | 100% | 30% | N/A |
| FY06 | Final | 12 Sep 2006 | 164 cents | 100% | 30% | N/A |
| FY06 | Interim | 17 Mar 2006 | 162 cents | 100% | 30% | N/A |
| FY05 | Special | 12 Sep 2005 | 100 cents | 100% | 30% | N/A |
| FY05 | Final | 12 Sep 2005 | 130 cents | 100% | 30% | N/A |
| FY05 | Interim | 18 Mar 2005 | 130 cents | 100% | 30% | N/A |
| FY04 | Special | 17 Sep 2004 | 200 cents | 100% | 30% | N/A |
| FY04 | Final | 17 Sep 2004 | 80 cents | 100% | 30% | N/A |
| FY04 | Special | 23 Jun 2004 | 50 cents | 100% | 30% | N/A |
| FY04 | Interim | 19 Mar 2004 | 70 cents | 100% | 30% | N/A |
| FY03 | Final | 3 Sep 2003 | 70 cents | 100% | 30% | N/A |
| FY03 | Special | 25 Jun 2003 | 50 cents | 100% | 30% | N/A |
| FY03 | Interim | 21 Mar 2003 | 60 cents | 100% | 30% | N/A |

OPERATING AND FINANCIAL REVIEW

For the year ended 30 June 2016

3.7 Glossary

| | |
|----------|---|
| ABS | Asset-backed securities |
| AFSL | Australian Financial Services Licence |
| AICD | Australian Institute of Company Directors |
| All Ords | All Ordinaries Price Index |
| ANR | Annualised Net Revenue |
| ARCC | Audit, Risk and Compliance Committee |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| ATO | Australian Taxation Office |
| B | Billion |
| bps | Basis point (0.01 of 1%) |
| CMBS | Commercial mortgage-backed securities |
| cps | Cents per share |
| CRS | Common Reporting Standard |
| DPS | Dividend(s) per share |
| DRP | Dividend Reinvestment Plan |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation of intangible assets, equity remuneration expense, and significant items |
| EMCF | Perpetual Exact Market Cash Fund |
| EPS | Earnings per share |
| FATCA | Foreign Account Tax Compliance Act |
| Finsia | Financial Services Institute of Australasia |

| | |
|----------------|---|
| FTE | Full time equivalent employee |
| FUA | Funds under advice or funds under administration |
| FUM | Funds under management |
| Group | Perpetual Limited and its controlled entities (the consolidated entity) and the consolidated entity's interests in associates |
| HNW | High net worth |
| M | Million |
| NPAT | Net profit after tax |
| OFR | Operating and Financial Review |
| PCT | Perpetual Corporate Trust |
| PI | Perpetual Investments |
| PP | Perpetual Private |
| PPA | Purchase price allocation |
| PPI | Perpetual Protected Investments |
| RBA | Reserve Bank of Australia |
| RMBS | Residential mortgage-backed securities |
| ROE | Return on equity |
| RSE | The Trust Company (Superannuation) Limited, which was sold on 1 July 2014 |
| S&P | Standard & Poor's |
| TrustCo | The Trust Company Limited |
| UPAT | Underlying profit after tax |
| UPBT | Underlying profit before tax |
| VWAP | Volume weighted average price |

FINANCIAL REPORT

FINANCIAL STATEMENTS OF PERPETUAL LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2016

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

| | SECTION | 2016 \$'000 | 2015 \$'000 |
|--|---------|----------------|----------------|
| Revenue | 1-2 | 507,729 | 510,877 |
| Expenses | 1-3 | (321,608) | (333,250) |
| Financing costs | | (2,809) | (3,472) |
| Net profit before tax | | 183,312 | 174,155 |
| Income tax expense | 1-4 | (51,307) | (50,352) |
| Net profit after tax | | 132,005 | 123,803 |
| Other comprehensive income | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges – net change in fair value of effective portion | | - | 317 |
| Foreign currency translation differences – foreign operations | | 54 | 36 |
| Available-for-sale financial assets – net change in fair value | | (7,519) | 4,807 |
| Impairment of available-for-sale financial assets reclassified to profit or loss | | 191 | 63 |
| Loss on previously impaired available-for-sale financial assets reclassified to profit or loss upon disposal | | (19) | (2,047) |
| Income tax on items that may be reclassified to profit or loss | 1-4 | 2,204 | (1,323) |
| Other comprehensive income, net of income tax | | (5,089) | 1,853 |
| Total comprehensive income | | 126,916 | 125,656 |
| Net profit after tax attributable to: | | | |
| Equity holders of Perpetual Limited | | 132,005 | 122,484 |
| Non-controlling interests | | - | 1,319 |
| | | 132,005 | 123,803 |
| Total comprehensive income attributable to: | | | |
| Equity holders of Perpetual Limited | | 126,916 | 125,604 |
| Non-controlling interests | | - | 52 |
| Total comprehensive income | | 126,916 | 125,656 |
| Earnings per share | | | |
| Basic earnings per share – cents per share | 1-5 | 290.8 | 273.7 |
| Diluted earnings per share – cents per share | 1-5 | 284.3 | 265.3 |

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the 'Notes to and forming part of the financial statements' set out on pages 93 to 135.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | SECTION | 2016 \$'000 | 2015 \$'000 |
|---|---------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 3-1 | 278,230 | 289,356 |
| Receivables | 2-2 | 88,156 | 91,435 |
| Structured products – EMCF assets | 5-1 | 299,694 | 294,882 |
| Prepayments | | 12,129 | 10,736 |
| Total current assets | | 678,209 | 686,409 |
| Other financial assets | 2-3 | 75,493 | 52,042 |
| Property, plant and equipment | 2-4 | 24,832 | 15,348 |
| Intangibles | 2-5 | 339,324 | 332,756 |
| Deferred tax assets | 1-4 | 30,384 | 30,225 |
| Prepayments | | 5,067 | 6,550 |
| Total non-current assets | | 475,100 | 436,921 |
| Total assets | | 1,153,309 | 1,123,330 |
| Liabilities | | | |
| Payables | | 38,523 | 37,167 |
| Structured products – EMCF liabilities | 5-1 | 299,971 | 291,478 |
| Current tax liabilities | 1-4 | 21,863 | 27,491 |
| Employee benefits | 2-7 | 49,871 | 48,584 |
| Provisions | 2-6 | 1,570 | 6,019 |
| Total current liabilities | | 411,798 | 410,739 |
| Payables | | 3,568 | - |
| Borrowings | 3-2 | 87,000 | 87,000 |
| Deferred tax liabilities | 1-4 | 20,125 | 19,591 |
| Employee benefits | 2-7 | 6,860 | 5,033 |
| Provisions | 2-6 | 18,439 | 17,273 |
| Total non-current liabilities | | 135,992 | 128,897 |
| Total liabilities | | 547,790 | 539,636 |
| Net assets | | 605,519 | 583,694 |
| Equity | | | |
| Contributed equity | 3-3 | 493,465 | 481,888 |
| Reserves | 3-4 | 17,165 | 23,482 |
| Retained earnings | | 94,889 | 78,324 |
| Total equity attributable to equity holders of Perpetual Limited | | 605,519 | 583,694 |
| Non-controlling interest | | - | - |
| Total equity | | 605,519 | 583,694 |

The Consolidated Statement of Financial Position is to be read in conjunction with the 'Notes to and forming part of the financial statements' set out on pages 93 to 135.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

| \$'000 | GROSS CONTRIBUTED EQUITY | TREASURY SHARE RESERVE | EQUITY COMPENSATION RESERVE | OTHER RESERVES | RETAINED EARNINGS | EQUITY HOLDERS OF PERPETUAL | NON-CONTROLLING INTEREST | TOTAL |
|--------------------------------------|--------------------------|------------------------|-----------------------------|----------------|-------------------|-----------------------------|--------------------------|----------------|
| Balance at 1 July 2015 | 551,926 | (70,038) | 14,865 | 8,617 | 78,324 | 583,694 | - | 583,694 |
| Total comprehensive income/(expense) | - | - | - | (5,089) | 132,005 | 126,916 | - | 126,916 |
| Movement on treasury shares | 829 | 10,748 | (12,573) | - | 996 | - | - | - |
| Equity remuneration expense | - | - | 11,345 | - | - | 11,345 | - | 11,345 |
| Dividends paid to shareholders | - | - | - | - | (116,436) | (116,436) | - | (116,436) |
| Balance at 30 June 2016 | 552,755 | (59,290) | 13,637 | 3,528 | 94,889 | 605,519 | - | 605,519 |

| \$'000 | GROSS CONTRIBUTED EQUITY | TREASURY SHARE RESERVE | EQUITY COMPENSATION RESERVE | OTHER RESERVES | RETAINED EARNINGS | EQUITY HOLDERS OF PERPETUAL | NON-CONTROLLING INTEREST | TOTAL |
|--------------------------------------|--------------------------|------------------------|-----------------------------|----------------|-------------------|-----------------------------|--------------------------|----------------|
| Balance at 1 July 2014 | 555,296 | (94,489) | 26,766 | 5,497 | 51,701 | 544,771 | 11,631 | 556,402 |
| Total comprehensive income/(expense) | - | - | - | 3,120 | 122,484 | 125,604 | 52 | 125,656 |
| Movement on treasury shares | (3,370) | 24,451 | (22,884) | - | 1,945 | 142 | - | 142 |
| Equity remuneration expense | - | - | 10,983 | - | - | 10,983 | - | 10,983 |
| Dividends paid to shareholders | - | - | - | - | (97,806) | (97,806) | - | (97,806) |
| Non-controlling interest | - | - | - | - | - | - | (11,683) | (11,683) |
| Balance at 30 June 2015 | 551,926 | (70,038) | 14,865 | 8,617 | 78,324 | 583,694 | - | 583,694 |

The Consolidated Statement of Changes in Equity is to be read in conjunction with the 'Notes to and forming part of the financial statements' set out on pages 93 to 135.

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

| | SECTION | 2016 \$'000 | 2015 \$'000 |
|--|---------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash receipts in the course of operations | | 547,060 | 569,462 |
| Cash payments in the course of operations | | (346,022) | (409,349) |
| Dividends received | | 99 | 263 |
| Interest received | | 6,408 | 8,719 |
| Interest paid | | (2,809) | (3,472) |
| Income taxes paid | | (54,951) | (36,392) |
| Net cash from operating activities | 1-7 | 149,785 | 129,231 |
| Cash flows from investing activities | | | |
| Payments for property, plant, equipment and software | | (17,272) | (15,812) |
| Payments for investments | | (37,208) | (57,706) |
| Repayments of advances made under the Employee Share Purchase Plan | | - | 117 |
| Payment for acquisition of business | | (5,767) | - |
| Proceeds from sale of property, plant and equipment | | - | 38 |
| Proceeds from sale of businesses | | 153 | 1,523 |
| Proceeds from the sale of investments | | 15,619 | 53,032 |
| Net cash used in investing activities | | (44,475) | (18,808) |
| Cash flows from financing activities | | | |
| Sale of units in seed funds to non-controlling interests | | - | (5,846) |
| Dividends paid | | (116,436) | (97,806) |
| Net cash used in financing activities | | (116,436) | (103,652) |
| Net (decrease)/increase in cash and cash equivalents | | (11,126) | 6,771 |
| Cash and cash equivalents at 1 July | | 289,356 | 282,585 |
| Cash and cash equivalents at 30 June | 3-1 | 278,230 | 289,356 |

The Consolidated Statement of Cash Flows is to be read in conjunction with the 'Notes to and forming part of the financial statements' set out on pages 93 to 135.

SECTION 1 – GROUP PERFORMANCE

This section focuses on the results and performance of Perpetual as a consolidated entity. On the following pages you will find disclosures explaining Perpetual’s results for the year, segmental information, taxation, earnings per share and dividend information.

Where an accounting policy is specific to a single note, the policy is described in the section to which it relates.

1-1 OPERATING SEGMENTS

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

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

The following summary describes the operations in each of the reportable segments:

i. Services provided

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

| | |
|---------------------------|---|
| Perpetual Investments | Manufacturer of financial products, management and investment of monies on behalf of private, corporate, superannuation and institutional clients. |
| Perpetual Private | Perpetual Private provides a wide range of investment and non-investment products and services. These include a comprehensive advisory service, portfolio management, philanthropic, executorial and trustee services to high net worth and emerging high net worth Australians. Perpetual Private also provides many of these services to charities, not for profit and other philanthropic organisations. |
| Perpetual Corporate Trust | Perpetual Corporate Trust provides fiduciary services incorporating safe-keeping and recording of assets and transactions as custodian, responsible entity services, trustee services for securitisation, unit trusts, REITS and debt securities, data warehouse and investor reporting and registrar, or agent for corporate and financial services clients. |

ii. Geographical information

The consolidated entity operates in Australia and Singapore. The Singapore operation is not material.

iii. Major customer

The consolidated entity does not rely on any major customer.

