Perpetual Limited ABN 86 000 431 827
and its controlled entities

FULL YEAR FINANCIAL STATEMENTS

30 June 2018

Perpetual

Directors' Report for the year ended 30 June 2018

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 2018 and the auditor's report thereon.

Contents of the Directors' Report

Directors' Report for the year ended 30 June 2018 (continued)

Directors

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

Tony D'Aloisio AM, Chairman and Independent Director
BA LLB (Hons) (Age 69)

Appointed Director and Chairman-elect in December 2016 and Chairman from 31 May 2017. Mr D'Aloisio was formerly Commissioner for the Australian Securities and Investments Commission (ASIC) in 2006 and Chairman in 2007 for a four-year term. He was Chairman of the (International) Joint Forum of the Basel Committee on banking supervision from 2009-2011. Prior to joining ASIC he was Chief Executive Officer and Managing Director at the Australian Securities Exchange from 2004-2006. He is currently Chairman of IRESS Limited, a Board member of Aikenhead Centre for Medical Discovery Ltd and President of the European Capital Markets Cooperative Research Centre. He is Chairman of Perpetual's Nominations Committee.

Mr D'Aloisio has close to 40 years' experience in both executive and non-executive roles in commercial and Government enterprises. He has held numerous senior positions in both local and international bodies and has extensive knowledge of the financial markets sector.

Listed company directorships held during the past three financial years:
- IRESS Limited (from June 2012 to present)

Philip Bullock AO, Independent Director
BA MBA GAICD Dip Ed (Age 65)

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, Independent Director
MIR (Hons) BBus FAICD SF Fin (Age 53)

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 Regis Healthcare Limited, Premier Investments Limited, Cabrini Health Ltd and serves as Chairman of the Cabrini Foundation. 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 management and compliance.

Directors’ Report for the year ended 30 June 2018 (continued)

Directors (continued)

Sylvia Falzon, Independent Director
MIR (Hons) BBus FAICD SF Fin (Age 53) (continued)

Listed company directorships held during the past three financial years:
- SAI Global Limited (from October 2013 to December 2016 (delisted due to company’s acquisition by private equity))
- Regis Healthcare Limited (from September 2014 to present)
- Premier Investments Limited (from March 2018 to present)
- Suncorp Group Limited (from September 2018)

Nancy Fox, Independent Director
BA JD (Law) FAICD (Age 61)

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 Chairman of Perpetual Equity Investment Company Limited, a Non-executive Director of ING Bank Australia, HCF Life and Lawcover Pty Ltd and Deputy Chairman of 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.

Listed company directorships held during the past three financial years:
- Perpetual Equity Investment Company Limited (from July 2017 to present)

Ian Hammond, Independent Director
BA (Hons) FCA FCPA GAICD (Age 60)

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 Venues NSW and a Board Member 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 a deep knowledge of the financial services industry and brings to the Board expertise in financial reporting and risk management.

P Craig Ueland, Independent Director
BA (Hons and Distinction) MBA (Hons) CFA (Age 60)

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 Board Member 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.

Directors’ Report for the year ended 30 June 2018 (continued)

Directors (continued)

Geoff Lloyd, Chief Executive Officer and Managing Director
Barrister at Law LLM (Distinction) (UTS) Adv Mgt Program (Harvard) (Age 50)

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. Before 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.

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 and 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 is also Chairman of the University of Technology Sydney Law School Advisory Board.

On 20 November 2017, Mr Lloyd announced that he would be stepping down from the CEO role on 30 June 2018. Mr Lloyd resigned as a Director of Perpetual Limited on 30 June 2018. Mr Lloyd is employed by Perpetual until 31 August 2018 and remains available to the company to ensure a smooth transition to the new CEO.

Company secretaries

Eleanor Padman
BA (Hons) OXON, FGIA, FCIS, GAICD

Appointed Company Secretary on 31 July 2017. Mrs Padman is head of Perpetual’s Legal, Compliance and Company Secretariat teams.

Prior to joining Perpetual, Mrs Padman was General Counsel and Company Secretary of Pinnacle Investment Management Limited. Mrs Padman is a lawyer with over 23 years’ commercial experience gained in-house and in private practice, both in the UK and Australia. Mrs Padman has also served on a number of boards in the public, private and not-for-profit arenas.

COMPANY SECRETARY WHO RESIGNED DURING THE YEAR

Glenda Charles
Grad Dip Corp Gov ASX Listed Entities GIA (Cert)

Appointed Company Secretary on 20 July 1999. Ms Charles resigned as Company Secretary of Perpetual Limited on 21 December 2017.

Directors' Report for the year ended 30 June 2018 (continued)

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 2018 were:

Director	Board		Audit, Risk and Compliance Committee (ARCC)		People and Remuneration Committee (PARC)		Investment Committee		Nominations Committee*	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
T D'Aloisio	23	23	-	-	-	-	-	-	-	-
P Bullock	23	23	6	6	7	7	-	-	-	-
S Falzon	23	23	-	-	7	7	4	4	-	-
N Fox	23	23	6	6	7	7	-	-	-	-
I Hammond	23	23	6	6	-	-	4	4	-	-
P C Ueland	23	23	6	6	-	-	4	4	-	-
G Lloyd	11	10	-	-	-	-	-	-	-	-

* Note that the Nominations Committee did not meet in FY18 as the Board determined that it would reserve the task of the selection and appointment of the new CEO to the whole Board.

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/Corporate-Governance

Principal activities

The principal activities of the consolidated entity during the financial year were 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.

Directors’ Report for the year ended 30 June 2018 (continued)

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 2018, the consolidated entity reported a net profit after tax of $140.2 million compared to the net profit after tax for the financial year to 30 June 2017 of $137.3 million.

The reconciliation of net profit after tax to underlying profit after tax for the 2018 financial year is as follows:

	30 June 2018 $'000	30 June 2017 $'000
Net profit after tax attributable to equity holders of Perpetual Limited	**140,227**	**137,293**
Significant items after tax		
Legal expenses[1]	3,479	-
Write back of prior years tax provision	(4,731)	-
Gain on sale of business	-	(371)
Underlying profit after tax attributable to equity holders of Perpetual Limited	**138,975**	**136,922**

[1] Relates to $3.5 million after tax of non-recurring legal costs in connection with Perpetual Investment Management Limited (PIML) cross shareholding claim against Brickworks and Washington H Soul Pattison (WHSP). As decided by the Perpetual Board, these costs were absorbed by the Company in order to align the client and the Company’s interests.

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 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 auditors; 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. Underlying profit after tax attributable to equity holders of Perpetual Limited is disclosed as it is useful for investors to gain a better understanding of Perpetual's financial results from normal operating activities.

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#/ Unfranked	Date of payment
Declared and paid during the financial year 2018				
Final 2017 ordinary	135	62,875	Franked	29 Sep 2017
Interim 2018 ordinary	135	62,875	Franked	26 Mar 2018
Total		125,750		
Declared after the end of the financial year 2018				
After balance date, the Directors declared the following dividend:				
Final 2018 ordinary	140	65,204	Franked	8 Oct 2018
Total		65,204		

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 financial effect of dividends declared after year end are not reflected in the 30 June 2018 financial statements and will be recognised in subsequent financial reports.

Directors' Report for the year ended 30 June 2018 (continued)

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

A final dividend of 140 cents per share fully franked was declared on 30 August 2018 and is to be paid on 8 October 2018.

Other than the matters noted above, 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 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 the 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.

Interim Chief Executive Officer's and Chief Financial Officer's Declaration

The Interim CEO 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 report for the year ended 30 June 2018 complies with accounting standards and presents a true and fair view of the Company's financial condition and operational results. This statement is required annually.

Remuneration Report

Dear Shareholder

On behalf of your Board, it is my pleasure to present our Remuneration Report for the year ended 30 June 2018 (FY18). Set in the context of our business strategy, we are committed to sharing how we remunerate our Executives and why the FY18 reward outcomes were achieved through the delivery of short and long-term value creation measures for our shareholders. Our Remuneration Report also highlights our approach to remunerating our employees, the benefits of working at Perpetual and the important role risk management and behaviours play in the way we assess the performance of, and reward, our people. Furthermore, we understand the ongoing importance of providing transparency and clarity around our Executive remuneration which has been reinforced in the context of the current operating environment.

Variable Incentive Plan

Our Variable Incentive Plan has now been in place for two years, and over this time we believe the model has achieved a closer alignment between our Executives' incentive outcomes and the experience of our shareholders over both the short and long term. The granting of share rights (if awarded) deferred over a four year period reinforces the importance of the Executive team delivering sustainable share price and dividend growth over the long term through the execution of our strategy.

For our new CEO and Managing Director we have been even more explicit in defining long term performance expectations through the introduction of an additional hurdle on a portion of the variable incentive equity. This was detailed in the ASX announcement of Rob Adam's appointment in May 2018 and is included in Section 1.2 of this report.

Long Term Value Creation

FY18 performance has been delivered in an environment of considerable change. Our team has continued to demonstrate resilience and remain focused on our clients to deliver positive results across our key measures of client, growth, financial and people.

Our net profit after tax (NPAT) of $140.2m is an increase of 2% on FY17. Perpetual saw strong growth in Perpetual Corporate Trust and in Perpetual Private via new business revenue and net flows which will help underpin growth in future years. Perpetual Corporate Trust and Perpetual Private delivered year on year profit growth (PBT) of 16% and 14% respectively, and Perpetual Investments had a challenging year with a reduction in PBT of 3%.

Importantly, we also delivered strong results across our Client and People measures with top quartile results in both Client Advocacy and Employee Engagement, both of which we believe are key indicators of long term value creation. Client advocacy, as measured by the Client Net Promoter Score (NPS) in each of our client segments, is a lead indicator of future growth.

In FY18 Perpetual lifted Client NPS by three points, building on a strong five point increase in FY17. The One Perpetual employee engagement score has increased to 73%. This is the highest it has been and positions us in the top quartile of Australian companies. Over time, we believe highly engaged employees deliver stronger client satisfaction and advocacy, improved operational productivity and stronger financial outcomes, which help to drive higher and sustainable total shareholder returns.

Remuneration Report (continued)

Pay for Performance

Underpinning our “pay for performance” philosophy, our remuneration policy seeks to attract and retain the desired talent to deliver on our strategy whilst balancing value creation for our shareholders, clients and employees. These principles are reflected in our Executive remuneration model which creates strong alignment between our Executives and our shareholders through increased share ownership. Two years after the transition to the new approach, we believe the model is appropriately delivering on pay for performance objectives for Executives.

Performance against short and long-term measures for FY18 has resulted in incentives being paid to our Group Executives in the range of 74%-78% of target (excluding Geoff Lloyd given he has stepped down and has forfeited his FY18 variable incentive equity component), compared to the prior year range of 76%-98%. The result of the Board’s consideration of the outcomes for the year, detailed in Section 5.3, was that Group Executives achieved an average of 76% of Variable Incentive targets. The growth in financial performance was below plan and explains the difference compared with FY17 where Group Executives achieved an average of 91%. These averages exclude the outgoing CEO.

Link Between Risk and Reward

At Perpetual, risk continues to be a key component of our performance framework and is incorporated into the assessment of performance in three ways. Firstly, risk is considered at an individual and divisional level through an assessment of a divisional risk dashboard and individual risk goals, comprising metrics related to identification, management and closure of key risks. Secondly, risk behaviours are assessed for each employee through the Perpetual ‘The Way We Work’ behavioural framework that has been in place since 2014, comprising people, client and business lenses. Thirdly, the Board can exercise discretion over any element of remuneration based on risk behaviour, reinforcing the links between risk and reward at Perpetual. All three elements of risk are reflected in both performance and reward outcomes of all employees, including our Executives. In instances where risk culture and behaviours are not clearly demonstrated, there is a consequence to incentive outcomes.