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1-1 OPERATING SEGMENTS (CONTINUED)

| | PERPETUAL INVESTMENTS ¹ \$'000 | PERPETUAL PRIVATE \$'000 | PERPETUAL CORPORATE TRUST \$'000 | TOTAL \$'000 |
|--|---|--------------------------------|---|-----------------|
| 30 June 2016 | | | | |
| External revenues | 233,666 | 167,487 | 87,265 | 488,418 |
| Interest revenue | 634 | 154 | 35 | 823 |
| Total revenue for reportable segment | 234,300 | 167,641 | 87,300 | 489,241 |
| Depreciation and amortisation | (1,938) | (9,656) | (5,094) | (16,688) |
| Reportable segment net profit before tax | 118,093 | 34,157 | 34,112 | 186,362 |
| Reportable segment assets | 341,093 | 212,319 | 185,529 | 738,941 |
| Reportable segment liabilities | (328,853) | (25,158) | (4,700) | (358,711) |
| Capital expenditure | 436 | 1,282 | 1,692 | 3,410 |
| 30 June 2015 | | | | |
| External revenues | 246,514 | 166,235 | 82,458 | 495,207 |
| Interest revenue | 1,168 | 299 | 35 | 1,502 |
| Total revenue for reportable segment | 247,682 | 166,534 | 82,493 | 496,709 |
| Depreciation and amortisation | (1,477) | (9,046) | (4,074) | (14,597) |
| Reportable segment net profit before tax | 125,606 | 37,464 | 31,256 | 194,326 |
| Reportable segment assets | 345,741 | 204,381 | 191,662 | 741,784 |
| Reportable segment liabilities | (317,438) | (18,048) | (9,020) | (344,506) |
| Capital expenditure | 521 | 41 | 8,011 | 8,573 |

1. Segment information for Perpetual Investments includes the Exact Market Cash Funds, refer to section 5-1(i).

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Reconciliations of reportable segment revenues, net profit before tax, total assets and liabilities | | |
| Revenues | | |
| Total revenue for reportable segments | 489,241 | 496,709 |
| <i>Add:</i> Group and Support Services revenue | 9,331 | 8,533 |
| Net gain on sale of investments | 2,124 | 5,522 |
| Total revenue from continuing operations | 500,696 | 510,764 |
| Net profit before tax | | |
| Total net profit before tax for reportable segments | 186,362 | 194,326 |
| Financing costs | (2,809) | (3,472) |
| Net recoveries | 5,227 | - |
| Impairment of assets | (191) | (63) |
| Gain on sale of business | 153 | 113 |
| Net gain on sale of investments | 2,124 | 5,522 |
| Gain on sale of property, plant and equipment | - | 15 |
| TrustCo integration costs | - | (15,882) |
| Group and Support Services expense | (7,554) | (6,404) |
| Net profit before tax | 183,312 | 174,155 |
| Total assets | | |
| Total assets for reportable segments | 738,941 | 741,784 |
| Group and Support Services assets | 414,368 | 381,546 |
| Total assets | 1,153,309 | 1,123,330 |
| Total liabilities | | |
| Total liabilities for reportable segments | 358,711 | 344,506 |
| Group and Support Services liabilities | 189,079 | 195,130 |
| Total liabilities | 547,790 | 539,636 |

1-2 REVENUE

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Revenue from the provision of services | 477,392 | 485,099 |
| Income from structured products | 11,055 | 10,109 |
| Dividends | 95 | 88 |
| Interest and unit trust distribution | 10,030 | 9,946 |
| Net gain on sale of investments | 2,124 | 5,522 |
| Revenue from continuing operations | 500,696 | 510,764 |
| Recoveries | 6,880 | - |
| Gain on sale of business | 153 | 113 |
| | 507,729 | 510,877 |

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1-2 REVENUE (CONTINUED)

Accounting policies

Revenue is recognised at fair value of consideration received or receivable net of goods and services tax.

REVENUE FROM THE PROVISION OF SERVICES

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

INCOME FROM STRUCTURED PRODUCTS

Income represents fees earned on managing the Exact Market Cash Funds.

DIVIDENDS

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

INTEREST AND UNIT TRUST DISTRIBUTIONS

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

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

NET GAIN ON SALE OF INVESTMENTS

Net gain on sale of investments represents proceeds less costs on sale of available-for-sale assets.

RECOVERIES

Represents recoveries from insurers.

1-3 EXPENSES

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Staff related expenses excluding equity remuneration expense | 174,427 | 177,057 |
| Occupancy expenses | 17,152 | 19,350 |
| Administrative and general expenses | 95,706 | 103,595 |
| Distributions and expenses relating to structured products | 6,496 | 7,936 |
| Equity remuneration expense | 10,703 | 10,383 |
| Depreciation and amortisation expense | 16,933 | 14,881 |
| Impairment of assets | 191 | 63 |
| Gain on sale of property, plant and equipment | - | (15) |
| | 321,608 | 333,250 |

Accounting policies

Expenses are recognised at the fair value of the consideration paid or payable for services received.

1-4 INCOME TAXES

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Current year tax expense | | |
| Current year tax expense | 55,392 | 49,707 |
| Adjustment for prior years | (450) | (26) |
| Research and development tax incentives from prior years | (1,061) | (411) |
| <i>Total current tax expense impacting income taxes payable</i> | 53,881 | 49,270 |
| Deferred tax expense | | |
| Temporary differences | (2,574) | 1,082 |
| <i>Total income tax expenses</i> | (2,574) | 1,082 |
| Profit before tax for the year | 183,312 | 174,155 |
| Prima facie income tax expense calculated at 30% (2015: 30%) on profit for the year | 54,994 | 52,247 |
| - Accounting gains on disposal of investments and businesses | (689) | (1,689) |
| - Accounting impairment on assets | 57 | 19 |
| - Prior year adjustments | (1,511) | (436) |
| - Other non-assessable income and tax credits | (1,887) | (337) |
| - Other non-deductible expenses | 343 | 548 |
| Total | 51,307 | 50,352 |
| Income taxes payable at the beginning of the year | 27,491 | 14,695 |
| Income taxes payable for the financial year | 53,881 | 49,270 |
| Less: Reclassification to deferred tax liabilities | (4,594) | - |
| Less: Tax paid during the year | (54,951) | (36,392) |
| Add/Less: Other adjustments | 36 | (82) |
| <i>Income taxes payable at the end of the year</i> | 21,863 | 27,491 |
| Represented in the Statement of Financial Position by: | | |
| Current tax liabilities | 21,863 | 27,491 |
| Effective tax rate (ETR) | 28% | 29% |

Bases of calculation of ETR

The ETR is calculated as income tax expense divided by profit before tax for the year.

The consolidated entity operates in Australia and Singapore. The Singapore operation is not material to the consolidated entity and has no material impact on the calculation of the ETR.

Explanation of variance to the legislated 30% tax rate

The consolidated entity's effective tax rate for the year was 28% (2015: 29%). The 2% reduction in the effective tax rate compared to the legislated 30% is mainly attributed to the Research and Development incentives claimed in respect of the prior year and to the utilisation of previously unrecognised realised capital tax losses to offset realised capital gains distributed from unit trust investments during the year.

Capital tax (gains)/losses calculated at 30% tax in Australia

The total tax benefits of realised capital tax losses are \$32,336,000 (2015: \$34,992,000), comprising \$2,709,000 (2015: \$2,392,000) recognised in deferred tax assets and \$29,627,000 (2015: \$32,600,000) not recognised in deferred tax assets. These are net realised tax capital gains and losses incurred in the current and/or prior year and are available to be utilised by the Australian income tax consolidated group in future years.

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1-4 INCOME TAXES (CONTINUED)

Movement in deferred tax balances

| 2016 | BALANCE 1 JULY 2015 \$'000 | RECOGNISED IN PROFIT OR LOSS \$'000 | RECOGNISED IN OTHER COMPREHENSIVE INCOME \$'000 | ACQUIRED IN BUSINESS COMBINATIONS \$'000 | OTHER ¹ \$'000 | BALANCE 30 JUNE 2016 \$'000 |
|--|----------------------------------|--|---|---|------------------------------|-----------------------------------|
| Deferred tax assets | | | | | | |
| Provisions and accruals | 9,485 | (465) | - | - | - | 9,020 |
| Capital expenditure deductible over five years | 1,565 | (691) | - | - | 95 | 969 |
| Employee benefits | 16,085 | 780 | - | 139 | - | 17,004 |
| Property, plant and equipment | 263 | (75) | - | - | - | 188 |
| Realised net capital losses | 2,392 | 317 | - | - | - | 2,709 |
| Unrealised net capital losses | - | 11 | 102 | - | - | 113 |
| Other items | 435 | (54) | - | - | - | 381 |
| Deferred tax assets | 30,225 | (177) | 102 | 139 | 95 | 30,384 |
| Deferred tax liabilities | | | | | | |
| Intangible assets | (15,953) | 2,552 | - | (698) | (3,073) | (17,172) |
| Unrealised net capital gains | (3,634) | (7) | 2,102 | - | - | (1,539) |
| Property, plant and equipment | - | 204 | - | - | (1,616) | (1,412) |
| Other items | (4) | 2 | - | - | - | (2) |
| Deferred tax liabilities | (19,591) | 2,751 | 2,102 | (698) | (4,689) | (20,125) |
| Net deferred tax assets | 10,634 | 2,574 | 2,204 | (559) | (4,594) | 10,259 |

1. Reclassification from current tax liabilities.

| 2015 | BALANCE 1 JULY 2014 ¹ \$'000 | RECOGNISED IN PROFIT OR LOSS \$'000 | RECOGNISED IN OTHER COMPREHENSIVE INCOME \$'000 | ACQUIRED IN BUSINESS COMBINATIONS \$'000 | BALANCE 30 JUNE 2015 \$'000 |
|--|---|--|---|---|-----------------------------------|
| Deferred tax assets | | | | | |
| Provisions and accruals | 10,653 | (1,168) | - | - | 9,485 |
| Capital expenditure deductible over five years | 2,449 | (884) | - | - | 1,565 |
| Structured products – interest received in advance | 861 | (861) | - | - | - |
| Employee benefits | 15,914 | 171 | - | - | 16,085 |
| Property, plant and equipment | 737 | (474) | - | - | 263 |
| Realised net capital losses | 2,511 | (119) | - | - | 2,392 |
| Unrealised net capital losses | 99 | (4) | (95) | - | - |
| Other items | 558 | (123) | - | - | 435 |
| Deferred tax assets | 33,782 | (3,462) | (95) | - | 30,225 |
| Deferred tax liabilities | | | | | |
| Intangible assets | (17,973) | 2,020 | - | - | (15,953) |
| Unrealised net capital gains | (2,407) | 1 | (1,228) | - | (3,634) |
| Other items | (363) | 359 | - | - | (4) |
| Deferred tax liabilities | (20,743) | 2,380 | (1,228) | - | (19,591) |
| Net deferred tax assets | 13,039 | (1,082) | (1,323) | - | 10,634 |

1. Prior year comparatives were restated to reflect the fair value adjustments to the purchase price allocation of TrustCo during the measurement year.

Accounting policies

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the net profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date and any adjustment to tax payable in respect of previous years.

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

Deferred tax is not recognised for the following temporary differences:

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

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

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

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

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

Perpetual Limited and its wholly owned Australian entities elected to form an income tax consolidated group as of 1 July 2002. As a consequence, all members of the tax consolidated group are taxed as a single entity and governed by a tax funding agreement. Under the agreement, all wholly owned Australian entities fully compensate Perpetual Limited for any current income tax payable assumed and are compensated by Perpetual Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Perpetual Limited under the income tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the members' financial statements.

1-5 EARNINGS PER SHARE

| | 2016 CENTS PER SHARE | 2015 CENTS PER SHARE |
|--|-----------------------------|-----------------------------|
| Basic earnings per share | 290.8 | 273.7 |
| Diluted earnings per share | 284.3 | 265.3 |
| | \$'000 | \$'000 |
| Net profit after tax attributable to equity holders of Perpetual Limited | 132,005 | 122,484 |
| | NUMBER OF SHARES | NUMBER OF SHARES |
| Weighted average number of ordinary shares (basic) | 45,390,402 | 44,759,022 |
| Effect of dilutive potential ordinary shares (including those subject to performance rights) | 1,041,334 | 1,408,072 |
| Weighted average number of ordinary shares (diluted) | 46,431,736 | 46,167,094 |

Accounting policies

The consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for shares held by the Company's employee share plan trust.