In relation to fixed remuneration, across the organisation the average increase for the FY19 year for our people is 2%. However, there will be no increase in fixed remuneration for our Executives and Non-executive directors.

As noted last year, our objective is to present our Remuneration Report in a way that makes it easy for our shareholders to understand our key measures, performance against these measures and ultimately why we have rewarded Executives. We continue to provide increased transparency by separating the actual remuneration our Executives received from what we are required to disclose under regulatory and accounting standards. We look forward to engaging with our shareholders and stakeholders in relation to our remuneration outcomes for FY18 and welcome your feedback.

Sylvia Falzon
Chairman, People and Remuneration Committee

This Report provides Perpetual's shareholders with comprehensive information on the link between the remuneration arrangements of our Executives and Perpetual Group performance and strategy. The information in this Remuneration Report has been audited against the disclosure requirements of section 308(3C) of the Corporations Act 2001.

Contents

Remuneration Report (continued)

1. Key Management Personnel

1.1. Key Management Personnel (KMP)

Below are Perpetual's KMP for FY18:

Name	Position	Term as KMP in FY18
Current Executives		
Geoff Lloyd[1]	Chief Executive Officer and Managing Director	Full year
Christopher Green[2]	Interim Chief Executive Officer and Group Executive, Perpetual Corporate Trust	Full year
David Lane	Group Executive, Perpetual Investments	Full year
Gillian Larkins	Chief Financial Officer	Full year
Rebecca Nash	Group Executive, People and Culture	Full year
Kylie Smith	Group Executive, Marketing and Communications	Full year
Mark Smith	Group Executive, Perpetual Private	Full year
Current Non-executive Directors		
Tony D'Aloisio	Chairman	Full year
Philip Bullock	Independent Director	Full year
Sylvia Falzon	Independent Director	Full year
Nancy Fox	Independent Director	Full year
Ian Hammond	Independent Director	Full year
Craig Ueland	Independent Director	Full year

1. On 20 November 2017, it was announced to the ASX our Chief Executive Officer (CEO) and Managing Director, Mr Geoff Lloyd will be leaving Perpetual. He stepped down on 30 June 2018 after completing over six years in the role. Mr Lloyd will be available during his notice period until 31 August 2018 when he ceases employment with Perpetual. Further details about our new CEO, Mr Rob Adams and his remuneration are provided in Section 1.2 of this Report.

2. Effective 9 June 2018 Mr Green stepped into the role as Interim CEO.

1.2 New CEO remuneration arrangements for FY19

Effective 30 June 2018, Geoff Lloyd stepped down as CEO and Managing Director. Since taking on the role in February 2012, Geoff has led Perpetual through significant change and growth, primarily as a result of Transformation 2015, the successful acquisition and integration of The Trust Company and the development and execution of our "Lead & Grow" strategy. To assist with a smooth transition to his successor, Mr Lloyd will continue to serve the organisation until 31 August 2018.

Effective 24 September 2018, Rob Adams will join Perpetual as the new CEO and Managing Director.

CEO Remuneration

Details of Mr Adams' remuneration arrangements were advised to the market in May 2018 and are summarised in this section. Mr Adams' total remuneration arrangements are largely in line with Mr Lloyd's previous arrangements, however, Perpetual has made changes to the components of Mr Adams' remuneration. In relation to the variable incentive, a lesser amount is weighted to cash and of the increased equity component, 50% will be subject to a longer-term performance hurdle of absolute total shareholder return. The maximum opportunity under the variable incentive remains at 175% of target.

The full Variable Incentive (cash and equity) will remain subject to performance against an annual balanced scorecard, however, the CEO's Variable Incentive Equity component for FY19 will be delivered as a grant of Share rights (50%) and Performance rights (50%) as follows:

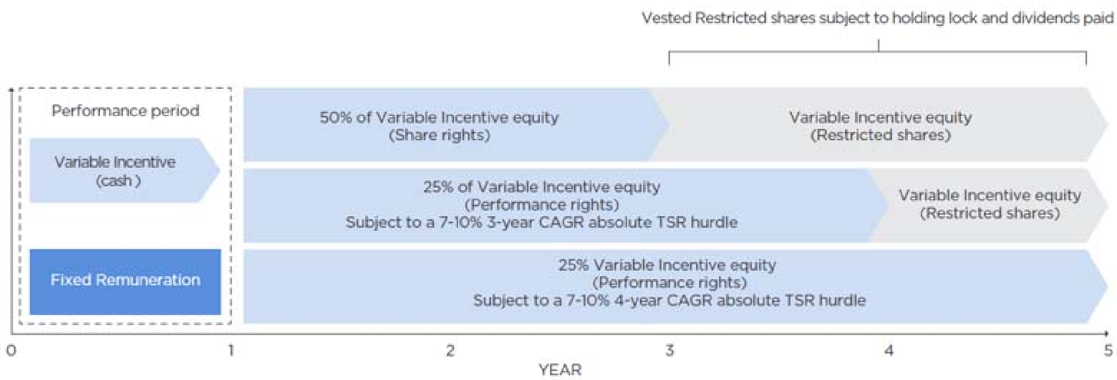
- Share rights (Variable Incentive Equity – unhurdled) will vest on 1 September 2021 and convert into Restricted shares;
- half of the Performance rights (Variable Incentive Equity – hurdled) will vest on 1 September 2022 subject to a three-year Compound Annual Growth Rate (CAGR) absolute Total Shareholder Return (TSR) hurdle and convert to Restricted shares; and
- the remaining half of the Performance rights will vest on 1 September 2023 subject to a four-year CAGR absolute TSR hurdle and convert to unrestricted Shares.

Any Restricted shares received on conversion of Share rights or Performance rights will be eligible to receive dividends and will be released from restrictions on 1 September 2023.

The absolute three and four-year CAGR TSR performance hurdles will be aligned to the following achievement scale:

Compound annual growth in TSR	Percentage of relevant tranche of Performance rights that vest
Less than 7% per annum	0%
7% to 10% per annum	Straight-line vesting from 50% to 100%
10% or above per annum	100%

Consistent with the FY18 Variable Incentive Plan, the Board will have the discretion to claw back vested and unvested equity.



The number of Share rights and Performance rights to be granted for FY19 performance will be determined by dividing the relevant variable incentive award dollar amount by the face value of a Perpetual share on the trading day prior to the CEO's commencement date, using the 5-day Volume Weighted Average Price (VWAP).

CEO Remuneration Comparison

Following is a comparison of the target remuneration components of Mr Lloyd and Mr Adams' remuneration.

	Fixed Remuneration	Variable Incentive Cash	Variable Incentive Equity (unhurdled)[1]	Variable Incentive Equity (hurdled)[2]	Total Variable Incentive
Geoff Lloyd FY18 target remuneration package	$1,302,630	$765,000	$1,512,885	$0	$2,277,885
Geoff Lloyd FY18 actual outcome	$1,302,630	$765,000	$0	$0	$765,000
Rob Adams FY19 target remuneration package	$1,302,630	$500,000	$888,943	$888,943	$2,277,885

Actual amounts payable to Mr Adams will be pro-rated for the period of employment during FY19 and determined by performance against a balanced scorecard that contains goals and measures that reflect short term priorities as well as sustainable long term performance goals that the Board believes will drive long term Perpetual Group performance. Target amounts are represented as face value.

[1] Awarded as Share rights vesting after two years into Perpetual shares which are subject to a holding lock of two further years.

[2] Awarded as Performance rights which vest into Perpetual shares subject to meeting absolute TSR performance hurdles after three and four years.

The introduction of the additional performance hurdle on a portion of the equity award is designed to further strengthen alignment with longer term shareholder experience. There is also a higher proportion of the overall award payable in equity.

Stretch is built into scorecards to ensure that payments awarded under the plan are commensurate with the overall performance of the Perpetual Group and value delivered to shareholders.

CEO Sign-on Long Term Incentive

In addition, a sign-on equity incentive will be granted to Mr Adams on commencement of employment, as Restricted shares with a face value of $900,000. Provided Mr Adams does not give notice of resignation and is not terminated for cause before the relevant vesting date, half of the sign-on incentive ($450,000) will vest on the second anniversary of his commencement date (24 September 2020) and the balance ($450,000) will vest on the fourth anniversary of his commencement date (24 September 2022).

1.3 Outgoing CEO remuneration arrangements for FY18 and FY19

Mr Lloyd stepped down as CEO and his employment will end on 31 August 2018. It was originally planned that Mr Lloyd would remain employed by Perpetual until 31 October 2018 to assist with any handover requirements to the incoming CEO. Following Mr Lloyd's request to commence employment with MLC from September 2018, his termination date was brought forward to 31 August 2018. As a result of this change in cessation date, the treatment of some of his incentives changed, as outlined below:

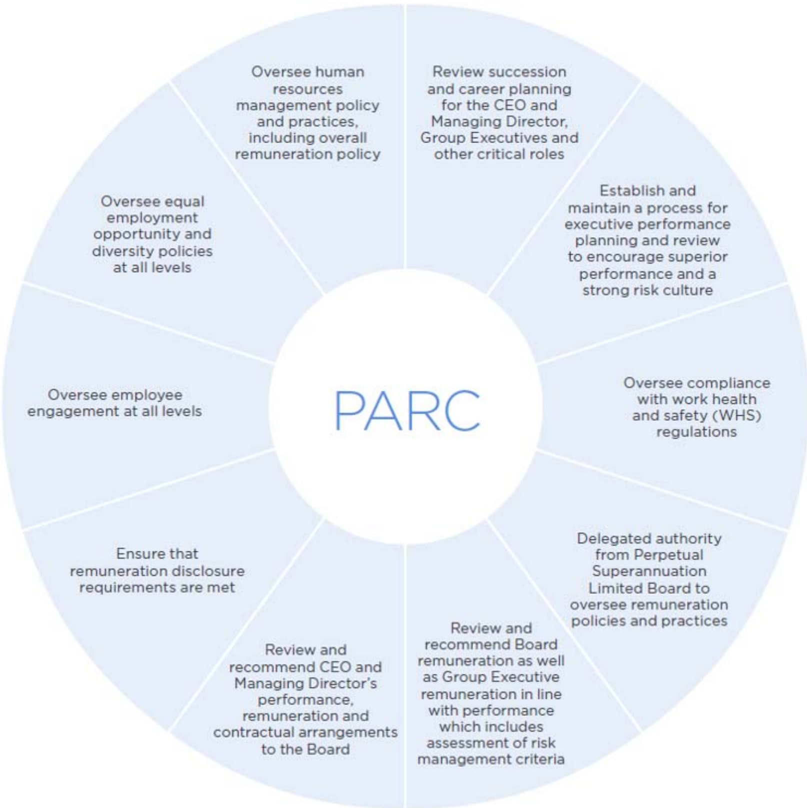
Remuneration components	Original treatment – CEO cessation date 31 October 2018	Revised treatment – CEO cessation date 31 August 2018
Salary	Mr Lloyd was to be paid his normal salary, packaging, and superannuation entitlements until 31 October 2018.	Mr Lloyd will be paid his normal salary, packaging, and superannuation entitlements until 31 August 2018.
FY18 Variable Incentive Cash	In FY18 Mr Lloyd received a payment equal to his Variable incentive cash target of $765,000 and was paid on 1 July 2018.	No change.
Deferred Short Term Incentive Shares granted 1 September 2016	Mr Lloyd's deferred STI shares granted 1 September 2016 would have vested on 30 September 2018 in accordance with the offer.	Mr Lloyd's deferred STI shares granted 1 September 2016 will now be forfeited on 31 August 2018 following his decision to cease employment early to commence his new role.
Long Term Incentive Performance rights granted 1 October 2015	Mr Lloyd's Performance rights granted 1 October 2015 would have been performance tested on 1 October 2018 in accordance with the offer.	Mr Lloyd's Performance rights granted 1 October 2015 will now be forfeited on 31 August 2018 following his decision to cease employment early to commence his new role.
Variable Incentive Performance rights granted 1 September 2017	Mr Lloyd's Performance rights granted 1 September 2017 under the Variable Incentive Plan ($1,171,745) have been forfeited.	No change.
FY18 Variable Incentive Equity	Mr Lloyd forfeited his FY18 Variable Incentive equity component on 30 June 2018.	No change.
Long Service Leave	Mr Lloyd was to accrue long service leave until 31 October 2018, at which point he was to receive a pro-rata gross payment of $178,689.	Mr Lloyd will continue to accrue long service leave until 31 August 2018, at which point he will receive a pro-rata gross payment of $175,060.