Diluted EPS is determined by dividing the net profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, adjusted for shares held by the Company's sponsored employee share plan trust and for the effects of all dilutive potential ordinary shares, which comprise shares and options/rights granted to employees under long-term incentive and retention plans.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1-6 DIVIDENDS

| | CENTS PER SHARE | TOTAL AMOUNT \$'000 | FRANKED/ UNFRANKED | DATE OF PAYMENT |
|-----------------------|-----------------|---------------------|--------------------|-----------------|
| 2016 | | | | |
| Final 2015 ordinary | 125 | 58,218 | Franked | 25 Sep 2015 |
| Interim 2016 ordinary | 125 | 58,218 | Franked | 24 Mar 2016 |
| Total amount | 250 | 116,436 | | |
| 2015 | | | | |
| Final 2014 ordinary | 95 | 44,246 | Franked | 3 Oct 2014 |
| Interim 2015 ordinary | 115 | 53,560 | Franked | 27 Mar 2015 |
| Total amount | 210 | 97,806 | | |

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

The Company introduced a Dividend Reinvestment Plan (DRP) in May 2009. The DRP is optional and offers ordinary shareholders in Australia and New Zealand the opportunity to acquire fully paid ordinary shares, without transaction costs. Shareholders can elect to participate in or terminate their involvement in the DRP at any time.

Subsequent events

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

| | CENTS PER SHARE | TOTAL AMOUNT ¹ \$'000 | FRANKED/ UNFRANKED | DATE OF PAYMENT |
|---------------------|-----------------|----------------------------------|--------------------|-----------------|
| Final 2016 ordinary | 130 | 60,547 | Franked | 28 Sept 16 |

1. Calculation based on the ordinary shares on issue as at 30 June 2016.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial reports.

| | 2016 \$'000 | 2015 \$'000 |
|---|-------------|-------------|
| Dividend franking account | | |
| Amount of franking credits available to shareholders for subsequent financial years | 45,932 | 46,488 |

The above available amounts are based on the balance of the dividend franking account at 30 June 2016 adjusted for franking credits that will arise from the payment of the current tax liabilities, and franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance date, but not recognised as a liability, is to reduce it to \$19,983,000 (2015: \$21,537,000).

Accounting policies

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

1-7 NET CASH FROM OPERATING ACTIVITIES

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Reconciliation of profit for the year to net cash from operating activities | | |
| Profit for the year | 132,005 | 122,484 |
| Items classified as investing/financing activities: | | |
| Profit on sale of investments | (2,124) | (5,522) |
| Reinvestment of dividends and unit distributions | (2,646) | (9,640) |
| Working capital acquired from business combination | (128) | - |
| Leave liabilities acquired from business combination | (454) | - |
| Net deferred tax recognised from business combinations | (559) | - |
| Fair value adjustment to identifiable net assets from finalisation of purchase price allocation | - | 9,548 |
| Gain from sale of business | (153) | (113) |
| Gain on sale of property, plant and equipment | - | (15) |
| Non-cash items: | | |
| Depreciation and amortisation | 16,933 | 14,881 |
| Equity remuneration expense | 11,345 | 10,983 |
| Transfer to foreign currency translation reserve | 54 | 36 |
| Mark to market movements on available-for-sale including minority interest | (7,550) | (793) |
| Impairment of available-for-sale securities | 191 | 63 |
| (Increase)/decrease in assets | | |
| Receivables | 3,279 | (5,937) |
| Prepayments | 90 | (1,372) |
| Net structured products assets | - | (1,931) |
| Deferred tax assets | (159) | 3,557 |
| Assets held for sale | - | 1,119 |
| Cash flow hedge reserve | - | 221 |
| Increase/(decrease) in liabilities | | |
| Payables | 4,924 | (5,848) |
| Provisions | (3,283) | (14,405) |
| Derivative liabilities | - | (191) |
| Liabilities held for sale | - | (111) |
| Current tax liabilities | (5,628) | 12,796 |
| Deferred tax liabilities | 534 | (1,152) |
| Employee benefits | 3,114 | 573 |
| Net cash from operating activities | 149,785 | 129,231 |

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

SECTION 2 – OPERATING ASSETS AND LIABILITIES

This section shows the assets used to generate Perpetual's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in section 3.

2-1 BUSINESS COMBINATIONS

Fintuition Group

On 10 December 2015, Perpetual acquired 100% of Fintuition and its related brands (collectively referred to as the Fintuition Group) including the Private Practice, one of Australia's leading business, financial and lifestyle educators for medical specialists.

The acquisition of the Fintuition Group extends the consolidated entity's ability to offer its breadth of services across accounting, tax, estate planning and financial advice to the medical sector and is directly aligned with the Lead & Grow strategy.

During the year, in accordance with *AASB 3 Business Combinations*, the Company completed its purchase price allocation.

This acquisition was not material to the Group's assets or results.

Accounting policies

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the consolidated entity. In assessing control, the consolidated entity takes into consideration potential voting rights that currently are exercisable.

The consolidated entity measures goodwill at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interests in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the consolidated entity incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and related to past services, then all or a portion of the amount of the acquirer's replacement award is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

2-2 RECEIVABLES

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Current | | |
| Trade receivables | 86,611 | 85,065 |
| Less: Provision for doubtful debts | (3,400) | (1,382) |
| | 83,211 | 83,683 |
| Other receivables | 4,945 | 7,752 |
| | 88,156 | 91,435 |
| Movements in the provision for doubtful debts are as follows: | | |
| Balance as at beginning of the year | 1,382 | 1,591 |
| Doubtful debts provided for during the year | 2,285 | - |
| Receivables written off during the year as uncollectible | (267) | (209) |
| Balance as at end of the year | 3,400 | 1,382 |

Movements in the provision for doubtful debts have been recognised in Administrative and general expenses in section 1-3. Amounts charged to the provision account are generally written off when there is no expectation of additional recoveries.

Accounting policies

Receivables comprise trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis and at balance date, specific impairment losses are recorded for any doubtful debts.

2-3 OTHER FINANCIAL ASSETS

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Non-current | | |
| Listed equity securities available-for-sale - at fair value | 2,083 | 2,014 |
| Unlisted unit trusts available-for-sale - at fair value | 72,965 | 49,617 |
| Other | 445 | 411 |
| | 75,493 | 52,042 |

Accounting policies**AVAILABLE-FOR-SALE FINANCIAL ASSETS**

The consolidated entity's investments in equity securities and unlisted unit trusts are classified as available-for-sale financial assets. Refer to section 4-1(a).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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2-4 PROPERTY, PLANT AND EQUIPMENT

| | PLANT AND EQUIPMENT \$'000 | LEASEHOLD IMPROVEMENTS \$'000 | PROJECT WORK IN PROGRESS \$'000 | TOTAL \$'000 |
|---------------------------------|----------------------------------|-------------------------------------|--|-----------------|
| Year ended 30 June 2016 | | | | |
| Cost | 8,803 | 36,074 | 8,220 | 53,097 |
| Accumulated depreciation | (6,261) | (22,004) | - | (28,265) |
| Carrying amount | 2,542 | 14,070 | 8,220 | 24,832 |
| Movement | | | | |
| Balance as at 1 July 2015 | 2,769 | 11,996 | 583 | 15,348 |
| Additions | 748 | 2,194 | 10,216 | 13,158 |
| Transfers from work in progress | - | 2,579 | (2,579) | - |
| Depreciation | (975) | (2,699) | - | (3,674) |
| Disposals | - | - | - | - |
| Balance as at 30 June 2016 | 2,542 | 14,070 | 8,220 | 24,832 |

Accounting policies

RECOGNITION AND MEASUREMENT

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses.

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

PROJECT WORK IN PROGRESS

Work in progress is measured at cost and relates to assets not yet available for use.

DEPRECIATION

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

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

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

2-5 INTANGIBLES

| \$'000 | GOODWILL | | INTANGIBLE ASSETS | | | TOTAL |
|-----------------------------------|----------------|--------------------|----------------------|--------------------------|------------|----------------|
| | | CUSTOMER CONTRACTS | CAPITALISED SOFTWARE | PROJECT WORK IN PROGRESS | OTHER | |
| Year ended 30 June 2016 | | | | | | |
| At cost | 276,959 | 55,688 | 56,140 | 1,975 | 1,913 | 392,675 |
| Accumulated amortisation | - | (22,407) | (29,368) | - | (1,576) | (53,351) |
| Carrying amount | 276,959 | 33,281 | 26,772 | 1,975 | 337 | 339,324 |
| Balance at 1 July 2015 | 267,031 | 37,389 | 18,366 | 9,970 | - | 332,756 |
| Business combinations | 9,928 | 1,988 | - | - | 337 | 12,253 |
| Additions | - | - | 164 | 7,410 | - | 7,574 |
| Transfers | - | - | 15,405 | (15,405) | - | - |
| Amortisation expense | - | (6,096) | (7,163) | - | - | (13,259) |
| Disposals | - | - | - | - | - | - |
| Balance as at 30 June 2016 | 276,959 | 33,281 | 26,772 | 1,975 | 337 | 339,324 |
| Year ended 30 June 2015 | | | | | | |
| At cost | 267,031 | 53,700 | 40,571 | 9,970 | 1,576 | 372,848 |
| Accumulated amortisation | - | (16,311) | (22,205) | - | (1,576) | (40,092) |
| Carrying amount | 267,031 | 37,389 | 18,366 | 9,970 | - | 332,756 |
| Balance at 1 July 2014 | 267,031 | 43,357 | 18,433 | 2,645 | 60 | 331,526 |
| Additions | - | - | 43 | 12,394 | - | 12,437 |
| Transfers | - | - | 5,069 | (5,069) | - | - |
| Amortisation expense | - | (5,968) | (5,179) | - | (60) | (11,207) |
| Disposals | - | - | - | - | - | - |
| Balance as at 30 June 2015 | 267,031 | 37,389 | 18,366 | 9,970 | - | 332,756 |

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Goodwill Impairment Testing | | |
| The following cash-generating units have significant carrying amounts of goodwill: | | |
| Perpetual Private | 146,490 | 136,562 |
| Perpetual Corporate Trust | 126,973 | 126,973 |
| Australian Equities (Perpetual Investments) | 3,496 | 3,496 |
| | 276,959 | 267,031 |

The recoverable amount has been determined on a consistent basis across each cash-generating unit (CGU) by using their value in use. The following assumptions have been applied across each CGU:

- the value in use is estimated based on the net present value of future cash flow projections to be realised from each of the CGUs over the next three years plus a terminal value
- the discount rates used in the current year ranged from 12.0% to 13.5% (2015: 11.9% to 13.4%).

The forecast cash flows used in impairment testing are based on assumptions as to the level of profitability for each business over a projected three year period. These forecasted cash flows are based on the 2017-2019 Business Plan which has been approved by the Board. The main drivers of revenue growth are the value of funds under management (FUM) in the Australian Equities CGU, funds under advice (FUA) in the Perpetual Private CGU and securitisation and capital flows in the Perpetual Corporate Trust CGU. A terminal value with a growth rate of 2.5% has also been applied.

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2-5 INTANGIBLES (CONTINUED)

Other than the normal operating changes linked to ongoing business initiatives, the assumptions do not include the effects of any future restructuring to which the consolidated entity is not yet committed or of future cash outflows by the consolidated entity which will improve or enhance the consolidated entity's performance. At the reporting date, there is no reasonable change in key assumptions that could cause the carrying amount to exceed the recoverable amount.

The estimated recoverable amount is greater than the carrying value for each CGU. For the estimated recoverable amount to be equal to the carrying amount, the discount rate would have to increase from 12.0% to 23.0% (2015: 11.9% to 21.7%).

Accounting policies

GOODWILL

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets (refer to section 2-1).

Goodwill represents the excess of acquisition cost over the fair value of the consolidated entity's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is allocated to cash-generating units and is not amortised, but tested for impairment annually.

Goodwill is measured at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

AMORTISATION

For those intangible assets which are amortised, the amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

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

- capitalised software: 2.5 – 7 years
- customer contracts and relationships acquired: 5 – 10 years.

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

SOFTWARE

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

OTHER INTANGIBLE ASSETS

Other intangible assets acquired by the consolidated entity, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

SUBSEQUENT EXPENDITURE

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

2-6 PROVISIONS

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------------|----------------|----------------|
| Current | | |
| Insurance and legal provision | 563 | 3,791 |
| Operational process review provision | 449 | 1,041 |
| Lease expense provision | 522 | 1,187 |
| Other provisions | 36 | - |
| | 1,570 | 6,019 |
| Non-current | | |
| Lease expense provision | 18,439 | 17,273 |
| | 18,439 | 17,273 |

| \$'000 | CARRYING AMOUNT AT 1 JULY 2015 | ADDITIONAL PROVISION MADE | UNUSED AMOUNTS REVERSED | PAYMENTS MADE | CARRYING AMOUNT AT 30 JUNE 2016 |
|--------------------------------------|--------------------------------------|---------------------------------|-------------------------------|------------------|---------------------------------------|
| Insurance and legal provision | 3,791 | 82 | (1,409) | (1,901) | 563 |
| Operational process review provision | 1,041 | 696 | (192) | (1,096) | 449 |
| Lease expense provision | 18,460 | 13,155 | - | (12,654) | 18,961 |
| Other provisions | - | 36 | - | - | 36 |
| Total provision | 23,292 | 13,969 | (1,601) | (15,651) | 20,009 |

Accounting policies

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

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

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

INSURANCE

Provision for insurance recognises incurred but not reported claims. These provisions are measured at the cost that the consolidated entity expects to incur in settling the claim.

LEGAL PROVISION

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

OPERATIONAL PROCESS REVIEW

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

LEASE EXPENSE

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

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

2-7 EMPLOYEE BENEFITS

| \$'000 | 2016 | | 2015 | |
|--------------------------------------|---------|-------------|---------|-------------|
| | CURRENT | NON-CURRENT | CURRENT | NON-CURRENT |
| Provision for annual leave | 5,495 | - | 5,431 | - |
| Provision for long service leave | 4,465 | 3,347 | 4,450 | 2,940 |
| Other employee benefits ¹ | 39,295 | 3,513 | 35,472 | 2,093 |
| Restructuring provision | 616 | - | 3,231 | - |
| | 49,871 | 6,860 | 48,584 | 5,033 |

1. Short-term incentives and deferred STI.

The non-current portion of the long service leave provision has been discounted using a rate of 3.3 per cent (2015: 3.3 per cent) which is based on the 10 year corporate bond rate.

The number of full time equivalent employees at 30 June 2016 was 883 (2015: 866).

| \$'000 | CARRYING AMOUNT AT 1 JULY 2015 | ADDITIONAL PROVISION MADE | UNUSED AMOUNTS REVERSED | PAYMENTS MADE | CARRYING AMOUNT AT 30 JUNE 2016 |
|-------------------------|--------------------------------|---------------------------|-------------------------|---------------|---------------------------------|
| Restructuring provision | 3,231 | - | (838) | (1,777) | 616 |

Accounting policies

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

OTHER LONG-TERM EMPLOYEE BENEFITS

The consolidated entity's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

RESTRUCTURING

A provision for restructuring is recognised when the consolidated entity has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

SECTION 3 – CAPITAL MANAGEMENT AND FINANCING

This section outlines how Perpetual manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets. Perpetual's objectives when managing capital are to safeguard its ability to continue as a going concern, to continue to provide returns to shareholders and benefits to other stakeholders, and to reduce the cost of capital.

3-1 CASH AND CASH EQUIVALENTS

| | 2016 \$'000 | 2015 \$'000 |
|---------------------|----------------|----------------|
| Bank balances | 263,030 | 238,146 |
| Deposits at call | - | 4,334 |
| Short-term deposits | 15,200 | 46,876 |
| | 278,230 | 289,356 |

Short-term deposits represent rolling 30 day term deposits.

In accordance with the consolidated entity's Group Policy - Treasury, the consolidated entity mainly holds cash and cash equivalents to support its regulatory capital requirements of \$160 million as at 30 June 2016 (2015: \$176.7 million).

3-2 BORROWINGS

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

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Total facility used (Non-current) | 87,000 | 87,000 |
| Facility unused | 43,000 | 43,000 |
| Total facility | 130,000 | 130,000 |

The \$43 million unused bank facility may be drawn at any time at the discretion of the consolidated entity. The floating rate bank bill facility is unsecured and had a weighted average floating interest rate of 3.21 per cent at 30 June 2016, inclusive of the undrawn line fee (2015: 3.46 per cent). Repayment of the existing facility of \$87 million is due on 31 October 2017.

The consolidated entity has agreed to various debt covenants including shareholders' funds as a specified percentage of total assets, a minimum amount of shareholders' funds, a maximum ratio of gross debt to EBITDA, a minimum interest cover and a maximum amount of structured product liabilities. The consolidated entity is in compliance with the covenants at 30 June 2016. Should the consolidated entity not satisfy any of these covenants, the outstanding balance of the loans may become due and payable.

The consolidated entity's bank facility is subject to annual review and management intends to refinance the existing facility for a further period prior to the due date.

Accounting policies

Borrowings are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. The financial liability under the facility has a fair value equal to its carrying amount.

Interest-bearing borrowings are removed from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired.

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

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

3-3 CONTRIBUTED EQUITY

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Fully paid ordinary shares 46,574,426 (2015: 46,574,426) | 552,755 | 551,926 |
| Treasury shares 981,300 (2015: 1,477,623) | (59,290) | (70,038) |
| | 493,465 | 481,888 |

| | 2016 | | 2015 | |
|-----------------------------------|---------------------|---------|---------------------|---------|
| | NUMBER OF SHARES | \$'000 | NUMBER OF SHARES | \$'000 |
| Movements in share capital | | | | |
| Balance at beginning of year | 45,096,803 | 481,888 | 44,046,969 | 460,807 |
| Shares issued: | | | | |
| - Movement on treasury shares | 496,323 | 11,577 | 1,049,834 | 21,081 |
| Balance at end of year | 45,593,126 | 493,465 | 45,096,803 | 481,888 |

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

Terms and conditions

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

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

Accounting policies

ORDINARY SHARES

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

REPURCHASE OF SHARE CAPITAL (TREASURY SHARES)

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

3-4 RESERVES

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------------------|----------------|----------------|
| General reserve | 103 | 103 |
| Available-for-sale reserve | 3,335 | 8,478 |
| Foreign currency translation reserve | 90 | 36 |
| | 3,528 | 8,617 |
| Equity compensation reserve | 13,637 | 14,865 |
| | 17,165 | 23,482 |

Accounting policies

AVAILABLE-FOR-SALE RESERVE

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

EQUITY COMPENSATION RESERVE

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

3-5 COMMITMENTS AND CONTINGENCIES

(a) Commitments

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Capital expenditure commitments | | |
| Contracted but not provided for and payable within one year | 6,670 | 3,842 |
| Operating lease commitments predominantly related to premises | | |
| At 30 June, the future minimum lease payments under non-cancellable leases were payable as follows: | | |
| Not later than one year | 15,755 | 14,755 |
| Later than one year and not later than five years | 56,643 | 52,731 |
| Later than five years | 48,169 | 52,105 |
| | 120,567 | 119,591 |

Accounting policies

OPERATING LEASES

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

The difference between the cash amount paid and the amount recognised as an expense is recognised as a lease provision (refer to section 2-6). The provision is expected to be realised over the term of the underlying leases.

(b) Contingencies

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Contingent liabilities | | |
| Bank guarantee in favour of the ASX Settlement and Transfer Corporation Pty Limited with respect to trading activities | 1,000 | 1,000 |
| Bank guarantee in favour of the Australian Securities and Investments Commission in relation to the provision of responsible entity services and custodial services | 10,000 | 10,000 |
| Bank guarantee issued in respect of the lease of premises of The Trust Company Limited | 1,796 | 1,796 |
| Bank guarantee issued in respect of the lease of premises of Perpetual Limited | 1,289 | 1,581 |
| | 14,085 | 14,377 |

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

BANKSIA

In December 2012, a class action commenced for damages against The Trust Company (Nominees) Limited (TrustCo) in its capacity as trustee for the debentures issued by Banksia Securities Limited (Banksia) and other defendants including Banksia Securities Limited, Cherry Fund Limited, RSD Chartered Accountants and the directors of both Banksia Securities Limited and Cherry Fund Limited. Liquidator's proceedings commenced in May 2015 against TrustCo. TrustCo is strongly defending the actions.

Accounting policies

CONTINGENT LIABILITIES

A contingent liability is a possible obligation arising from past events that may be incurred subject to the outcome of an uncertain future event not wholly within the consolidated entity's control.

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

SECTION 4 – RISK MANAGEMENT

Perpetual's activities expose it to a variety of financial and non-financial risks. Financial risks include credit risk, liquidity risk and market risks (including currency risk, interest rate risk and price risk). Key financial exposures are operational risk and a failure to meet regulatory compliance obligations. The nature of the financial risk exposures arising from financial instruments, the objectives, policies and processes for managing these risks, and the methods used to measure them are detailed below.

4-1 FINANCIAL RISK MANAGEMENT

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

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

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

The risk management approach to, and exposures arising from, the Exact Market Cash Funds (EMCF) are disclosed in section 5-1.

i. Credit risk

Credit risk refers to the risk that a customer or counterparty to a financial instrument will fail to meet its contractual obligations resulting in financial loss to the consolidated entity. Credit risk arises principally from the consolidated entity's cash and trade receivables.

The consolidated entity mitigates its credit risk by ensuring cash deposits are held with high credit quality financial institutions and other highly liquid investments are held with trusts operated by the entity.

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

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Cash and cash equivalents | 278,230 | 289,356 |
| Trade receivables | 83,211 | 83,683 |
| Other receivables and other financial assets | 5,390 | 8,163 |
| Available-for-sale listed equity securities and unlisted unit trusts | 75,048 | 51,631 |

Credit risk is managed on a functional basis across the various business segments. As a result of the swap agreements between the EMCF and the consolidated entity, the consolidated entity consolidates EMCF and is hence exposed to credit risk on its exposure to the \$300 million (2015: \$295 million) of underlying investments held by the EMCF.

The maximum exposure would only be realised in the unlikely event that the recoverable value of all the underlying investments held by the EMCF decline to \$nil. Further details of the credit risk relating to the EMCF are disclosed in section 5-1.

(A) INVESTMENTS HELD BY INCUBATION FUNDS

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

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

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

(B) OTHER FINANCIAL ASSETS

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

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

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

The consolidated entity held cash and cash equivalents of \$278 million at 30 June 2016 (2015: \$289 million). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated 'A' or higher, based on Standard & Poor's rating.

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

The tables below provide an aged analysis of the financial assets which were past due but not impaired:

| | 30 JUNE 2016 | | | | | 30 JUNE 2015 | | | | |
|-----------------------------|--------------------------|----------------------|----------------------|--------------------------|--------------|--------------------------|----------------------|----------------------|--------------------------|--------------|
| | LESS THAN 30 DAYS \$'000 | 30 TO 60 DAYS \$'000 | 60 TO 90 DAYS \$'000 | MORE THAN 90 DAYS \$'000 | TOTAL \$'000 | LESS THAN 30 DAYS \$'000 | 30 TO 60 DAYS \$'000 | 60 TO 90 DAYS \$'000 | MORE THAN 90 DAYS \$'000 | TOTAL \$'000 |
| Trade and other receivables | 1,777 | 1,383 | 695 | 4,486 | 8,341 | 2,351 | 766 | 936 | 5,425 | 9,478 |

The nominal values of financial assets which were impaired and have been provided for are as follows:

| | 2016 \$'000 | 2015 \$'000 |
|--|-------------|-------------|
| Trade and other receivables | 3,400 | 1,382 |
| Structured products - loans receivable | 3,142 | 3,142 |
| | 6,542 | 4,524 |

The impaired financial assets relate mainly to independent customers and investors who are in unexpectedly difficult economic situations, where the consolidated entity is of the view that the full carrying value of the receivable cannot be recovered. The consolidated entity does not hold any collateral against the trade and other receivables. The structured products - loan receivable balance represents a provision for all outstanding receivables from investors in respect of PPI loans (refer to section 5-1 for further information).

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

4-1 FINANCIAL RISK MANAGEMENT (CONTINUED)

ii. Liquidity risk

Liquidity risk is the risk that the financial obligations of the consolidated entity cannot be met as and when they fall due without incurring significant costs.

The consolidated entity's approach to managing liquidity is to maintain a level of cash or liquid investments sufficient to meet its ongoing financial obligations. The consolidated entity has a robust liquidity risk framework in place which is principally driven by the Capital Management Review (refer to section 4-1(v) for further information).

At 30 June 2016, total base capital requirements were \$179 million (\$160 million for operational risk, \$13 million for credit risk and \$6 million for market risk), compared to \$340 million of available liquid funds.

The \$160 million operational risk requirement supports regulatory capital which is mainly held in cash and cash equivalents as referred to in section 3-1.

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

The repayment of the existing utilised facility of \$87 million is due on 31 October 2017 (refer to section 3-2 for further information).