2. Governance

2.1 The People and Remuneration Committee

The People and Remuneration Committee (PARC) evaluates and monitors people and remuneration practices to ensure that the performance of Perpetual is optimised with an appropriate level of governance while balancing the interests of shareholders, clients and employees.

The PARC comprises independent Non-executive Directors and operates under delegated authority from the Perpetual Board. The PARC's terms of reference are available on our website (www.perpetual.com.au) and are summarised as follows:



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 met seven times during the year, with attendance details set out on page 5 of this Annual Report. A standing invitation exists to all Directors to attend PARC meetings. At the PARC's invitation, the CEO and Managing Director and the 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.

Remuneration Report (continued)

2.2 Use of external advisers

Since 2011, the PARC has used PricewaterhouseCoopers (PwC) to provide specialist advice on Executive remuneration and other Group-wide remuneration matters. During the year, PwC provided limited 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.

2.3 Corporate Social Responsibility

The Perpetual Board and Management understand the importance of Corporate Social Responsibility, which is fundamental to our decision making.

At Perpetual, we look for opportunities to build our social, environmental and financial performance in ways that enhance our core values and business sustainability.

We look for activities where we can add the most value to our community while minimising our environmental impact and optimising the engagement of our people.

Perpetual is committed to making ethical decisions, combined with a sound governance structure and working within acceptable risk parameters.

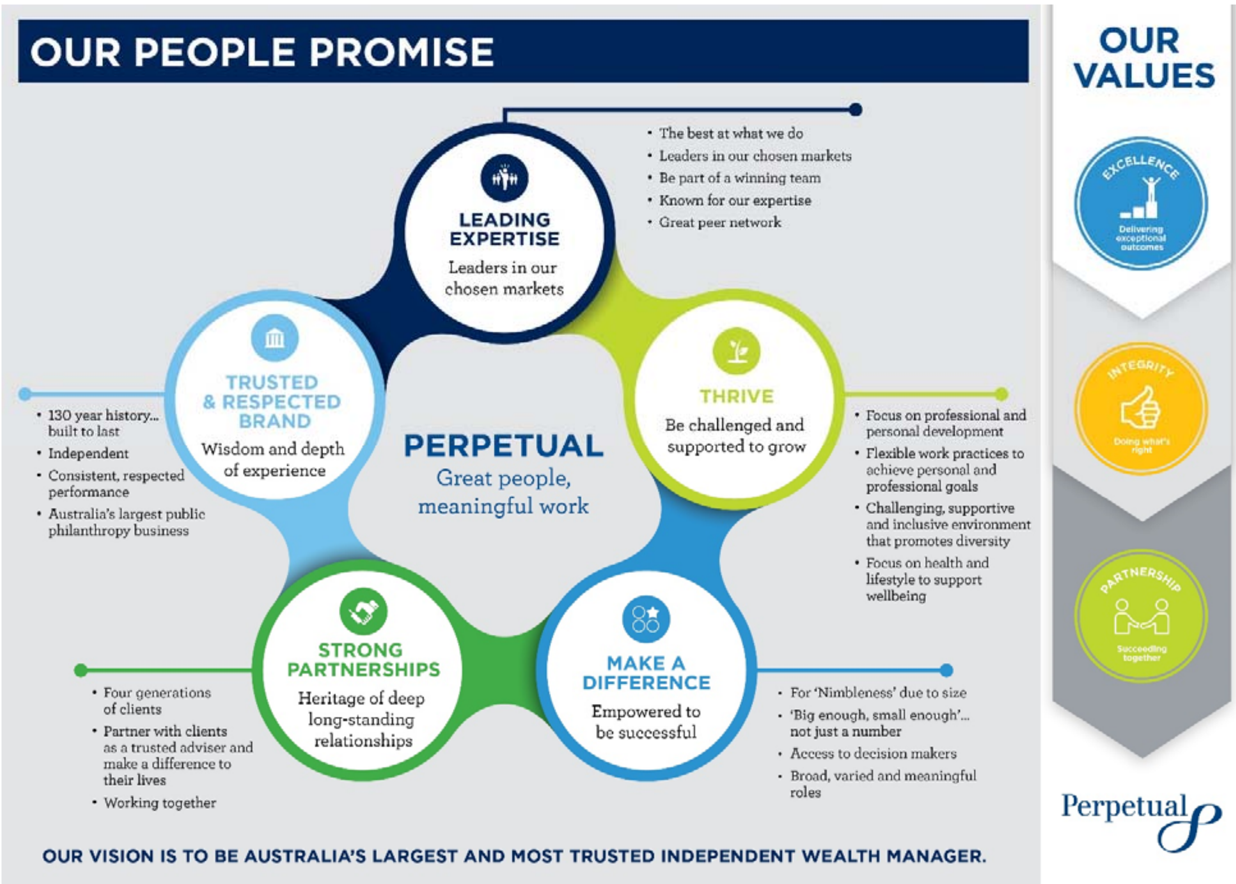
Each year the Perpetual Board approves Perpetual’s Corporate Responsibility Statement. Within this statement are details of our approach to:

- Code of Conduct;
- Responsible and sustainable business practices;
- Ensuring an engaged and diverse workforce;
- Making a positive impact on our community;
- Reducing the environmental impact of our operations;
- Ensuring the highest standards of governance; and
- Recognising and managing risk.

More details are contained in our Corporate Responsibility Statement which can be found on the Perpetual website (https://www.perpetual.com.au/about/corporate-governance).

3. Our people

Our people strategy, a key enabler of our Lead & Grow strategy, is focused on attracting the best talent with a promise of providing the opportunity to work with great people on meaningful work. This strategy is underpinned by excellent leadership capability, diversity and inclusion, and leading employee benefits.



3.1 Diversity and Inclusion

At Perpetual, we have a robust Diversity and Inclusion strategy that is developed and governed by our Diversity Council. We believe that building diverse and inclusive teams is the right thing to do and will deliver better outcomes for our people, clients and shareholders.

Our Diversity and Inclusion framework is outlined over page.

DIVERSITY & INCLUSION KEY ACHIEVEMENTS FY18

Flexibility

Employees empowered with control over where, when, and how they deliver optimal business outcomes

- ✔ 79% of our people tell us they feel comfortable utilising flexibility
- ✔ 85% of our people say that Perpetual promotes a culture where Flexibility is embraced and promoted
- ✔ New laptops and Skype video conferencing rolled out to all employees to support remote working and flexibility

Gender Equality

Building gender balanced leadership for Perpetual to deliver better business results

- ✔ Agreement of business goal of 40% male, 40% female, 20% any gender by 2020 (40/40/20 concept)
- ✔ Increased leadership commitment through cascaded targets
- ✔ Named WGEA Employer of Choice for Gender Equality
- ✔ Launched Perpetual's Domestic and Family Abuse policy
- ✔ CEO confirmed as WGEA Pay Equity Ambassador
- ✔ Continued targeted female talent development – Structured Mentoring, Inspiring Women's Forum and WiBF Leadership Lunches

Cultural Diversity

Building relationships, respect and opportunity for Aboriginal and Torres Strait Islander peoples

- ✔ Continued commitment to Jawun: 5 secondees in 2018
- ✔ Progress towards delivery of Stretch RAP (2016-2019)
- ✔ Celebrated NAIDOC week to increase our teams understanding of Reconciliation
- ✔ Participation in 2017 AIEF Mentoring Program
- ✔ Celebrated Harmony Day across the business
- ✔ Launched Cultural Diversity survey

Inclusion

Enabling our people to contribute in their distinctive way and recognising diversity of thought

- ✔ Celebration of Perpetual's 'Pride Day'
- ✔ Continued focus on Inclusive Leadership Development for Perpetual's Senior Leadership cohort

3.2 Employee benefits

At Perpetual, we are passionate about providing our employees with a range of benefits that are relevant to what we stand for as an organisation and that are meaningful to them. We continuously strive to improve the wellbeing of our employees through our Wealth, Health, and Lifestyle benefits outlined below.

Wealth

- Employee share grant plan
- Targeted Superannuation increase to 12% by 2020
- Superannuation on parental leave
- Free financial health check
- Discounted financial advice
- Employee banking offer
- Salary continuance insurance
- Death & TPD insurance
- Salary packaging
- Talent Referral Incentive Plan
- Investment employee offers

Health

- Employee health checks
- Flu vaccinations
- HCF Corporate health plans
- Meditation and yoga sessions
- Mental health program
- Employee assistance programs
- Healthy workplace snacks

Lifestyle

- Contribution leave
- Purchased leave
- Flexible working
- Shopping & lifestyle discounts
- Education assistance
- Paid parental leave
- Parental return to work bonus
- Sabbatical leave

4. Our remuneration philosophy and structure

Perpetual’s remuneration philosophy is designed to enable the achievement of our business 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 six guiding principles, which aim to:

4.2 Remuneration policy and practice

Alignment with sound risk management

Risk Management continues to be core to our business. When determining ‘at risk’ variable remuneration, Perpetual ensures that risk management is a key performance metric. Sound risk management practices include:

- employees being ineligible for a variable remuneration payment if they exhibit poor risk behaviours;
- incorporating risk management performance measures in individual employee scorecards;
- performing scenario testing on potential outcomes under new incentive plans;
- reviewing the alignment between remuneration outcomes and performance achievement for incentive plans on an annual basis;
- deferring a significant portion of variable remuneration Perpetual Share rights and Restricted shares to align remuneration outcomes with longer-term Perpetual Group performance;
- an ability for the Board to adjust incentive payments downwards or upwards, if required;
- malus and clawback provisions feature in all Perpetual incentive plans, thus provisioning for the Board to ‘claw back’ variable remuneration (Share rights and Restricted 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 position and the desired culture. Executive risk performance is assessed by PARC and Audit Risk and Compliance Committee (ARCC) annually and included in their performance assessment.

Remuneration Report (continued)

Risk management performance measures are included in employee scorecards

Executive remuneration structures support delivery of the Lead & Grow strategy

The remuneration structure for Perpetual Executives is designed to drive our strategy, with outcomes being aligned to Perpetual's shareholders. In FY18, the structure was as follows:

<table>
<tr><td>Fixed</td><td>Fixed remuneration</td><td>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).</td><td rowspan="2">Paid as cash</td></tr>
<tr><td rowspan="2">Variable
Incentive (if payable)</td><td>Cash</td><td rowspan="2">Each participant has a Variable Incentive target, expressed as a defined $ target amount.
Annual Variable Incentive outcomes are linked to performance against key business metrics directly linked to our strategy.
The Variable Incentive is paid in both cash and equity.
Equity must be retained for at least four years (first as Share rights, then as Restricted shares). This ensures that Variable Incentive outcomes are linked to the shareholder's experience through reinforcing long-term ownership of Perpetual shares.</td></tr>
<tr><td>Equity</td><td>Awarded as equity</td></tr>
</table>

Remuneration Report (continued)

Minimum shareholding guideline

A minimum shareholding guideline applies to Executives. The purpose of this guideline is to strengthen the alignment between Executives' and shareholders' interests related to 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, Share right or Restricted share still held in trust for the Executive is treated as being equal to 50% of that Share right or Performance right, as this represents the value of the share in the hands of the Executive after allowing for tax. Unvested shares or rights do not count towards the target holding.