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

| | 30 JUNE 2016 | | | 30 JUNE 2015 | | |
|--------------------|-------------------------------|---------------------------|-----------------|-------------------------------|---------------------------|-----------------|
| | LESS THAN 1 YEAR \$'000 | 1 TO 5 YEARS \$'000 | TOTAL \$'000 | LESS THAN 1 YEAR \$'000 | 1 TO 5 YEARS \$'000 | TOTAL \$'000 |
| Liabilities | | | | | | |
| Payables | 38,523 | - | 38,523 | 37,167 | - | 37,167 |
| Borrowings | - | 87,000 | 87,000 | - | 87,000 | 87,000 |
| | 38,523 | 87,000 | 125,523 | 37,167 | 87,000 | 124,167 |

There are no financial liabilities maturing in more than five years as at 30 June 2016 (2015: \$nil).

iii. Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The consolidated entity is subject to the following market risks:

(A) CURRENCY RISK

The exposure to currency risk arises when financial instruments are denominated in a currency that is not the functional currency of the entity and are of a monetary nature.

A significant proportion of the monetary financial instruments held by the consolidated entity, being liquid assets, receivables, borrowings and payables are denominated in Australian dollars. The consolidated entity was exposed to currency risk relating to the Singapore operation. The exposure to currency risk arising from this operation is immaterial. Hence the gains/(losses) arising from the translation of the controlled entities' financial statements into Australian dollars are not considered in this note.

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

(B) INTEREST RATE RISK

Interest rate risk is the risk to the consolidated entity's earnings and capital arising from changes in market interest rates. The financial instruments held that are impacted by interest rate risk consist of cash and borrowings.

The consolidated entity's exposure to interest rate risk arises predominantly on the \$130 million NAB facility on which \$87 million is drawn (refer to section 3-2). This loan facility is rolled on a one month, three month or six month term.

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

| | FLOATING INTEREST RATE \$'000 | FIXED INTEREST RATE \$'000 | NON- INTEREST BEARING \$'000 | TOTAL \$'000 |
|------------------------------|--|-------------------------------------|---------------------------------------|-----------------|
| At 30 June 2016 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 263,030 | 15,200 | - | 278,230 |
| Receivables | 1,293 | - | 86,863 | 88,156 |
| Other financial assets | - | 2 | 75,491 | 75,493 |
| | 264,323 | 15,202 | 162,354 | 441,879 |
| Financial liabilities | | | | |
| Payables | - | - | 38,523 | 38,523 |
| Borrowings | 87,000 | - | - | 87,000 |
| | 87,000 | - | 38,523 | 125,523 |
| At 30 June 2015 | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | 263,156 | 26,200 | - | 289,356 |
| Receivables | 1,310 | - | 90,125 | 91,435 |
| Other financial assets | - | 2 | 52,040 | 52,042 |
| | 264,466 | 26,202 | 142,165 | 432,833 |
| Financial liabilities | | | | |
| Payables | - | - | 37,167 | 37,167 |
| Borrowings | 87,000 | - | - | 87,000 |
| | 87,000 | - | 37,167 | 124,167 |

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

| | 30 JUNE 2016 | | 30 JUNE 2015 | |
|----------------|---|-------------------------------|---|-------------------------------|
| | IMPACT ON NET PROFIT AFTER TAX \$'000 | IMPACT ON EQUITY \$'000 | IMPACT ON NET PROFIT AFTER TAX \$'000 | IMPACT ON EQUITY \$'000 |
| +/- 1 per cent | 1,250/(1,250) | 1,250/(1,250) | 1,251/(1,251) | 1,251/(1,251) |

The impact on profit after tax for the year would be mainly as a result of an increase/(decrease) in interest revenue earned on cash and cash equivalents.

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For the year ended 30 June 2016

4-1 FINANCIAL RISK MANAGEMENT (CONTINUED)

iii. Market risk (continued)

(C) MARKET RISKS ARISING FROM FUNDS UNDER MANAGEMENT AND FUNDS UNDER ADVICE

The consolidated entity's revenue is significantly dependent on Funds Under Management (FUM) and Funds Under Advice (FUA) which are influenced by equity market movements. Management calculates the expected impact on revenue for each 1 per cent movement in the ASX All Ordinaries Index. Based on the level of this index at the end of 30 June 2016 (5,310.40), a 1 per cent movement in the market changes annualised revenue by approximately \$2.25 million to \$2.75 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 per cent 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.

(D) MARKET RISKS ARISING FROM INCUBATION FUNDS

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

The PI division's Investment Review Committee is responsible for reviewing and recommending new incubation strategies and ensuring management has appropriate processes and systems in place for managing investment risk for each fund. The funds' specialist asset managers aim to manage the impact of price risks through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments, including derivatives, which are only acquired if they meet specified investment criteria. Daily monitoring of trade restrictions and derivative exposure against limits is undertaken with any breach of these restrictions reported to the General Manager – Risk and Internal Audit.

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

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

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

(E) MARKET RISKS ARISING FROM THE EXACT MARKET CASH FUNDS

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

The risk management approach to, and exposures arising from, the EMCF are disclosed in section 5-1.

iv. Fair value

The following tables present the consolidated entity's assets and liabilities measured and recognised at fair value, by valuation method, at 30 June 2016. The different levels have been defined as follows:

Level 1: quoted prices in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data.

| | LEVEL 1 \$'000 | LEVEL 2 \$'000 | LEVEL 3 \$'000 | TOTAL \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| At 30 June 2016 | | | | |
| Financial assets | | | | |
| Available-for-sale listed equity securities | 2,083 | - | - | 2,083 |
| Available-for-sale unlisted unit trusts | - | 72,965 | - | 72,965 |
| Structured products – EMCF assets | 48,396 | 251,298 | - | 299,694 |
| | 50,479 | 324,263 | - | 374,742 |
| At 30 June 2015 | | | | |
| Financial assets | | | | |
| Available-for-sale listed equity securities | 2,014 | - | - | 2,014 |
| Available-for-sale unlisted unit trusts | - | 49,617 | - | 49,617 |
| Structured products – EMCF assets | - | 294,882 | - | 294,882 |
| | 2,014 | 344,499 | - | 346,513 |

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The estimates of fair value where valuation techniques are applied are subjective and involve the exercise of judgement. Changing one or more of the assumptions applied in valuation techniques to reasonably possible alternative assumptions may impact on the amounts disclosed.

The carrying amount of financial assets and financial liabilities, less any impairment, approximates their fair value, except for those outlined in the table below, which are stated at amortised cost.

| | 2016 | | 2015 | |
|--|------------------------------|-------------------------|------------------------------|-------------------------|
| | CARRYING AMOUNT \$'000 | FAIR VALUE \$'000 | CARRYING AMOUNT \$'000 | FAIR VALUE \$'000 |
| Structured products – EMCF liabilities | 299,971 | 299,694 | 291,478 | 294,882 |

v. Capital risk management

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

(A) DIVIDEND POLICY

Dividends paid to shareholders are typically in the range of 80-100 per cent of the consolidated entity's net profit after tax attributable to members of the Company, which is in line with the historical dividend range paid to shareholders. In certain circumstances, the Board may declare a dividend outside that range.

(B) REVIEW OF CAPITAL AND DISTRIBUTION OF EXCESS CAPITAL

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

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4-1 FINANCIAL RISK MANAGEMENT (CONTINUED)

v. Capital risk management (continued)

(C) GEARING POLICY

The current gearing policy aims to target an investment grade credit rating by maintaining a corporate debt to capital ratio corporate debt/(corporate debt + equity) of 30% or less and EBITDA interest cover (EBITDA/interest expense) of more than 10 times. Based on the corporate debt of \$87.0 million, the gearing ratio is 12.6% as at 30 June 2016 (2015: 13.0%) and well within the stated gearing policy. The EBIT interest cover ratio for the consolidated entity as at 30 June 2016 was 66 times (2015: 51 times).

Accounting policies

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

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

(A) AVAILABLE-FOR-SALE FINANCIAL ASSETS

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. The fair value of financial instruments classified as available-for-sale is their quoted bid price at the reporting date.

(B) INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(C) LOANS

Loans are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less impairment losses.

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

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

(D) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred.

(E) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. Financial guarantees are given to wholly owned subsidiaries, within the consolidated entity. Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval and are monitored on a quarterly basis as part of the consolidated entity's regulatory reporting.

The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

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

SECTION 5 – OTHER DISCLOSURES

This section contains other miscellaneous disclosures that are required by accounting standards.

5-1 STRUCTURED PRODUCTS ASSETS AND LIABILITIES

i. Exact Market Cash Funds

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Current assets | | |
| Perpetual Exact Market Cash Fund | 199,006 | 189,627 |
| Perpetual Exact Market Cash Fund No. 2 | 100,688 | 105,255 |
| | 299,694 | 294,882 |
| Current liabilities | | |
| Perpetual Exact Market Cash Fund | 199,106 | 186,629 |
| Perpetual Exact Market Cash Fund No. 2 | 100,865 | 104,849 |
| | 299,971 | 291,478 |

The Exact Market Cash Funds' current asset balances reflect the fair value of the net assets held by the funds. The current liabilities balances represent the consolidated entity's obligation to the funds' investors. The difference between the current assets and current liabilities balance has been recorded in equity in the available-for-sale reserve.

The Perpetual Exact Market Cash Fund (EMCF 1) was established with the purpose of providing an exact return that matched the UBS Bank Bill rate (the benchmark index), or a variant thereon, to investors. The fund's ability to pay the benchmark return to the investors is guaranteed by the consolidated entity. The National Australia Bank has provided the EMCF 1 product with a guarantee to the value of \$3 million (2015: \$3 million) to be called upon in the event that the consolidated entity is unable to meet its obligations. Due to the guaranteed benchmark return to investors, the consolidated entity is exposed to the risk that the return of the EMCF 1 differs from that of the benchmark. The return of the EMCF 1 is affected by risks to the underlying investments in the EMCF 1 portfolio, which are market, liquidity and credit risks.

The underlying investments of the fund are valued on a hold to maturity basis for unit pricing purposes, which is consistent with the way in which Perpetual manages the portfolio.

The Perpetual Exact Market Cash Fund No. 2 (EMCF 2) was established to provide an exact return that matches the benchmark index to investors in the fund. It has a similar structure to EMCF 1, but in addition, there are specific rules that govern the withdrawal of funds. The investments held by EMCF 2 are recorded at fair value within the fund and in the consolidated entity's financial statements. National Australia Bank has provided the fund with a guarantee to the value of \$1.5 million (2015: \$1.5 million) to be called upon in the event that Perpetual does not meet its obligations.

EMCF 1 and EMCF 2 (EMCF) use professional investment managers to manage the impact of the above risks by using prudent investment guidelines and investment processes. The investment manager explicitly targets low volatility and aims to achieve this through a quality-screening process that is designed to assess the likelihood of default and difficult trading patterns during periods of rapid systematic risk reduction.

There is a clearly defined mandate for the inclusion of sectors and issuances. In periods of risk reduction, diversification may be narrowly focused on cash and highly liquid investment-grade assets. At times of higher risk tolerance, appropriate diversification should be expected.

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

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

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5-1 STRUCTURED PRODUCTS ASSETS AND LIABILITIES (CONTINUED)

i. Exact Market Cash Funds (continued)

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

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

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

| | AAA TO AA- \$'000 | A+ TO A- \$'000 | BBB+ TO BBB- \$'000 | TOTAL \$'000 |
|--------------------------------------|-------------------------|-----------------------|---------------------------|-----------------|
| 30 JUNE 2016 | | | | |
| Corporate bonds | 70,545 | 87,987 | 6,429 | 164,961 |
| Mortgage and asset backed securities | 89,671 | - | - | 89,671 |
| Cash | 45,062 | - | - | 45,062 |
| | 205,278 | 87,987 | 6,429 | 299,694 |
| 30 JUNE 2015 | | | | |
| Corporate bonds | 68,878 | 89,757 | 5,209 | 163,844 |
| Mortgage and asset backed securities | 118,325 | - | - | 118,325 |
| Cash | 13,331 | 16 | - | 13,347 |
| | 200,534 | 89,773 | 5,209 | 295,516 |

The table below demonstrates the impact of a 1 per cent change in the fair value of the underlying assets of the EMCF, due to market price movements, based on the values at reporting date.

| | 2016 \$'000 | 2015 \$'000 |
|---------------------|----------------|----------------|
| 1 per cent increase | 3,000 | 2,955 |
| 1 per cent decrease | (3,000) | (2,955) |

The actual impact of a change in the fair value of the underlying assets of the EMCF on the consolidated profit before tax is dependent on the performance of the fund relative to the benchmark index. If the fund's performance is below the benchmark return, then the consolidated entity will be obliged to make payments to the investor. Conversely, if the fund's performance is higher than the benchmark, then the benefit of the higher performance accrues to the consolidated entity.

Any variance between the consolidated entity's current assets EMCF balance and the consolidated entity's current liabilities EMCF balance would be reflected in reserves, except in the case of a credit default which would impact the consolidated profit before tax.

Accounting policies

The EMCF product, consisting of two funds (EMCF 1 and EMCF 2), is consolidated as the consolidated entity is exposed to variable returns and has the power to affect those returns. The swap agreements result in the benchmark rate of return being paid to the unit holders in the fund. The swap agreements are inter-company transactions between a subsidiary of the Company and the funds and are eliminated on consolidation.

Assets and liabilities of the EMCF product are disclosed separately on the face of the Consolidated Statement of Financial Position as structured product assets and structured product liabilities. The benchmark return generated by the EMCF product and distributions to unit holders are disclosed in section 1-3 Expenses as distributions and expenses related to structured products.

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

ii. Perpetual Protected Investments

The Perpetual Protected Investments structured product series (the PPI product) was terminated during the prior year. A provision of \$3,142,000 is recognised for all outstanding receivables from investors as at 30 June 2016 (2015: \$3,142,000).

5-2 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2016 the parent entity of the consolidated entity was Perpetual Limited.

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Result of the parent entity | | |
| Profit for the year | 181,793 | 144,728 |
| Other comprehensive (expense)/income | (2,446) | 4,586 |
| Total comprehensive income for the year | 179,347 | 149,314 |
| Financial position of the parent entity at year end | | |
| Current assets | 251,114 | 208,995 |
| Total assets | 897,361 | 858,191 |
| Current liabilities | 197,040 | 236,469 |
| Total liabilities | 224,898 | 259,986 |
| Total equity of the parent entity comprising: | | |
| Share capital | 493,466 | 481,888 |
| Reserves | 18,416 | 22,089 |
| Retained earnings | 160,581 | 94,228 |
| Total equity | 672,463 | 598,205 |
| Parent entity contingencies | | |
| The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement. | | |
| Uncalled capital of the controlled entities | 12,450 | 7,100 |

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

Operating lease commitments

At 30 June, the future minimum lease payments under non-cancellable leases were payable as follows.

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Not later than one year | 8,498 | 7,425 |
| Later than one year and not later than five years | 38,010 | 32,837 |
| Later than five years | 45,223 | 49,710 |
| | 91,731 | 89,972 |

Operating leases are predominantly related to premises.

Parent entity guarantees

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

- Guarantee to secure a \$130,000,000 bank facility (\$87,000,000 is utilised) of a controlled entity amounting to \$130,000,000 (2015: \$130,000,000).

No liability was recognised by the Company in relation to these guarantees as the fair value of these guarantees is considered to be immaterial. The Company does not expect the financial guarantees to be called upon.

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For the year ended 30 June 2016

5-3 CONTROLLED ENTITIES

| NAME OF COMPANY | BENEFICIAL INTEREST | | COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS |
|---|---------------------|--------|--|
| | 2016 % | 2015 % | |
| Perpetual Limited | | | |
| Controlled Entities¹ | | | |
| Australian Trustees Limited | 100 | 100 | Australia |
| Commonwealth Trustees Pty. Ltd. ² | 100 | 100 | Australia |
| Fordham Business Advisors Pty Ltd ² | 100 | 100 | Australia |
| Grosvenor Financial Services Pty Limited ^{2,4} | 100 | 100 | Australia |
| Investor Marketplace Limited ⁴ | 100 | 100 | Australia |
| Perpetual Acquisition Company Limited | 100 | 100 | Australia |
| Perpetual Assets Pty. Ltd. ² | 100 | 100 | Australia |
| Perpetual Australia Pty Limited | 100 | 100 | Australia |
| Perpetual Investment Management Limited | 100 | 100 | Australia |
| Perpetual Legal Services Pty Limited ² | 100 | 100 | Australia |
| Perpetual Loan Company Limited | 100 | 100 | Australia |
| Perpetual Loan Company No. 2 Limited | 100 | 100 | Australia |
| Perpetual Mortgage Services Pty Limited ² | 100 | 100 | Australia |
| Perpetual Nominees Limited | 100 | 100 | Australia |
| Perpetual Services Pty Limited ² | 100 | 100 | Australia |
| Perpetual Superannuation Limited | 100 | 100 | Australia |
| Perpetual Trust Services Limited | 100 | 100 | Australia |
| Perpetual Trustee Company (Canberra) Limited | 100 | 100 | Australia |
| Perpetual Trustee Company Limited ¹⁰ | 100 | 100 | Australia |
| Perpetual Trustees Consolidated Limited | 100 | 100 | Australia |
| Perpetual Trustees Queensland Limited | 100 | 100 | Australia |
| Perpetual Trustees Victoria Limited | 100 | 100 | Australia |
| Perpetual Trustees W.A. Ltd | 100 | 100 | Australia |
| Queensland Trustees Pty. Ltd. | 100 | 100 | Australia |
| Perpetual Capital Accumulation Portfolio | 100 | 100 | Australia |
| Perpetual Exact Market Cash Fund | 100 | 100 | Australia |
| Perpetual Exact Market Cash Fund No. 2 | 100 | 100 | Australia |
| Entities under the control of Fordham Business Advisors Pty Ltd | | | |
| Garnet Investment Management Pty Ltd ^{2,5} | - | 100 | Australia |
| Entities under the control of Grosvenor Financial Services Pty Limited | | | |
| Perpetual Tax and Accounting Pty Ltd | 100 | 100 | Australia |
| Entities under the control of Perpetual Acquisition Company Limited | | | |
| The Trust Company Limited | 100 | 100 | Australia |
| Fintuition Pty Limited ^{2,8} | 100 | - | Australia |
| Fintuition Unit Trust ⁸ | 100 | - | Australia |
| Fintuition Institute Pty Limited ^{2,8} | 100 | - | Australia |
| Fintuition Institute Unit Trust ⁸ | 100 | - | Australia |
| Skinner Macarounas Pty Limited ^{2,8} | 100 | - | Australia |

| NAME OF COMPANY | BENEFICIAL INTEREST | | COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS |
|---|---------------------|--------|--|
| | 2016 % | 2015 % | |
| Entities under the control of Perpetual Assets Pty Limited | | | |
| Perpetual Asset Management Ltd. ⁴ | 100 | 100 | Australia |
| Entities under the control of Perpetual Trustee Company Limited | | | |
| Perpetual Corporate Trust Limited | 100 | 100 | Australia |
| Perpetual Custodians Ltd | 100 | 100 | Australia |
| P.T. Limited | 100 | 100 | Australia |
| Entities under the control of Perpetual Trustees Consolidated Limited | | | |
| Perpetual Custodian Nominees Pty Ltd ^{2,4} | 100 | 100 | Australia |
| Entities under the control of P.T. Limited | | | |
| Perpetrust Nominees Proprietary Limited ² | 100 | 100 | Australia |
| Entities under the control of The Trust Company Limited | | | |
| Perpetual (Asia Holdings) Pte. Ltd. ⁶ | 100 | 100 | Singapore |
| The Trust Company (Australia) Limited | 100 | 100 | Australia |
| The Trust Company (FCNL) Pty Limited ⁴ | 100 | 100 | Australia |
| The Trust Company (Real Estate) Pty Limited ² | 100 | 100 | Australia |
| The Trust Company (UTCCL) Limited | 100 | 100 | Australia |
| Trust Company (Hong Kong) Limited | 100 | 100 | Hong Kong |
| Entities under the control of The Trust Company (Australia) Limited | | | |
| The Trust Company (Nominees) Limited | 100 | 100 | Australia |
| The Trust Company (PTAL) Limited | 100 | 100 | Australia |
| The Trust Company (PTCCL) Limited ⁴ | 100 | 100 | Australia |
| The Trust Company (RE Services) Limited | 100 | 100 | Australia |
| Entities under the control of Perpetual (Asia Holdings) Pte. Ltd⁶ | | | |
| Perpetual (Asia) Limited ⁷ | 100 | 100 | Singapore |
| Entities under the control of The Trust Company (RE Services) Limited | | | |
| Banano Pty Ltd ^{2,5} | - | 100 | Australia |
| The Trust Company (Sydney Airport) Limited | 100 | 100 | Australia |
| GPTA - 750 Collins Street Pty Limited ^{2,5} | - | 100 | Australia |
| Entities under the control of The Trust Company (Nominees) Limited | | | |
| The Trust Company (Legal Services) Pty Limited ^{2,4,9} | 100 | 49 | Australia |
| Associates | | | |
| Loan RQ Ltd ⁸ | 26 | 28 | Australia |

1. Entities in bold are directly owned by Perpetual Limited.

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

3. In August 2012, Perpetual Limited entered into a joint venture agreement and held 45% of Loan RQ Ltd. (previously Loan RQ Pty. Ltd.) The carrying amount of this investment is \$nil (2015: \$nil).

4. The following companies were deregistered - Perpetual Custodian Nominees Pty Ltd, The Trust Company (PTCCL) Limited and The Trust Company (FCNL) Pty Limited on 24 July 2016, Grosvenor Financial Services Pty Limited, Investor Marketplace Limited and The Trust Company (Legal Services) Pty Limited on 27 July 2016 and Perpetual Asset Management Limited on 3 August 2016.

5. Garnet Investment Management Pty Ltd, Banano Pty Ltd and GPTA - 750 Collins Street Pty Limited were deregistered on 15 July 2015.

6. Perpetual (Asia Holdings) Pte. Ltd was formerly known as The Trust Company (Asia Holdings) Pte. Ltd.

7. Perpetual (Asia) Limited was formerly known as The Trust Company (Asia) Limited.

8. Acquired by Perpetual Acquisition Company Limited on 10 December 2015.

9. 100% ownership was transferred to The Trust Company (Nominees) Limited on 22 April 2016.

10. Perpetual Trustee Company Limited has a branch operation in New Zealand known as Perpetual Trustee Company Limited (New Zealand branch).

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5-4 UNCONSOLIDATED STRUCTURED ENTITIES

Perpetual Limited and its subsidiaries have interests in various structured entities that are not consolidated. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Perpetual has an interest in a structured entity when the Company has a contractual or non-contractual involvement that exposes it to variable returns from the performance of the entity. The Company's interest includes investments held in securities or units issued by these entities and fees earned from management of the assets within these entities.

Information on the Company's interests in unconsolidated structured entities as at 30 June is as follows:

| | CARRYING AMOUNT \$'000 | MAXIMUM EXPOSURE TO LOSS ¹ \$'000 |
|--|------------------------------|---|
| INVESTMENT FUNDS - COMPANY MANAGED | | |
| Year ended 30 June 2016 | | |
| Statement of Financial Position line item | | |
| Other financial assets - non-current | 72,945 | 68,063 |
| Year ended 30 June 2015 | | |
| Statement of Financial Position line item | | |
| Cash and cash equivalents | 8,510 | 8,510 |
| Other financial assets - non-current | 49,482 | 40,939 |
| | 57,992 | 49,449 |

1. The maximum exposure to loss is the maximum loss that could be recorded through comprehensive income as a result of the involvement with these entities.

Company managed investment funds

The Company has investments in managed investment funds through the asset management subsidiaries. Control over these managed investment funds may exist since the Company has power over the activities of the fund. However, these funds have not been consolidated because the Company does not have the ability to affect the level of returns and is not exposed to significant variability in returns from the funds. The Company earns management fees from the management of these investment funds which are commensurate with the services provided and are reported in revenue from the provision of services. Management fees are generally based on the value of the assets under management. Therefore, the fees earned are impacted by the composition of the assets under management and fluctuations in financial markets. The revenue earned is included in gross revenue from fees and commissions in section 1-2.

Investment funds are investment vehicles that consist of a pool of funds collected from several investors for the purpose of investing in securities such as money market instruments, debt securities, equity securities and other similar assets. For all investment funds, the Company's maximum exposure to loss is equivalent to the cost of the investment in the fund. Investment funds are generally financed through the issuance of fund units.

5-5 NON-CONTROLLING INTEREST

The following table summarises the information relating to each subsidiary of the consolidated entity that has a material non-controlling interest (NCI), before any intra-group eliminations.

| CONSOLIDATED ENTITY | PERPETUAL RESOURCE FUND | | PERPETUAL WHOLESALE DYNAMIC FIXED INCOME FUND | |
|--|----------------------------|----------------|---|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Revenue | - | 2,956 | - | 121 |
| Profit | - | 2,581 | - | (125) |
| Other comprehensive income/(expense) (OCI) | - | (3,341) | - | (42) |
| Total comprehensive income | - | (760) | - | (167) |
| Profit allocated to NCI | - | 1,440 | - | (121) |
| OCI allocated to NCI | - | (1,255) | - | (12) |
| Cash flows from operating activities | - | (4,343) | - | (147) |
| Cash flows from investment activities | - | 2,936 | - | 2 |
| Cash flows from financing activities (dividends to NCI: nil) | - | - | - | - |
| Net increase in cash and cash equivalents | - | (1,407) | - | (145) |

The Perpetual Resource Fund and the Perpetual Wholesale Dynamic Fixed Income Fund are no longer members of the consolidated entity.