A five year transition period, from the date of appointment to a KMP role, 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.

Following the introduction of the new Variable Incentive Plan from 1 July 2016 and the recognition of vested Restricted shares towards the minimum shareholding requirement, Perpetual will monitor its policy to ensure alignment with shareholder interests.

As at 30 June 2018, progress towards the minimum shareholding target for each Executive was as follows:

	Value of eligible shareholdings as at 30 June 2018[1] $	Value of minimum shareholding guideline $	Target date to meet minimum shareholding guideline	Guideline met[2]
Executives				
G Lloyd[3]	N/A	N/A	N/A	N/A
C Green[2]	206,045	253,221	1 October 2013	
D Lane	-	275,528	10 April 2022	
G Larkins	700,502	365,629	3 October 2017	✓
R Nash[2]	281,050	311,505	15 August 2017	
K Smith	78,874	194,328	1 September 2021	
M Smith	955,677	315,200	19 November 2017	✓

1. Value is calculated through reference to the closing Perpetual share price at 30 June 2018 of $41.60.
2. Executives have a five year transition period to meet their shareholding requirement. C Green and R Nash are behind the minimum shareholding requirement.
3. The minimum shareholding guideline is no longer relevant for Geoff Lloyd given he has stepped dow n as CEO and Managing Director.

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 over page).

Remuneration Report (continued)

Share dealing approval

Effective 1 July 2018, Perpetual issued a new policy for trading in Perpetual Securities which stipulates certain trading black-out periods and requires all employees to seek pre-trade approval via an automated platform. A copy of the policy was lodged with the ASX and appears on Perpetual's website at https://www.perpetual.com.au/about/corporate-governance/informed-market-and-share-dealings

Fixed remuneration increases for FY19

Following a review of market fixed remuneration increase trends, Perpetual's average fixed remuneration increase across the organisation for FY19 was 2% for all employees, excluding the CEO and Group Executives. CEO and Group Executive fixed remuneration did not increase.

Asset Manager remuneration

Asset Manager (portfolio manager and investment analyst) remuneration policy aligns to Perpetual's performance based remuneration philosophy and principles. Perpetual seeks to align remuneration outcomes to long term value creation for shareholders and clients. All Asset Managers have a portion of their variable remuneration determined by outcomes delivered against investment performance targets, which is generally assessed over one, two and three years. Portfolio managers managing mature funds and those who are growing businesses may have a portion of their remuneration aligned to other business measures. For example, Perpetual's Australian and Global Equities Portfolio Managers have their long term incentives determined through a revenue share arrangement which aligns a portion of their remuneration directly to shareholder outcomes.

All Asset Managers have a portion of their variable remuneration awarded as deferred or long term incentives every year. These awards vest over a range of timeframes; principally after three years. This cycle of rolling awards ensures continuous retention arrangements are in place and avoids 'cliff vesting' events. For most Asset Managers deferred incentives can be invested into either Perpetual equity or units in their own funds, further aligning Asset Managers to client outcomes and shareholder interests.

General employee remuneration

Employees receive fixed pay, superannuation and are eligible to receive a short-term incentive.

Performance against a company scorecard determines the size of the bonus pool for the financial year. Relative divisional performance against divisional scorecards are one of a number of factors that determine the distribution of the bonus pool to each division. An individual's STI outcome is then determined based on individual, team, divisional and company performance, taking into account appropriate risk management.

Senior employees are eligible to participate in a long-term incentive plan. All other employees are eligible to participate in the One Perpetual Share Plan whereby eligible employees can be awarded annual grants of up to $1,000 of Perpetual shares subject to Perpetual meeting its profit target. In addition, Perpetual offers a comprehensive suite of employee benefits across health, wealth and lifestyle.

5. Aligning Perpetual Group performance and reward

5.1 Setting performance expectations

For the last three years, Perpetual’s Lead & Grow strategy has been based on delivering long-term sustainable value. In our view, this is best achieved by having highly engaged people creating superior client outcomes, which in turn delivers underlying earnings growth for shareholders. To this end, our strategy is led by clear measures under people, client, financial and growth drivers. This links our annual scorecard goals with the stated long-term goals of our strategy; balancing short-term shareholder outcomes with the necessary investments for future sustainable growth.

As in prior years, in FY18 we adopted a balanced scorecard to measure and drive our performance. The scorecard was weighted 80% to financial measures and 20% to non-financial measures that will deliver value in the current and future years, within appropriate risk tolerance levels. We set our balanced scorecard in the context of the Lead & Grow strategy, commencing with a bottom-up build of goals, measures and stretch targets. We test this plan with reference to a number of external market factors and in consideration of year on year progress against our key strategic goals to ensure that appropriate stretch is reflected in the targets for each measure.

5.2 Five year Group performance

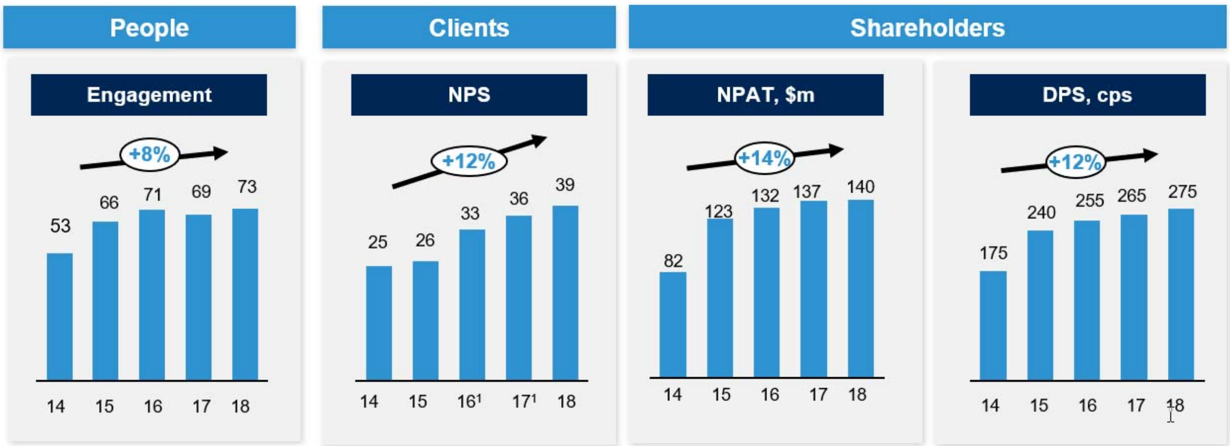
One of Perpetual’s remuneration guiding principles is that the remuneration structure should balance value creation for our shareholders, clients and employees.

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

The table below shows Perpetual’s five-year performance across a range of metrics and corresponding incentive outcomes. The movement in the variable pay of the CEO and Executives, in our view, has been fair and reasonable compared to the actual growth in Perpetual Group performance and resulting benefits to shareholders, over a five-year period.

		30 June 2014	30 June 2015	30 June 2016	30 June 2017	30 June 2018
Net profit after tax reported	$m	81.6	122.5	132.0	137.3	140.2
Basic earnings per share - NPAT	cps	196	274	291	300	305
Total dividends paid/payable per ordinary share[1]	cps	175	240	255	265	275
Closing share price	$	47.4	48.4	41.1	55.9	41.6
5-year CAGR TSR	%	14	15	15	23	8
3-year CAGR TSR	%	27	32	10	10	-1
1-year TSR	%	38	7	-10	42	-21
CEO - Variable Incentive as % of target[2]	%	119	103	107	79	34
Group Executives - Average Variable Incentive as % of target	%	108	108	105	91	76

1. Dividends paid are for the respective financial year.
2. CEO outcome represents variable incentive cash only for FY18 given the forfeiture of variable incentive equity for FY18.



Note: Percentage increases represented are CAGR
1. Actual NPS outcome for FY16 is +31 re-based to +33, and actual NPS outcome for FY17 is +38 re-based to +36 for new target markets

Performance commentary

- Shareholder returns have experienced a mixed result over the last two years with strong absolute TSR in FY17 of 42% and a subsequent fall in FY18 of -21% TSR. The five-year absolute TSR CAGR is tracking at 8.4% which has declined given the FY18 share price drop.
- FY18 NPAT was 2% higher than FY17. This was driven by growth in average funds under management and advice supported by higher equity markets and larger performance fees earned offset by prior period distributions and net outflows in PI, new business growth within PCT and PP, ongoing cost management whilst continuing to invest in strategic initiatives across the Perpetual Group, lower gains on disposal of seed fund investments and significant items. This 2% growth in FY18 compares to 4% growth in FY17.
- Perpetual’s dividend per share has continued to increase broadly in line with NPAT growth.
- The positive trends in our employee and client experience and the significant investments in the business, position Perpetual well for future sustainability and growth.
- Our strategy recognises that our people are key to our success, and Perpetual believes that the improvements we have seen in the engagement levels of our team are the foundation for client centricity and ultimately building long-term shareholder value. AON Hewitt Global Insights recognise that a five-point increase in engagement is linked to a three-point increase in revenue growth in the following year.[1]

[1] Source: HTTP://www.aon.com/engagement17/

- Net Promoter Score (NPS) was adopted as an organisational-wide client measure in FY13, and continues to be a critical client measure, given our client-driven business and our long-term strategy.

Pay for performance

- The result of the Board's consideration of the outcomes for the year, detailed in 5.3 below, was that Group Executives achieved an average of 76% of Variable Incentive targets. The growth in financial performance was below plan and explains the difference compared with FY17 where Group Executives achieved 91%. As explained above these averages exclude the outgoing CEO.
- The range of Executive variable pay outcomes in FY18 are between 74% and 78% of target (excluding CEO), compared to the prior year range of 76% to 98%. The closer alignment of outcomes in FY18 is largely a result of each Executive being more heavily aligned to Company performance as we sought to drive 'OnePerpetual' behaviours and outcomes.
- The variable pay for our Executives is intentionally linked to performance against short and long-term drivers of our business. In FY18 some of the identified growth drivers fell short of our agreed targets and therefore outcomes are lower than prior years.

5.3 Measuring performance in FY18

Under our Variable Incentive Plan, it is critical that our balanced scorecard evaluates current and future value creation with an integral risk management overlay. This section seeks to explain the performance outcomes for FY18.

Key areas of investment

Perpetual has continued to invest in programs that will provide longer term value creation opportunities in the future from a productivity and revenue perspective. These programs can be categorised by division as follows:

Perpetual Corporate Trust

- Continued investment in data & analytics solutions which are now generating meaningful revenue with the additional capability assisting with rapid market penetration.
- A technology modernisation program that will deliver strong foundations for the business and lead to increased productivity and efficiency while improving the client and employee experience.
- Ongoing investment in the Singapore business which continues to grow its direct contribution to the division while feeding the Australian business with new revenue from its Asian clients.
- Investment in extension businesses in both Debt Markets Services and Managed Funds Services which are resulting in additional share of wallet from our existing client base.

Perpetual Private

- Broad investment in modernisation projects to deliver a sustainable operating model to realise scale benefits, productivity improvements, and transform the client experience.
- Continued build out of the Fordham business advisory group.

Perpetual Investments

- The business continued to build the product pipeline over the year, incubating and launching a range of new strategies to drive longer term growth including: Global Innovation, Ethical Credit and Diversified Real Return Fund (Performance Fee option).
- An uplift in client experience, aided by an investment in a new CRM system, has contributed more than $100M in FUM due to client retention and referrals from the Call Centre.
- PI has hired four new senior investment professionals resulting in expansion of the skill base and depth of the investment teams.

Remuneration Report (continued)

Support Services

- In FY18 Perpetual embarked on a strategic investment in an advanced client relationship management platform. This enterprise infrastructure is designed to improve the experience for prospective and existing clients.
- Investment in a cloud based Human Capital Management System allows our people to operate more efficiently with improved access to real time information.
- Investments in our core technology hardware have better equipped our staff to deliver improved business outcomes.