5-6 SHARE-BASED PAYMENTS

i. Employee share purchase and option plans

(A) LONG-TERM INCENTIVE PLAN (LTI)

The LTI plan was introduced for the purpose of making future long-term incentive grants to executives.

The issue price of performance share grants is the weighted average of the prices at which shares traded on the Australian Securities Exchange (ASX) for the five days up to the date of issue. Shares are either purchased on market or issued by the Company. The issue price of performance rights with no performance conditions (apart from services) is the same as for performance shares; however, discounted for dividends forgone over the vested period. The issue price for performance rights with performance conditions is determined as described in (ii) below.

(B) TAX EXEMPT SHARE PLAN (TESP)

Under the TESP, eligible employees are able to salary sacrifice up to \$1,000 of short-term incentive payments to acquire an equivalent value of Perpetual shares. These shares cannot be sold or transferred until the earlier of three years after the date of allocation or the time the participant ceases to be an employee of Perpetual. Shares will be acquired in ordinary trading on the ASX or issued by Perpetual. Executives are not eligible to participate in this plan. This plan was discontinued in September 2014 and no further issues have been made under this plan.

(C) TAX DEFERRED SHARE PLAN (TDSP)

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

(D) EMPLOYEE SHARE PURCHASE PLAN (ESPP)

The ESPP provided eligible employees with a non-recourse interest free loan, for a period not exceeding 10 years, to purchase shares under the plan. The invitation was open to employees who commenced permanent employment with Perpetual prior to 1 June 2004 with an offer to purchase a minimum number of shares equivalent in value to \$1,000 and a maximum number of shares equivalent in value to \$4,000. The issue price under the plan was the weighted average of the prices at which shares were traded on the ASX for the five days up to the date of issue. The shares vest when the loan is fully repaid. This plan was discontinued on 10 December 2004 and no further issues have been made under this plan.

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5-6 SHARE-BASED PAYMENTS (CONTINUED)

i. Employee share purchase and option plans (continued)

(E) NON-EXECUTIVE DIRECTORS' SHARE PURCHASE PLAN

Under the non-executive directors' share purchase plan, each non-executive director could sacrifice up to 50 per cent of their director's fees to acquire shares in the Company. The shares are purchased four times throughout the year at market value and have a disposal restriction of 10 years, or when the director ceases to be a director of the Company. This plan was used only by non-executive directors and was closed to new purchases on 1 July 2009.

(F) EXECUTIVE SHARE PLAN (ESP)

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

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

While shares are held by the ESP, employees receive dividends and have voting rights. No further issues have been made under this since February 2011.

(G) DEFERRED SHARE PLAN (DSP)

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

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

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

(H) ONE PERPETUAL SHARE PLAN (OPSP)

The OPSP awards eligible employees with annual grants of up to \$1,000 worth of Perpetual shares subject to the Company meeting its profit target. Shares granted under the OPSP cannot be sold or transferred until the earlier of three years from the date the shares are allocated or cessation of employment. Employees who are granted shares have full dividend and voting rights during this time.

For financial accounting purposes, shares granted under the OPSP are deemed to vest immediately because there is no risk of forfeiture. Accordingly, the fair value of the grant is recognised as an expense on the date the shares are granted with the corresponding entry directly in equity.

(I) DETAILS OF THE MOVEMENT IN EMPLOYEE SHARES

Of share grants under the OPSP and LTI plan in the 2016 financial year, all shares were reissued from the forfeited share pool at market price. Dividends on employee shares are either received directly by the employees or held in the share plan bank account depending on the likelihood of the shares vesting.

During the year, \$10,702,687 (2015: \$10,383,166) of amortisation relating to performance shares was recognised as an expense with the corresponding entry directly in equity.

The following table illustrates the movement in employee shares during the financial year:

| NUMBER | OPENING BALANCE 1 JULY | VESTED SHARES | FORFEITED SHARES | GRANTED SHARES | CLOSING BALANCE AT 30 JUNE |
|--------|------------------------------|------------------|---------------------|-------------------|----------------------------------|
| 2016 | 1,477,623 | (496,323) | (268,553) | 268,553 | 981,300 |
| 2015 | 2,527,457 | (1,049,186) | (131,592) | 130,944 | 1,477,623 |

ii. Performance rights

During the year, the Company granted \$10,450,784 (30 June 2015: \$7,315,520) performance rights in accordance with the LTI plan.

Performance rights do not receive dividends or have voting rights until they have vested and been converted into Perpetual shares.

The number of performance rights granted is determined by dividing the value of the LTI grant value by the VWAP of Perpetual shares traded on the ASX in the five business days up to the grant date, discounted for the non-payment of dividends during the performance period, as calculated by an independent external adviser.

| 30 JUNE 2016 | | | | | MOVEMENT IN NUMBER OF PERFORMANCE RIGHTS GRANTED | | | | | |
|-----------------------|-----------|-------------|------------------------------|-------------|--|---------|-----------|-----------|------------------------------|--|
| GRANT DATE | VEST DATE | EXPIRY DATE | TSR HURDLE OR NON-TSR HURDLE | ISSUE PRICE | 1 JULY 2015 | GRANTED | FORFEITED | VESTED | OUT-STANDING AT 30 JUNE 2016 | |
| Jul 2012 | Jul 2015 | Jul 2019 | Non-TSR | \$20.36 | 65,441 | - | - | (65,441) | - | |
| Oct 2012 | Oct 2015 | Oct 2019 | TSR | \$14.38 | 33,659 | - | - | (33,659) | - | |
| Oct 2012 | Oct 2015 | Oct 2019 | Non-TSR | \$23.54 | 38,461 | - | - | (38,461) | - | |
| Oct 2013 | Oct 2015 | Oct 2020 | Non-TSR | \$34.57 | 2,603 | - | - | (2,603) | - | |
| Oct 2013 | Oct 2016 | Oct 2020 | TSR | \$22.65 | 34,651 | - | (5,062) | - | 29,589 | |
| Oct 2013 | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | 117,862 | - | (13,880) | (7,230) | 96,752 | |
| Mar 2014 ¹ | Feb 2016 | Mar 2021 | Non-TSR | \$34.57 | 1,446 | - | - | (1,446) | - | |
| Oct 2014 | Oct 2017 | Oct 2017 | TSR | \$21.82 | 38,592 | - | (5,592) | - | 33,000 | |
| Oct 2014 | Oct 2017 | Oct 2017 | Non-TSR | \$38.00 | 124,384 | - | (16,313) | (2,561) | 105,510 | |
| Oct 2014 ¹ | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | 1,157 | - | - | - | 1,157 | |
| Oct 2014 ² | Feb 2016 | Mar 2021 | Non-TSR | \$34.57 | 925 | - | - | (925) | - | |
| Mar 2015 ¹ | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | 145 | - | - | - | 145 | |
| Aug 2015 ¹ | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | - | 2,892 | - | - | 2,892 | |
| Aug 2015 ³ | Oct 2017 | Oct 2021 | Non-TSR | \$38.00 | - | 789 | - | - | 789 | |
| Oct 2015 | Oct 2018 | Sep 2022 | TSR | \$19.50 | - | 38,672 | - | - | 38,672 | |
| Oct 2015 | Oct 2018 | Sep 2022 | Non-TSR | \$33.07 | - | 289,287 | (17,038) | (192) | 272,057 | |
| | | | | | 459,326 | 331,640 | (57,885) | (152,518) | 580,563 | |

1. Valuation date 1 October 2013.

2. Valuation date 1 March 2014.

3. Valuation date 1 October 2014.

| 30 JUNE 2015 | | | | | MOVEMENT IN NUMBER OF PERFORMANCE RIGHTS GRANTED | | | | | |
|-----------------------|-----------|-------------|------------------------------|-------------|--|---------|-----------|----------|------------------------------|--|
| GRANT DATE | VEST DATE | EXPIRY DATE | TSR HURDLE OR NON-TSR HURDLE | ISSUE PRICE | 1 JULY 2014 | GRANTED | FORFEITED | VESTED | OUT-STANDING AT 30 JUNE 2015 | |
| Jul 2012 | Jul 2015 | Jul 2019 | Non-TSR | \$20.36 | 65,441 | - | - | - | 65,441 | |
| Oct 2012 | Oct 2014 | Oct 2019 | TSR | \$14.26 | 2,655 | - | - | (2,655) | - | |
| Oct 2012 | Oct 2014 | Oct 2019 | Non-TSR | \$23.54 | 2,655 | - | - | (2,655) | - | |
| Oct 2012 | Oct 2015 | Oct 2019 | TSR | \$14.38 | 33,659 | - | - | - | 33,659 | |
| Oct 2012 | Oct 2015 | Oct 2019 | Non-TSR | \$23.54 | 38,461 | - | - | - | 38,461 | |
| Jul 2013 | Jul 2016 | Jul 2016 | Non-TSR | \$30.56 | 49,083 | - | (49,083) | - | - | |
| Oct 2013 | Oct 2015 | Oct 2020 | Non-TSR | \$34.57 | 2,603 | - | - | - | 2,603 | |
| Oct 2013 | Oct 2016 | Oct 2020 | TSR | \$22.65 | 34,651 | - | - | - | 34,651 | |
| Oct 2013 | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | 139,981 | - | (14,023) | (8,096) | 117,862 | |
| Mar 2014 ¹ | Feb 2016 | Mar 2021 | Non-TSR | \$34.57 | 1,446 | - | - | - | 1,446 | |
| July 2014 | July 2017 | July 2017 | Non-TSR | \$40.91 | - | 36,665 | (36,665) | - | - | |
| Oct 2014 ¹ | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | - | 1,157 | - | - | 1,157 | |
| Oct 2014 | Oct 2017 | Oct 2017 | TSR | \$21.82 | - | 38,592 | - | - | 38,592 | |
| Oct 2014 | Oct 2017 | Oct 2017 | Non-TSR | \$38.00 | - | 128,855 | (3,717) | (754) | 124,384 | |
| Oct 2014 ² | Feb 2016 | Mar 2021 | Non-TSR | \$34.57 | - | 925 | - | - | 925 | |
| Mar 2015 ¹ | Oct 2016 | Oct 2020 | Non-TSR | \$34.57 | - | 145 | - | - | 145 | |
| | | | | | 370,635 | 206,339 | (103,488) | (14,160) | 459,326 | |

1. Valuation date 1 October 2013.

2. Valuation date 1 March 2014.

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

5-6 SHARE-BASED PAYMENTS (CONTINUED)

ii. Performance rights (continued)

The fair value of services received in return for performance rights granted is based on the fair value of performance rights granted, measured using a face value approach for scorecard performance conditions, Monte Carlo simulation for TSR performance conditions and the Black Scholes model for EPS performance conditions, with the following inputs:

| | VALUATION DATE 1 JULY 2012 | VALUATION DATE 1 OCT 2012 | VALUATION DATE 1 JUL 2013 | VALUATION DATE 1 OCT 2013 | VALUATION DATE 1 JUL 2014 | VALUATION DATE 1 OCT 2014 | VALUATION DATE 1 OCT 2015 |
|-----------------------------|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Performance period | 3 years | 2 - 3 years | 3 years | 3 years | 3 years | 3 years | 3 years |
| Share price (\$) | 23.14 | 26.34 | 35.7 | 39.63 | 47.45 | 43.84 | 40.00 |
| Dividend yield (%) | 4.35 | 4.2 | 5.32 | 4.57 | 5.07 | 5.23 | 6.23 |
| Expected volatility (%) | N/A | 35 | N/A | 30 | N/A | 25 | 25 |
| Risk free interest rate (%) | N/A | 2.53/2.41 | N/A | 2.78 | N/A | 2.63 | 1.86 |

Accounting policies

EMPLOYEE SHARE PURCHASE AND OPTION PLANS

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

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

DEFERRED STAFF INCENTIVES

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

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

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

PERFORMANCE RIGHTS

Performance rights are issued for the benefit of Perpetual employees pursuant to the LTI Plan.

Unlike Perpetual's other employee share plans, there will be no treasury shares issued to employees at the performance rights grant date.

Over the vesting period of the performance rights, an equity remuneration expense will be amortised to the equity compensation reserve based on the fair value of the performance rights at the grant date.

On vesting, the intention is to settle the performance rights with available treasury shares. A fair value adjustment between contributed equity and treasury shares will be recognised to revalue the recycled shares to the fair value of the performance rights at the vesting date.