Performance against our key balanced scorecard measures in FY18 is summarised below:

Strategic Measure	Weighting	Full Year Performance	
Financial		**Outcome**	**Comments**
Delivery of net profit after tax (NPAT) target	40%	Target: $143m Actual: $140.2m Result: Below Plan	• In FY18, NPAT grew by 2% yet fell $2.8 million short of Perpetual's targeted NPAT goal.
Growth		**Outcome**	**Comments**
Perpetual Corporate Trust (PCT) – New business revenue Perpetual Private (PP) – Non market related revenue PP – Net flows Perpetual Investments (PI) – Annualised net revenue (ANR)	40%	PCT result: Above Plan PP result: Below Plan PI result: Below Plan	**PCT** • PCT exceeded its new business growth targets in FY18 with an increasingly diverse revenue portfolio. • New business growth saw Perpetual become the professional Trustee of choice for managers establishing Listed Investment Trusts and ETF's, we also continue to grow our Singapore business as the leading independent Singapore REIT trustee. • Managed Funds Services as a whole maintained strong growth bolstered by demand for Australian property and the establishment of equity funds. • New business growth came from a record year of issuance in the securitisation market, especially from non-banks with issuers upsizing deals supported by strong demand from both domestic and global investors. • PCT has become the trustee of choice for new Fintech lenders, leveraging our expertise, brand and broad product offering to support their business strategy and provide confidence to their investors. **PP** • PP continued to report positive net flows in FY18 however fell short of our agreed stretch targets. • Despite falling short of the 'at plan' target, PP has delivered 10 consecutive halves of positive net flows driven by our key strategic segments. • PP drove higher non-market related activity, primarily driven by Fordham (tax and accounting). • PP achieved higher market related revenue driven by positive growth in equity markets. • Continued inflows from HNW clients into PP's implemented portfolios continues to be a positive contributor to market related revenue growth. • PP investment portfolios outperformed respective benchmarks and delivered positive real returns in client portfolios.

Strategic Measure	Weighting	Full Year Performance	
			PI • Net outflows of $2bn in PI in FY18 represents future pressure on revenue and contributed to the 'below plan' outcome for the year. • This is a challenging time in the cycle for value investors as attractively valued investment opportunities are hard to find, which impacts fund performance and net flows. We remain committed to our investment process and we know from experience that the cycle will turn again in our favour. • Revenue relating to Global Equities, Pure Credit Alpha and Diversified Real Return investment strategies has grown from $6M to $11M in FY18 (driven by total net inflows of $497M). The continued growth of these extension strategies, underpinned by; increasing client demand, additional inclusion on a number of model portfolios, APLs and platforms, further ratings house endorsement and investment performance, is expected to drive long term value for the business.
Clients		**Outcome**	**Comments**
Improve client advocacy – external net promoter score (NPS) performance	10%	Target: +37 Actual: +39 Result: Above Plan	• Client advocacy, as measured by the NPS in each of our client segments, is a lead indicator of future growth. • In FY18 Perpetual lifted Client NPS by three points, building on a strong five point increase the year prior. • Superior client segment outcomes were invariably achieved through the strength and stability of our relationships with clients and the manner in which we proactively manage these relationships. • In contrast, where NPS results declined in segments our understanding of and sensitivity to shifting client needs requires more focus and attention. • Underpinning the results is a Client NPS Program which has strong momentum across all client segments within our three Divisions. In FY18, insights from client research led to the development of 22 action plans for sustainable improvement in the client experience and NPS.
People		**Outcome**	**Comments**
Employee engagement	10%	Target: 71% Actual: 73% Result: Above Plan	• The One Perpetual employee engagement score has increased in FY18 to 73% against our target of 71% and a baseline of 69% in FY17. AON Hewitt classifies a four point uplift as significant improvement. Over the past five years Perpetual has increased by 20 points which is an exceptional outcome. • This is the highest outcome in more than a decade and reflects targeted action planning across the business. • This result positions Perpetual in the top quartile of Australian companies, which external research demonstrates is a lead indicator of improved business outcomes over time including reduced turnover, attraction of key talent required to deliver on the business strategy and improved productivity.

Remuneration Report (continued)

Link Between Risk and Reward

At Perpetual, risk continues to be a key component of our performance framework and is incorporated into the assessment of performance in three ways. Firstly, risk is considered at an individual and divisional level through an assessment of a divisional risk dashboard and individual risk goals, comprising metrics related to identification, management and closure of key risks. Secondly, risk behaviours are assessed for each employee through the Perpetual ‘The Way We Work’ behavioural framework that has been in place since 2014, comprising people, client and business lenses. Thirdly, the Board can exercise discretion over any element of remuneration based on risk behaviour, reinforcing the links between risk and reward at Perpetual. All three elements of risk are reflected in both performance and reward outcomes of all employees, including our Executives. In instances where risk culture and behaviours are not clearly demonstrated, there is a consequence to incentive outcomes.

In FY18, there were no material adverse risk related issues that impacted performance and reward outcomes for our Executive team.

6.Variable Remuneration

6.1 The Variable Incentive Plan for Executives

Features of the Variable Incentive Plan

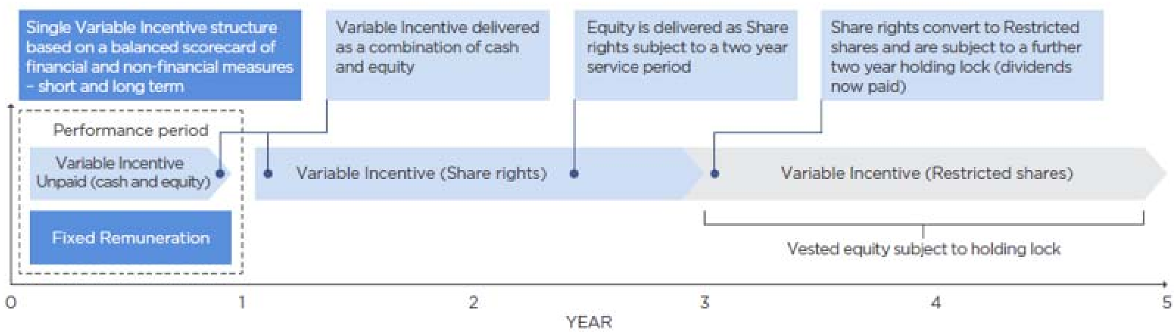
In FY17 we introduced a new Variable Incentive Plan, with a portion of the Variable Incentive paid in cash shortly after the release of Perpetual's full year results. The balance is delivered as Share rights, which will convert to Restricted shares after two years, subject to ongoing employment conditions. The Restricted shares are subject to a further holding lock for two years, with no risk of forfeiture other than for summary dismissal.

In total, equity is held for four years. Holding equity for a total of four years from the grant date of the Share rights reinforces an ownership mentality in the Executives, aligned to our shareholders' experience. The value to the Executive therefore is not at the grant date, rather at the conclusion of the vesting and restriction periods.

As performance has been fully assessed to calculate the amount paid as a Variable Incentive, no additional performance hurdles (except for employment conditions) apply to the Share rights or Restricted shares.

Dividends will not be payable on Share rights; however, they will be payable on Restricted shares during the two year holding lock.

Awards are granted on a face value basis using a five day volume weighted average price in September each year following Perpetual's full year results.



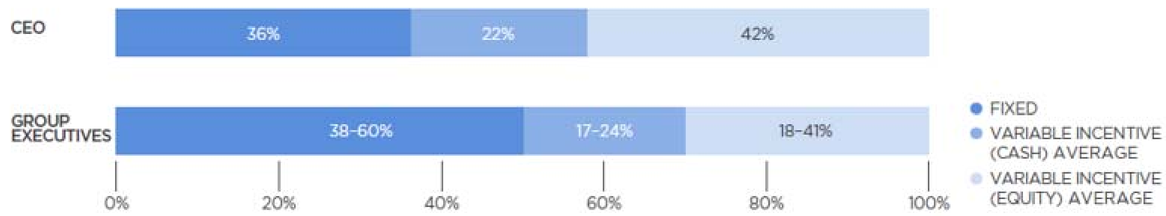
As outlined in Section 1.2, the Variable Incentive structure has been modified for the new CEO for FY19.

Remuneration mix

Executives have a significant portion of their remuneration linked to performance and at risk, with the Board having the ability to risk adjust remuneration if required. There is a strong alignment to long-term incentives for Executives, as Perpetual believes in meaningful equity ownership that increases shareholder alignment for this key group.

Remuneration Report (continued)

Total remuneration continues to be determined using a range of factors including Perpetual's market peers. The table below shows the FY18 on-target remuneration mix (using full time equivalent remuneration) for the Executives under the Variable Incentive plan.



Our long-term intention is to position all Executives with a Variable Incentive mix of 1/3rd cash and 2/3rds equity.

Determining the Variable Incentive

Individual Variable Incentive awards are determined through an assessment of performance against the Perpetual Group scorecard, divisional performance against a divisional scorecard and individual performance, which includes an assessment of behavioural expectations for all Executives. Executives must also meet risk and compliance requirements to be eligible to receive a Variable Incentive payment. In FY18, Variable Incentive weightings for Executives under the Variable Incentive Plan were as follows:

	Perpetual performance	Divisional performance	Individual performance
CEO	70%	0%	30%
Group Executives	70%	30%	

In line with our focus on delivering One Perpetual Group outcomes, in FY18, we moved the weightings for the CEO and Group Executives to 70% Perpetual performance and 30% divisional/individual performance. This combined focus on Perpetual Group and divisional/individual performance ensures shared accountability for overall Perpetual performance amongst Executives, balanced with divisional priorities.

In addition, risk performance is assessed and acts as a modifier to amend an individual's overall performance and reward outcome.

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

Directors' Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

Approval process

In this year of CEO transition, the Interim CEO and Chairman of the PARC, made recommendations to the PARC on Variable Incentive allocations for the Group Executives. Once recommendations were endorsed, the PARC made recommendations for the Interim CEO and Group Executives to the Board for final approval.

Total Variable Incentive outcome received in FY18 for Executives

The table below provides the total Variable Incentive outcome (both cash and equity portions) received by the Executives for the FY18 performance year.

Name	Variable Incentive Cash $	Variable Incentive Equity[1] $	Total Variable Incentive $	FY18 Variable Incentive (as % of Target)[2]	Percentage Forfeited	Maximum Opportunity @ 175% of target[3]
Executives						
G Lloyd[4]	765,000	-	765,000	34%	66%	3,986,299
C Green	225,792	426,240	652,032	78%	22%	1,455,428
D Lane	235,200	313,600	548,800	78%	22%	1,225,000
G Larkins	168,559	299,035	467,594	74%	26%	1,111,807
R Nash	125,096	197,546	322,642	78%	22%	720,183
K Smith	115,520	90,683	206,203	76%	24%	474,810
M Smith	217,641	433,535	651,176	74%	26%	1,548,313
Total	1,852,808	1,760,639	3,613,447			

1. The Variable Incentive Equity value will be awarded as share rights for two years until vesting, and will be satisfied by the conversion to Perpetual Limited shares for a further two year restricted period.
2. Represents the total Variable Incentive outcome for FY18 (including the equity component) as a percentage of target Variable Incentive.
3. Maximum opportunity Executives may earn under the Variable Incentive Plan.
4. In FY18 Mr Lloyd received a variable incentive of $765,000 paid entirely in cash. Mr Lloyd forfeited any eligibility to Share rights being granted for FY18 as a consequence of him stepping down as CEO.

A design feature of the Variable Incentive Plan is a calibration scale that converts performance outcomes to reward outcomes each year for Executives. The scale is designed to create greater differentiation of reward. In years where performance is below 'target', Executives receive reduced incentives relative to performance and, in years where performance is above 'target', their reward opportunity is increased (capped at 175% of target reward outcome). In FY18, given the below plan achievement against some balanced scorecard goals, the effect of this scale has further reduced reward outcomes for individual Executives by between 10% and 12%, relative to their overall performance outcome.

Directors’ Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

Termination of employment

Treatment upon termination of employment is as follows:

Event	Unpaid Variable Incentive (Cash and equity)	Variable Incentive (Share rights)	Variable Incentive (Restricted shares)
• Resignation • Termination for poor performance	No further variable incentive is payable	Forfeit	Retained under the plan with restriction periods continuing to apply
• Summary dismissal	No further variable incentive is payable	Forfeit	Forfeit
• Death	A pro-rated variable incentive based on the period of the performance year completed will be paid at the normal time entirely in cash subject to full year performance	Immediate vesting (subject to Board approval)	Immediate conversion to unrestricted shares (subject to Board approval)
• Mutual agreement • Retirement (requires Board approval)* • Redundancy • Total and permanent disablement (TPD)	A pro-rated variable incentive based on the period of the performance year completed will be paid at the normal time entirely in cash subject to full year performance	Retained with vesting and restriction periods continuing to apply	Retained under the plan with restriction periods continuing to apply

*In circumstances where the Board concludes at its absolute discretion that a participant is retiring.

This approach to treatment of incentives on termination of employment in conjunction with the broader plan design strengthens the alignment of interests between Executives and shareholders over the long term. The extended vesting and restriction periods encourage Executives to make decisions that are in the long-term interests of shareholders, with implications of those decisions extending beyond an Executive’s tenure at Perpetual while they continue to have shares retained in the plan.

Claw-back provisions

The Board retains discretion to claw back Variable Incentive Equity awarded to Executives prior to the Share rights or Restricted shares being released. The Board may exercise claw-back provisions if it becomes aware of any information that, had it been available at the time Variable Incentive awards were determined, would have resulted in a different (or zero) Variable Incentive amount being awarded.

6.2 Long-term incentive plan – closed plan

Between October 2012 and October 2015, Executives received long-term incentive (LTI) awards. These awards were granted annually and, if conditions were met, vested over a three year period.

Whilst this LTI plan has now been replaced with the Variable Incentive Plan, Executives continue to retain unvested LTI under this plan. For this reason, the following information on LTI has been included.

Performance targets

LTI grants made to Executives up until October 2015 vest subject to two performance measures:

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

Performance target testing and re-testing guidelines

A three year performance testing period applies to relative 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. The final test under the LTI plan will occur in October 2018.

Termination of employment

In the event of an Executive ceasing employment with Perpetual, all unvested shares and Performance rights will be forfeited at the termination date, except if an Executive is made redundant, retires, resigns due to total and permanent disablement or dies. Unvested shares and Performance rights granted more than 12 months prior to termination are retained by the Executive (or the Executive's estate), with vesting subject to the same performance conditions as if they had remained employed by Perpetual.

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

Treatment of LTI on change of 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.

Alignment of LTI to Perpetual Group performance

The following table shows the vesting outcomes of the last five years of all LTI issued to Executives with EPS and relative TSR hurdles. During FY18, the 2014 grant partially vested.

	Annual LTI Grants over the last five years: vesting outcomes				
Hurdle	Grant date: 1 October 2011 Vesting date: 1 October 2014	Grant date: 1 October 2012 Vesting date: 1 October 2015	Grant date: 1 October 2013 Vesting date: 1 October 2016	Grant date: 1 October 2014 Vesting date: 1 October 2017	Grant date: 1 October 2015 Vesting date: 1 October 2018
EPS	30%	100%	100%	44%	0%[1]
rTSR	100%	100%	56%	54%	yet to be tested

1. EPS hurdle for the 1 October 2015 grant will not vest.

6.3 Employee share plans

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

Open Plans
Perpetual Limited Long-term Incentive Plan From February 2011, this is the primary plan used for LTI grants to eligible employees, and Executives in the Variable Incentive Plan 299 members with LTI (Performance rights) 94 members with LTI (Shares) 5 members with Variable Incentive equity
One Perpetual Share Plan (OPSP) This plan, introduced in FY15, awards eligible employees with annual grants of up to $1,000 worth of Perpetual shares subject to Perpetual meeting its profit target. 1,414 members
Plans closed to new issue
Tax Deferred Share Plan (TDSP) 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. 16 members

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 2018, 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 1.8%. This has remained flat compared to last year.

The Board will ensure that the management of shares under employee incentive plans is in alignment with shareholder interests, and subject to the relevant regulatory requirements. Refer to page 22 for detail on the share dealing approval process.

7. Data disclosures – Executives

Remuneration of Executives – Statutory Reporting

	Short-term benefits				Post-employment benefits		Equity-based benefits[5]			Termination payments	Total
	Cash salary[1]	Variable Incentive Cash[2]	Non-monetary benefits[3]	Other[4]	Superannuation	Other long- term benefits[6]	Variable Incentive Equity[7]	Shares	Performance rights[8]		
Name	$	$	$	$	$	$	$	$	$	$	$
Current Executives											
G Lloyd[9]											
2018	**1,158,261**	**765,000**	**119,955**	**1,703**	**23,039**	**97,129**	**(20,606)**	**43,009**	**(329,869)**	**-**	**1,857,622**
2017	1,136,820	592,500	106,953	29,023	27,938	23,320	488,026	-	740,742	-	3,145,322
C Green											
2018	**481,576**	**225,792**	**-**	**1,703**	**23,039**	**6,686**	**279,624**	**19,337**	**(122,453)**	**-**	**915,305**
2017	467,389	282,240	-	1,509	21,508	11,975	205,692	-	274,307	-	1,264,620
D Lane											
2018	**501,570**	**235,200**	**25,979**	**1,548**	**23,039**	**917**	**54,380**	**338,556**	**-**	**-**	**1,181,189**
2017	114,448	-	3,529	9,883	5,420	102	-	221,007	-		354,389
G Larkins											
2018	**699,226**	**168,559**	**-**	**1,703**	**29,468**	**11,374**	**211,871**	**17,897**	**(86,448)**	**-**	**1,053,650**
2017	684,298	217,569	-	31,080	27,938	7,063	171,634	-	193,772	-	1,333,355
R Nash											
2018	**589,582**	**125,096**	**1,750**	**1,703**	**29,468**	**9,859**	**138,337**	**9,365**	**(44,744)**	**-**	**860,416**
2017	578,689	151,583	-	18,797	27,938	6,121	104,939	-	99,863	-	987,930
K Smith											
2018	**364,174**	**115,520**	**-**	**1,703**	**23,039**	**3,908**	**56,103**	**4,402**	**44,272**	**-**	**613,119**
2017	286,779	135,280	11,820	18,449	16,346	2,043	40,001	14,000	49,259		573,977
M Smith											
2018	**605,128**	**217,641**	**-**	**1,703**	**23,039**	**9,666**	**252,096**	**19,384**	**(144,070)**	**-**	**984,587**
2017	592,328	220,332	-	18,801	21,508	5,979	186,305	-	334,078	-	1,379,331
Former Executives											
D Kiddie[10]											
2018	-	-	-	-	-	-	-	-	-	-	-
2017	325,041	(159,836)	-	(500,000)	10,668	(235)	(35,519)	(57,583)	-	-	(417,465)
A Shelley											
2018	-	-	-	-	-	-	-	-	-	-	-
2017	196,761	-	-	670	9,011	896	-	-	115,813	-	323,150
Total 2018	**4,399,517**	**1,852,808**	**147,684**	**11,766**	**174,131**	**139,540**	**971,805**	**451,951**	**(683,312)**	**-**	**7,465,889**
Total 2017	**4,382,553**	**1,439,668**	**122,302**	**(371,788)**	**168,275**	**57,262**	**1,161,077**	**177,423**	**1,807,835**	**-**	**8,944,607**

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. Variable Incentive cash payments consist of cash payments to be made in September 2018 from the Variable Incentive Plan.
3. Non-monetary benefits represents those amounts salary sacrificed from fixed remuneration to pay for benefits such as leased motor vehicles, car parking, and purchased leave.
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 for FY18 less leave taken w hich is depicted as cash salary.
5. Share-based remuneration has been valued using the binomial method, w hich takes into account the performance hurdles relevant to each issue of equity instruments. The value of each equity instrument has been provided by Pricew aterhouseCoopers. 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 w ith non-market condition hurdles. For grants w ith 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 w ith 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 w ith accounting standards.
6. The value of accrued long service leave for FY18 less leave taken, w hich is depicted as cash salary.
7. Variable incentive equity includes costs incurred in FY18 for the deferred portion of previous STI aw ards and FY17 and FY18 Variable Incentive equity grants. Also included is the reversal of the Variable Incentive equity aw arded in FY17 to Mr Lloyd that has been forfeited as part of his cessation of employment.
8. Performance rights reversals are due to the EPS hurdle for the 2014 LTI grant partially vesting, and the EPS hurdle for 2015 LTI not vesting.
9. Mr Lloyd w ill be paid his accrued long service leave w hen he ceases employment on 31 August 2018. In prior years, long service accrued based on the probability of it being paid. Given Mr Lloyd w ill be paid his accrued long service leave, this has been realised in FY18.
10. D Kiddie ceased employment w ith Perpetual on 9 December 2016. As a result of his cessation of employment, D Kiddie forfeited his cash STI payment and sign-on bonus. In addition, his shares and rights lapsed. These amounts w ere therefore reversed in FY17.

Directors' Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

Remuneration of Executives – Actual remuneration received

The table below represents the actual remuneration received by the Executives during FY18. We believe by including this table, it makes it easier for shareholders and other stakeholders to understand the actual remuneration Executives received during the year. This table differs to the statutory remuneration table on page 35 that has been prepared in accordance with the Corporations Act and Australian Accounting Standards. The difference between the two tables is predominantly due to the accounting treatment of the share based payments.

Name	Total fixed remuneration[1]	Variable Incentive cash[2]	Equity vested during year[3]	Dividends paid on unvested shares during year[4]	Sign-on and relocation benefits	Payments made on termination[5]	Total
	$	$	$	$	$	$	$
Current Executives							
G Lloyd	1,301,255	592,500	1,325,141	43,872	-	-	3,262,768
C Green	504,615	282,240	539,343	17,519	-	-	1,343,717
D Lane	550,588	-	384,579	22,599	-	-	957,766
G Larkins	728,694	217,569	436,791	15,822	-	-	1,398,876
R Nash	620,800	151,583	223,862	10,013	-	-	1,006,258
K Smith	387,213	135,280	98,251	3,649	-	-	624,393
M Smith	628,167	220,332	590,074	16,256	-	-	1,454,829
Totals	**4,721,332**	**1,599,504**	**3,598,041**	**129,730**	**-**	**-**	**10,048,607**

1. Fixed remuneration consists of cash salary, superannuation packaged employee benefits and associated fringe benefits tax.
2. Represents the cash portion of Variable Incentive outcome for FY17 paid in September 2017. Mr Lane joined Perpetual on 10 April 2017, and as such he was ineligible for a Variable Incentive payment in FY17, as he was not employed for the minimum three month period in the performance period to be eligible for an incentive payment.
3. Represents the value of equity grants awarded in previous years which vested during the year. For all Executives (except for Mr Lane), this represents the partial vesting of the 2014 LTI grant made on 1 October 2014. These shares were valued at $51.82, this being the closing market value of Perpetual shares on the vesting date of 29 September 2017. In addition, for all Executives (except for Mr Lane) this represents the value at vesting of the deferred STI shares granted 1 September 2015. These shares were valued at $51.82 this being the closing market value of Perpetual shares on vesting date of 29 September 2017. The first tranche of Mr Lane's shares granted 10 April 2017, as a sign-on bonus vested 10 October 2017. These shares were valued at $52.21, this being the closing market value of Perpetual shares on the vesting date.
4. Dividends paid during FY18 on deferred STI shares, and sign-on bonus shares granted to Mr Lane on 10 April 2017.
5. Mr Lloyd will receive a pro-rated long service leave payment of $175,060.09 in FY19.