5-7 KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

Total compensation of key management personnel

| | 2016 \$ | 2015 \$ |
|----------------------|-------------------|------------------|
| Short-term | 6,563,797 | 5,932,321 |
| Post-employment | 152,774 | 157,133 |
| Termination benefits | 600,000 | - |
| Share-based | 2,637,165 | 2,927,659 |
| Other long-term | 53,004 | 38,061 |
| Total | 10,006,740 | 9,055,174 |

Related party disclosures

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

Controlled entities and associates

The consolidated entity has a related party relationship with its key management personnel (see Remuneration Report).

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

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

5-8 AUDITOR'S REMUNERATION

| | 2016 \$ | 2015 \$ |
|--|------------------|------------------|
| Audit and review services | | |
| Auditor of the Company - KPMG Australia | | |
| Audit and review of financial statements | 613,635 | 611,218 |
| Other assurance and regulatory audit services | 442,664 | 385,206 |
| Overseas KPMG firms: | | |
| Audit and review services of other financial statements | 26,000 | 26,000 |
| Other assurance and regulatory audit services | 25,500 | 25,500 |
| | 1,107,799 | 1,047,924 |
| Audit and review services for non-consolidated managed funds, superannuation funds and other funds: | | |
| Audit and review of managed funds and superannuation funds for which the consolidated entity acts as responsible entity ¹ | 1,357,160 | 1,598,962 |
| Audit of other funds for which Perpetual acts as administrator or trustee ¹ | 748,454 | 764,906 |
| Audit services in accordance with other regulatory audit services | 319,967 | 329,912 |
| Total audit fee attributable to the audit and review of non-consolidated funds | 2,425,581 | 2,693,780 |
| | 3,533,380 | 3,741,704 |

1. The fees are incurred by the consolidated entity and are recovered from the funds via management fees.

Non-audit services

KPMG Australia:

| | | |
|---|--------|--------|
| IT risk and model review | - | 52,500 |
| Advisory: NSW payroll tax rebate scheme | 35,000 | - |
| | 35,000 | 52,500 |

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

5-9 SUBSEQUENT EVENTS

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

SECTION 6 – BASIS OF PREPARATION

This section sets out Perpetual's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a single note, the policy is described in the note to which it relates. This section also shows new accounting standards, amendments and interpretations, and whether they are effective in 2016 or later years. We explain how these changes are expected to impact the financial position and performance of Perpetual.

6-1 REPORTING ENTITY

Perpetual Limited ('the Company') is domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2016 comprises the Company and its controlled entities (together referred to as 'the consolidated entity') and the consolidated entity's interests in associates.

Perpetual is a for-profit entity and primarily involved in funds management, portfolio management, financial planning, trustee, responsible entity and compliance services, executor services, investment administration and custody services.

The financial report was authorised for issue by the Directors on 25 August 2016.

The Company is a public company listed on the Australian Securities Exchange (code: PPT), incorporated in Australia and operating in Australia and Singapore.

The consolidated annual report for the consolidated entity as at and for the year ended 30 June 2016 is available at www.perpetual.com.au.

6-2 BASIS OF PREPARATION

i. Statement of compliance

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

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

ii. Basis of preparation

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

The consolidated financial statements are presented in Australian dollars, which is the functional currency of the majority of the consolidated entity.

The Company is of a kind referred to in *ASIC Corporations Instrument 2016/191* dated 1 April 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the consolidated entity's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(a) Judgements

Information about critical judgements in applying accounting policies in accordance with Australian Accounting Standard *AASB 10 Consolidated Financial Statements* is included in section 5-3 Controlled entities.

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

6-2 BASIS OF PREPARATION (CONTINUED)

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ended 30 June 2016 are included in the following notes:

- Section 1-4 Income taxes
- Section 2-5 Intangibles
- Section 2-6 Provisions
- Section 2-7 Employee benefits
- Section 3-5 Commitments and contingencies
- Section 5-1 Structured products assets and liabilities
- Section 5-6 Share-based payments

MEASUREMENT OF FAIR VALUES

A number of the consolidated entity's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The consolidated entity has an established control framework with respect to the measurement of fair values. This includes overseeing all significant fair value measurements.

Significant unobservable inputs and valuation adjustments are regularly reviewed. If third party information, such as broker quotes or pricing services, is used to measure fair values, an assessment is made of the evidence obtained from the third parties. This is used to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit, Risk and Compliance Committee.

When measuring the fair value of an asset or a liability, the consolidated entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The consolidated entity recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Section 2-7 Employee benefits
- Section 4-1 Financial risk management
- Section 5-1 Structured products assets and liabilities
- Section 5-6 Share-based payments

6-3 OTHER SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below:

i. Basis of consolidation

(A) SUBSIDIARIES

Subsidiaries are entities controlled by the consolidated entity. The consolidated entity controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

(B) TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

ii. Foreign currency

(A) FOREIGN CURRENCY TRANSACTIONS AND BALANCES

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

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

(B) FOREIGN OPERATIONS

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

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

Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss or to non-controlling interest as part of the profit or loss on disposal.

iii. Payables

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

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

iv. Impairment

(A) FINANCIAL ASSETS (INCLUDING RECEIVABLES)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

FINANCIAL REPORT

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

6-3 OTHER SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

iv. Impairment (continued)

(A) FINANCIAL ASSETS (INCLUDING RECEIVABLES) (CONTINUED)

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

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

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

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

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

(B) NON-FINANCIAL ASSETS

The carrying amounts of the consolidated entity's non-financial assets, other than deferred tax assets (see section 1-4), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit' or CGU).

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

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

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

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

6-4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new accounting standards and amendments have been issued but are not yet effective. The consolidated entity has not elected to early adopt any of these new standards or amendments in this financial report.

(a) AASB 9 Financial Instruments

AASB 9, published in July 2014, replaces the existing guidance in *AASB 139 Financial Instruments: Recognition and Measurement*. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

(b) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including *AASB 118 Revenue*, *AASB 111 Construction Contracts* and *IFRIC 13 Customer Loyalty Programmes*.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

(c) AASB 16 Leases

AASB 16 introduces new requirements for the recognition of lease assets and lease liabilities in the Consolidated Statement of Financial Position. The classification of the lease liability and lease asset will be determined with reference to the period over which the consolidated entity is expected to benefit from the lease and will be disclosed as current or non-current accordingly. The new standard is also likely to result in a reduction in the consolidated entity's occupancy expenses as lease costs will instead be allocated against the lease liability. The lease asset will be amortised over the life of the lease resulting in a depreciation and amortisation charge. The depreciation and amortisation charge is expected to approximate the reduction in occupancy expenses. The consolidated entity will disclose the unwinding of the discount on the lease liability as a financing cost in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

AASB 16 will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, *AASB 15 Revenue from Contracts with Customers*, has been applied, or is applied at the same date as AASB 16.

These new standards and amendments, when applied in future periods, are not expected to have a material impact on the financial position or performance of the consolidated entity.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Perpetual Limited (the 'Company'):
 - (a) the consolidated financial statements and notes set out on pages 89 to 135, and the Remuneration Report in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in section 6-2(i);
 - (c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2016.

Signed in accordance with a resolution of the Directors:

Dated at Sydney this 25th day of August 2016.



Peter Scott
Director



Geoff Lloyd
Director

INDEPENDENT AUDITOR'S REPORT

to the members of Perpetual Limited



Independent auditor's report to the members of Perpetual Limited

Report on the financial report

We have audited the accompanying financial report of Perpetual Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes to the financial statements (sections 1 to 6) comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In section 6-2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

to the members of Perpetual Limited



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in section 6-2.

Report on the remuneration report

We have audited the remuneration report included in pages 26 to 55 of the directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Perpetual Limited for the year ended 30 June 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

A handwritten signature in black ink, appearing to read 'M McGrath'.

Martin McGrath
Partner
Sydney
25 August 2016

SECURITIES EXCHANGE AND INVESTOR INFORMATION

2016 ANNUAL GENERAL MEETING

The 2016 Annual General Meeting of the Company will be held at Perpetual's offices, Level 18, 123 Pitt Street, Sydney on 3 November 2016 commencing at 10:00 am.

SECURITIES EXCHANGE LISTING

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

SUBSTANTIAL SHAREHOLDERS

There are no substantial holders in Perpetual Limited as at 29 July 2016.

Distribution schedule of holdings

| AS AT 29 JULY 2016 | NUMBER OF HOLDERS | NUMBER OF SHARES |
|-------------------------|-------------------|------------------|
| 1 - 1,000 shares | 22,457 | 8,353,112 |
| 1,001 - 5,000 shares | 5,242 | 10,774,181 |
| 5,001 - 10,000 shares | 452 | 3,195,173 |
| 10,001 - 100,000 shares | 289 | 6,328,154 |
| 100,001 and over shares | 28 | 17,923,806 |
| Total | 28,468 | 46,574,426 |

Twenty largest shareholders as at 29 July 2016

| NAME | NUMBER OF ORDINARY SHARES | PERCENTAGE OF ISSUED CAPITAL |
|---|---------------------------|------------------------------|
| HSBC Custody Nominees (Australia) Limited ¹ | 3,277,281 | 7.04% |
| JP Morgan Nominees Australia Limited ¹ | 2,670,242 | 5.73% |
| Citicorp Nominees Pty Limited ¹ | 2,549,916 | 5.47% |
| National Nominees Limited ¹ | 1,360,048 | 2.92% |
| Milton Corporation Limited | 1,359,278 | 2.92% |
| Australian Foundation Investment Company Limited | 1,061,110 | 2.28% |
| BNP Paribas Noms Pty Ltd ¹ | 616,134 | 1.32% |
| Washington H Soul Pattinson & Co Ltd | 613,143 | 1.32% |
| Carlton Hotel Ltd | 402,213 | 0.86% |
| Australian United Investment Company Limited | 400,000 | 0.86% |
| Queensland Trustees Pty Ltd (Long Term Incentive Plan) ^{1,2} | 379,331 | 0.81% |
| Enbear Pty Ltd | 368,841 | 0.79% |
| Queensland Trustees Pty Ltd (Executive Share Plan) ^{1,2} | 352,550 | 0.76% |
| Diversified United Investment Limited | 300,000 | 0.64% |
| Queensland Trustees Pty Ltd (Deferred Share Plan) ^{1,2} | 242,884 | 0.52% |
| Argo Investments Limited | 238,905 | 0.51% |
| Josseck Pty Limited | 207,416 | 0.45% |
| Citicorp Nominees Pty Limited (CFS Inv. A/c) ¹ | 205,605 | 0.44% |
| BKI Investment Company Limited | 181,751 | 0.39% |
| Navigator Australia Ltd ¹ | 167,316 | 0.36% |
| Total | 16,953,964 | 36.39% |

¹ Held in capacity as executor, trustee or agent.

² The total number of shares held by Queensland Trustees Pty Limited as trustee of the various Employee Share Plans is 974,765 shares.

SECURITIES EXCHANGE AND INVESTOR INFORMATION

OTHER INFORMATION

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

VOTING RIGHTS

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

1. on a show of hands to one vote, and
2. on a poll to one vote for each share held.

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

VOTING BY PROXY

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

Shareholders who are unable to attend the 2016 Annual General Meeting are encouraged to complete and return the proxy form that accompanies the notice of meeting enclosed with this report.

ON-MARKET BUYBACK

There is no current on-market buyback.

FINAL DIVIDEND

The final dividend of 130 cents per share will be paid on 28 September 2016 to shareholders entitled to receive dividends and registered on 6 September 2016, being the record date.

ENQUIRIES

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

| | |
|------------------------------|---|
| Link Market Services Limited | Perpetual Shareholder Information Line: |
| 1A Homebush Bay Drive | 1300 732 806 |
| Rhodes, NSW 2138 | Fax: (02) 9287 0303 |
| Locked Bag A14 | |
| Sydney South NSW 1235 | |

Any other enquiries which you may have about the Company can be directed to the Company's registered office, or visit the Company's website at www.perpetual.com.au

PRINCIPAL REGISTERED OFFICE

| | |
|-----------------|---------------------|
| Level 18 | Tel: (02) 9229 9000 |
| 123 Pitt Street | Fax: (02) 8256 1461 |
| Sydney NSW 2000 | |

COMPANY SECRETARY

Joanne Hawkins

Website address: www.perpetual.com.au

Perpetual's 2016 Annual Report is printed on Precision Laser. Precision text weights are Australian made and PEFC Certified, and made from elemental chlorine free bleached pulp sourced from sustainably managed forests and non controversial sources. Precision cover weights are FSC® Mix Certified, which ensures that all virgin pulp is derived from well-managed forests and controlled sources. Both are manufactured by an ISO 14001 certified mill.

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