Directors' Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

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 35. This table includes fixed remuneration and Variable Incentives – cash and equity.

Name	Fixed remuneration %	Performance linked benefits Variable Incentive Cash %	Variable Incentive Equity %	Total %
Executives				
G Lloyd[1]	63%	37%	0%	100%
C Green	56%	25%	19%	100%
D Lane	47%	20%	33%	100%
G Larkins	70%	16%	14%	100%
R Nash	73%	15%	12%	100%
K Smith	64%	19%	17%	100%
M Smith	65%	22%	13%	100%

1. Due to the forfeiture of Mr Lloyd's FY18 Variable Incentive equity, the equity component is zero.

Value of unvested remuneration that may vest in future years

Estimates of the maximum future cost of equity-based remuneration granted by Perpetual[1] should all targets be met in the future.

	30 June 2019 Maximum $	30 June 2020 Maximum $	30 June 2021 Maximum $
Executives			
G Lloyd	89,074	-	-
C Green	331,213	194,637	19,248
D Lane	144,167	126,758	14,162
G Larkins	240,048	137,287	13,504
R Nash	152,519	89,708	8,921
K Smith	75,050	40,867	4,095
M Smith	305,283	192,438	19,578

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 performance and/or service period.

Directors’ Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

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 Executives by Perpetual, for the year ended 30 June 2018. For details of the fair valuation methodology, refer to section 4-1 of the notes to, and forming part of, the financial statements.

Name	Instrument	Grant date	Issue price	Vesting date	Held at 1 July 2017	Movement during the year: Granted	Forfeited	Vested	Held at 30 June 2018	Fair value per instrument at grant TSR Hurdle	Fair value per instrument at grant ($) non-TSR hurdle
			$		Number of instruments	Number of instruments			Number of instruments	$	$
Executives											
G Lloyd	Shares	1 September 2015	42.37	30 September 2017	10,963	-	-	10,963	-	N/A	42.37
	Shares[2]	1 September 2016	49.05	30 September 2018	10,767	-	-	-	10,767	N/A	49.05
	Performance rights	1 October 2014	38.00	1 October 2017	29,815	-	15,206	14,609	-	21.82	38.00
	Performance rights[3]	1 October 2015	33.07	1 October 2018	35,319	-	-	-	35,319	19.50	33.07
	Performance rights[4]	1 September 2017	55.52	1 September 2019	-	21,104	21,104	-	-	46.93	55.52
		Aggregate value[1]				$ 1,171,694	$ 1,665,901	$ 1,325,141			
C Green	Shares	1 September 2015	42.37	30 September 2017	4,929	-	-	4,929	-	N/A	42.37
	Shares	1 September 2016	49.05	30 September 2018	4,024	-	-	-	4,024	N/A	49.05
	Performance rights	1 October 2014	38.00	1 October 2017	11,184	-	5,705	5,479	-	21.82	38.00
	Performance rights	1 October 2015	33.07	1 October 2018	12,851	-	-	-	12,851	19.50	33.07
	Performance rights	1 September 2017	55.52	1 September 2019	-	9,308	-	-	9,308	46.93	55.52
		Aggregate value				$ 516,780	$ 295,633	$ 539,343			
D Lane	Shares	10 April 2017	52.27	10 October 2017	7,366	-	-	7,366	(0)	N/A	52.27
	Shares	10 April 2017	52.27	30 September 2018	3,539	-	-	-	3,539	N/A	52.27
	Shares	10 April 2017	52.27	30 September 2019	1,148	-	-	-	1,148	N/A	52.27
		Aggregate value				$ -	$ -	$ 384,579			
G Larkins	Shares	1 September 2015	42.37	30 September 2017	4,562	-	-	4,562	-	N/A	42.37
	Shares	1 September 2016	49.05	30 September 2018	3,579	-	-	-	3,579	N/A	49.05
	Performance rights	1 October 2014	38.00	1 October 2017	7,894	-	4,027	3,867	-	21.82	38.00
	Performance rights	1 October 2015	33.07	1 October 2018	9,071	-	-	-	9,071	19.50	33.07
	Performance rights	1 September 2017	55.52	1 September 2019	-	6,738	-	-	6,738	46.93	55.52
		Aggregate value				$ 374,094	$ 208,679	436,791			
R Nash	Shares	1 September 2015	42.37	30 September 2017	2,387	-	-	2,387	-	N/A	42.37
	Shares	1 September 2016	49.05	30 September 2018	2,515	-	-	-	2,515	N/A	49.05
	Performance rights	1 October 2014	38.00	1 October 2017	3,948	-	2,015	1,933	-	21.82	38.00
	Performance rights	1 October 2015	33.07	1 October 2018	4,989	-	-	-	4,989	19.50	33.07
	Performance rights	1 September 2017	55.52	1 September 2019	-	4,173	-	-	4,173	46.93	55.52
		Aggregate value				$ 231,685	$ 104,417	223,862			
K Smith	Shares	1 September 2015	42.37	30 September 2017	1,122	-	-	1,122	-	N/A	42.37
	Shares	1 September 2016	49.05	30 September 2018	790	-	-	-	790	N/A	49.05
	Performance rights	1 October 2014	38.00	1 October 2017	774	-	-	774	-	N/A	38.00
	Performance rights	1 October 2015	33.07	1 October 2018	2,872	-	-	-	2,872	N/A	33.07
	Performance rights	1 September 2017	55.52	1 September 2019	-	1,827	-	-	1,827	46.93	55.52
		Aggregate value				$ 101,435	$ -	98,251			
M Smith	Shares	1 September 2015	42.37	30 September 2017	4,941	-	-	4,941	-	N/A	42.37
	Shares	1 September 2016	49.05	30 September 2018	3,550	-	-	-	3,550	N/A	49.05
	Performance rights	1 October 2014	38.00	1 October 2017	13,158	-	6,712	6,446	-	21.82	38.00
	Performance rights	1 October 2015	33.07	1 October 2018	15,119	-	-	-	15,119	19.50	33.07
	Performance rights	1 September 2017	55.52	1 September 2019	-	7,905	-	-	7,905	46.93	55.52
		Aggregate value				$ 438,886	$ 347,816	590,074			

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.
2. Mr Lloyd's deferred STI shares granted 1 September 2016 will forfeit 31 August 2018.
3. Mr Lloyd's Performance rights granted 1 October 2015 will forfeit 31 August 2018.
4. Mr Lloyd's Performance rights granted 1 September 2017 under the Variable Incentive Plan ($1,171,745) have been forfeited.

Directors’ Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

Termination terms for Executives

The contractual arrangements of each Executive reflect Perpetual’s policy at the time the contract was entered into. Mr Green’s notice period is less than those of other Executives, as Mr Green was promoted to the position of Group Executive in October 2008. Perpetual’s current policy is to provide six months’ termination notice in Executive contracts.

Term	Who	Conditions
Duration of contract	All Executives	Ongoing until notice is given by either party
Notice to be provided by the Executive to terminate the employment agreement	CEO and Managing Director Group Executives (excluding Chris Green) Chris Green	12 months 6 months 3 months
Notice to be provided by Perpetual to terminate the employment agreement without cause	CEO and Managing Director Group Executives (excluding Chris Green) Chris Green	12 months 6 months 3 months
Notice to be provided by Perpetual to terminate the employment agreement for poor performance	CEO and Managing Director Group Executives	6 months 3 months
Post employment restraint	CEO and Managing Director and Group Executives (excluding Chris Green) Chris Green	12 months from the date on which notice of termination was given 6 months from the date of termination of employment

The agreements also allow Perpetual to make a payment in lieu of notice, subject to Board approval.

8. Non-executive Director remuneration

8.1 Remuneration policy and data

Perpetual's Remuneration Policy for Non-executive Directors aims to ensure that we attract and retain suitably skilled, experienced and committed individuals to serve on 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	FY17 $	FY18 $
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]	35,000	35,000
People and Remuneration Committee member[1]	17,000	17,000
Investment Committee Chairman	17,500	17,500
Investment Committee member	10,000	10,000
Nominations Committee member	Nil	Nil

1. There was no increase in Non-executive Directors' fees in FY18.

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, and has remained unchanged since this date. Total fees paid to Non-executive Directors in FY18 were $1,242,500. More details are provided in the table on page 41.

Directors' Report for the year ended 30 June 2018 (continued)

Remuneration Report (continued)

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, as determined by the Board, if 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 Perpetual Board fees $	Post employment benefits Superannuation $	Total[1] $
Current Non-executive Directors			
T D'Aloisio[2]			
2018	279,951	20,049	300,000
2017	87,274	8,291	95,564
P Bullock			
2018	168,037	15,963	184,000
2017	168,037	15,963	184,000
S Falzon			
2018	178,082	16,918	195,000
2017	178,082	16,918	195,000
N Fox			
2018	168,037	15,963	184,000
2017	168,037	15,963	184,000
I Hammond			
2018	178,082	16,918	195,000
2017	178,082	16,918	195,000
C Ueland			
2018	168,493	16,007	184,500
2017	168,493	16,007	184,500
Former Non-executive Director			
P B Scott			
2017	255,950	19,050	275,000
Total 2018[3]	**1,140,682**	**101,818**	**1,242,500**
Total 2017	**1,203,955**	**109,110**	**1,313,065**

1. Non-executive Directors do not receive any non-cash benefits as part of their remuneration.
2. T D'Aloisio was appointed to the Perpetual Board on 13 December 2016, and to the position of Chairman on 31 May 2017. 2018 was T D'Aloisio's first full year as Chairman.
3. The total Non-executive Director fees were slightly higher in 2017 due to a conscious decision to overlap the service of departing Chairman P Scott with new Director T D'Aloisio and ensure continuation of knowledge within the Perpetual Board. In 2018, the total Non-executive Director fees have decreased as appropriate.

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.

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	1,000 shareholding requirement met
		Number of shares		
T D'Aloisio	7,426	395	7,821	✓
P Bullock	3,425	183	3,608	✓
S Falzon	2,535	135	2,670	✓
N Fox	3,300	-	3,300	✓
I Hammond	3,750	199	3,949	✓
C Ueland	3,000	-	3,000	✓

9. Key terms

Balanced scorecard	The performance measures of financial, client, growth and people as agreed by the Board to assess short and long-term Perpetual Group performance for the purposes of determining the amount of variable remuneration payable (if any). More details are on page 26.
EPS	Earnings per share, this being net profit after tax divided by the average number of issued shares during the year. Previous long-term incentive grants, that Executives still hold, and are yet to vest, had two performance measures, one of which was EPS.
Equity	Equity includes both Share rights and Restricted shares. Under the Variable Incentive Plan, Equity is delivered as Share rights. After a two year vesting period, Share rights are converted to Restricted shares, and are subject to a further two year holding lock.
Executives	The Chief Executive Officer (CEO) and Managing Director and the Group Executives.
Fixed Remuneration	Fixed remuneration consists of cash salary, superannuation, packaged employee benefits and associated fringe benefits tax.
Group	Perpetual Limited and its controlled entities
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 Perpetual'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. Up to October 2015, Executives received LTI through the Perpetual Limited Long-term Incentive Plan. Executives continue to hold unvested LTI. In FY17, the LTI Plan was replaced with a new Variable Incentive Plan.
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.
Performance rights	Performance rights were granted to Executives up to October 2015 under the previous Perpetual Long-term Incentive Plan.
Restricted shares	Once Share rights are held for a two year vesting period, and if the vesting conditions are met, Share rights are converted to Restricted shares on a one share for one Share right basis. Restricted shares are then held for a further two years.
rTSR	Total shareholder return is defined as share price growth plus dividends paid over the measurement period. Dividends are assumed to be reinvested on the ex-dividend date. Relative total shareholder return (rTSR) compares Perpetual's TSR relative to the TSR of a comparator group of companies in the S&P ASX100 (excluding listed property trusts). Previous long-term incentive grants, that Executives still hold, and are yet to vest, have two performance hurdles, one of which is rTSR.

Share rights	Share rights are issued around September each year, following the performance period. Share rights have a two year vesting period, at which point, if the vesting conditions are met, they are converted to Restricted shares on a one share for one Share right basis.
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. Following the introduction of the Variable Incentive Plan in FY17, Group Executives no longer participate in the Group STI plan.
Variable Incentive	Variable Incentive includes both cash and equity components under the Variable Incentive Plan.
Variable Incentive Plan	The Variable Incentive Plan for Executives introduced from 1 July 2016.
Variable Remuneration	Refers to Variable Incentive payments awarded to Executives under the Variable Incentive Plan, and to short-term incentives awarded to employees under the Group Short-term Incentive Plan.

Non-audit services provided by the External Auditor

Fees for non-audit services paid to KPMG in the current year were $125,915 (2017: $170,100).

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 2018 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:

Tony D’Aloisio
Chairman

Sydney 30 August 2018

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 of Perpetual Limited for the financial year ended 30 June 2018 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

Martin McGrath
Partner
Sydney
30 August 2018

Financial Statements of Perpetual Limited and its controlled entities for the year ended 30 June 2018

Table of contents

Financial Statements of Perpetual Limited and its controlled entities for the year ended 30 June 2018

Table of contents (continued)

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2018

	Section	2018	2017
		$'000	$'000
Revenue	1-2	538,845	520,881
Expenses	1-3	(344,915)	(328,705)
Financing costs		(2,603)	(2,834)
Net profit before tax		**191,327**	**189,342**
Income tax expense	1-4	(51,100)	(52,049)
Net profit after tax		**140,227**	**137,293**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		205	(125)
Available-for-sale financial assets - net change in fair value		4,477	6,427
Available-for-sale financial assets - reclassified to profit or loss		(2,156)	(6,327)
Income tax on items that may be reclassified to profit or loss	1-4	(696)	(30)
Other comprehensive income, net of income tax		**1,830**	**(55)**
Total comprehensive income		**142,057**	**137,238**
Total comprehensive income attributable to:			
Equity holders of Perpetual Limited		142,057	137,238
Earnings per share			
Basic earnings per share – cents per share	1-5	305.0	300.0
Diluted earnings per share – cents per share	1-5	299.5	293.9

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 53 to 109.

Consolidated Statement of Financial Position as at 30 June 2018

	Section	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	3-1	320,237	323,487
Receivables	2-1	160,308	96,308
Structured products – EMCF assets	5-1	282,993	277,670
Prepayments		16,516	19,203
Total current assets		780,054	716,668
Other financial assets	2-2	74,969	63,081
Property, plant and equipment	2-3	25,764	23,650
Intangibles	2-4	327,672	331,237
Deferred tax assets	1-4	34,919	33,325
Prepayments		2,101	3,584
Total non-current assets		465,425	454,877
Total assets		1,245,479	1,171,545
Liabilities			
Payables		39,285	51,850
Structured products – EMCF liabilities	5-1	282,514	276,954
Current tax liabilities	1-4	5,984	22,645
Employee benefits	2-6	56,482	49,099
Provisions	2-5	67,333	1,849
Total current liabilities		451,598	402,397
Payables		-	1,840
Borrowings	3-2	87,000	87,000
Deferred tax liabilities	1-4	12,618	14,148
Employee benefits	2-6	13,982	12,409
Provisions	2-5	19,147	19,370
Total non-current liabilities		132,747	134,767
Total liabilities		584,345	537,164
Net assets		**661,134**	**634,381**
Equity			
Contributed equity	3-3	508,673	501,766
Reserves	3-4	24,196	20,207
Retained earnings		128,265	112,408
Total equity attributable to equity holders of Perpetual Limited		**661,134**	**634,381**
Non-controlling interest		-	-
Total equity		**661,134**	**634,381**

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 53 to 109.

Consolidated Statement of Changes in Equity for the year ended 30 June 2018

$'000	Gross contributed equity	Treasury share reserve	Equity compensation reserve	Other reserves	Retained earnings	Equity holders of Perpetual	Total
Balance at 1 July 2017	550,405	(48,639)	16,734	3,473	112,408	634,381	634,381
Total comprehensive income/(expense)	-	-	-	1,830	140,227	142,057	142,057
Movement on treasury shares	(156)	7,063	(8,276)	-	1,369	-	-
Equity remuneration expense	-	-	10,435	-	-	10,435	10,435
Dividends paid to shareholders	-	-	-	-	(125,750)	(125,750)	(125,750)
De-recognition of a controlled entity	-	-	-	-	11	11	11
Balance at 30 June 2018	**550,249**	**(41,576)**	**18,893**	**5,303**	**128,265**	**661,134**	**661,134**

$'000	Gross contributed equity	Treasury share reserve	Equity compensation reserve	Other reserves	Retained earnings	Equity holders of Perpetual	Total
Balance at 1 July 2016	552,755	(59,290)	13,637	3,528	94,889	605,519	605,519
Total comprehensive income/(expense)	-	-	-	(55)	137,293	137,238	137,238
Movement on treasury shares	(2,350)	10,651	(9,621)	-	1,320	-	-
Equity remuneration expense	-	-	12,718	-	-	12,718	12,718
Dividends paid to shareholders	-	-	-	-	(121,094)	(121,094)	(121,094)
Balance at 30 June 2017	**550,405**	**(48,639)**	**16,734**	**3,473**	**112,408**	**634,381**	**634,381**

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 53 to 109.

Consolidated Statement of Cash Flows for the year ended 30 June 2018

	Section	2018 $'000	2017 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		579,133	546,309
Cash payments in the course of operations		(367,208)	(330,681)
Dividends received		132	87
Interest received		6,474	5,655
Interest paid		(2,620)	(2,856)
Income taxes paid		(71,638)	(60,132)
Net cash from operating activities	1-7	**144,273**	**158,382**
Cash flows from investing activities			
Payments for property, plant, equipment and software		(15,907)	(12,467)
Payments for investments		(36,155)	(19,860)
Payment for acquisition of business		(1,000)	(1,000)
Proceeds from sale of businesses		-	371
Proceeds from sale of investments		31,289	40,925
Net cash (used in)/from investing activities		**(21,773)**	**7,969**
Cash flows from financing activities			
Dividends paid		(125,750)	(121,094)
Net cash used in financing activities		**(125,750)**	**(121,094)**
Net (decrease)/increase in cash and cash equivalents		(3,250)	45,257
Cash and cash equivalents at 1 July		323,487	278,230
Cash and cash equivalents at 30 June	3-1	**320,237**	**323,487**

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 53 to 109.

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 Interim CEO to make decisions about resources to be allocated to the segment and assess their performance.

Segment results that are reported to the Interim 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

Perpetual is an independent Australian wealth manager operating in Australia and Singapore and provides a diverse range of financial products and services including asset management, financial advice and trustee services via its three business segments, supported by Group Support Services.

Perpetual Investments	Provides investment products and services to private, corporate, superannuation and institutional clients.
Perpetual Private	Provides a range of wealth management products and tailored services to high net worth and emerging high net worth individuals, charities, not for profit and other philanthropic organisations. The comprehensive suite of financial advisory services includes financial advice, portfolio management, estate planning and administration, trustee services, as well as tax and accounting services provided by Fordham.
Perpetual Corporate Trust	Provides Trustee and fiduciary services including custodial, trustee responsible entity and other ancillary services to Managed Investment Funds in Australia and Singapore, as well as specialised trust management and accounting services to the debt capital markets and investor reporting to the Australian Securitisation market.
Group Support Services	Comprises Corporate Services, People & Culture, Marketing and Communication and provides technology, property, legal, risk and financial management, and human resources support to the business units.

ii. Geographical information

The consolidated entity operates in Australia and Singapore. The majority of the consolidated entity's revenue and assets relate to operations in Australia. The Singapore operation is not material.

iii. Major customer

The consolidated entity does not rely on any major customer.

Notes to and forming part of the financial statements for the year ended 30 June 2018

1-1 Operating segments (continued)

	Perpetual Investments[1] $'000	Perpetual Private $'000	Perpetual Corporate Trust $'000	Total $'000
30 June 2018				
External revenues	237,025	186,412	103,280	526,717
Interest revenue	299	85	28	412
Total revenue for reportable segment	237,324	186,497	103,308	527,129
Depreciation and amortisation	(2,435)	(8,984)	(6,516)	(17,935)
Reportable segment net profit before tax	112,487	46,110	42,574	201,171
Reportable segment assets	325,856	211,928	249,504	787,288
Reportable segment liabilities	(307,553)	(27,056)	(69,671)	(404,280)
Capital expenditure	79	6,192	3,387	9,658
30 June 2017				
External revenues	232,704	178,372	92,646	503,722
Interest revenue	418	105	55	578
Total revenue for reportable segment	233,122	178,477	92,701	504,300
Depreciation and amortisation	(2,602)	(10,079)	(6,210)	(18,891)
Reportable segment net profit before tax	116,517	40,489	36,674	193,680
Reportable segment assets	325,529	208,698	187,162	721,389
Reportable segment liabilities	(312,781)	(26,459)	(5,416)	(344,656)
Capital expenditure	77	3,325	903	4,305

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

	2018 $'000	2017 $'000
1-1 Operating segments (continued)		
Reconciliations of reportable segment revenues, net profit before tax, total assets and liabilities		
Revenues		
Total revenue for reportable segments	527,129	504,300
Add: Group and Support Services revenue	9,533	9,871
Net gain on sale of investments	2,183	6,339
Total revenue from continuing operations	538,845	520,510
Net profit before tax		
Total net profit before tax for reportable segments	201,171	193,680
Financing costs	(2,603)	(2,834)
Legal expenses	(4,970)	-
Impairment of assets	(28)	(12)
Gain on sale of business	-	371
Net gain on sale of investments	2,183	6,339
Group and Support Services expense	(4,426)	(8,202)
Net profit before tax	191,327	189,342
Total assets		
Total assets for reportable segments	787,288	721,389
Group and Support Services assets	458,191	450,156
Total assets	1,245,479	1,171,545
Total liabilities		
Total liabilities for reportable segments	404,280	344,656
Group and Support Services liabilities	180,065	192,508
Total liabilities	584,345	537,164

	2018 $'000	2017 $'000

1-2 Revenue

	2018 $'000	2017 $'000
Revenue from the provision of services	519,263	495,870
Income from structured products	7,462	7,859
Dividends	142	97
Interest and unit trust distributions	9,795	10,345
Net gain on sale of investments	2,183	6,339
Revenue from continuing operations	538,845	520,510
Gain on sale of business	-	371
	538,845	520,881

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
The consolidated entity earns revenue from the provision of financial products and services. These include investment management and administration, financial advisory and trustee services (including responsible entity, superannuation, philanthropic and estate administration).

Investment management and administration revenue is calculated as a percentage of the funds invested in accordance with the investment mandates or the respective product disclosure statements. Revenue is recognised on an accruals basis and deducted from the amount invested. Some investment products and mandates include performance fees, which are contingent on achieving or exceeding a defined performance hurdle and the revenue is recognised in the period the performance hurdle has been met.

Revenue from financial advisory services is assessed on a contract by contract basis. Revenue is recognised on an accruals basis in the period the services are provided. Revenue may be charged on a fixed fee, fee for service ("time and costs") or as a percentage of assets under administration basis.

- Under fixed fee contracts, revenue is recognised as the related services are provided on a percentage of completion basis, or when specified milestones in the contract have been achieved. Fees received in advance are deferred until the service has been provided.
- Revenue charged under fee for service contracts is recognised based on the amount the consolidated entity is entitled to invoice for services performed to date, based on the contracted rates.

Trustee Services is also assessed on a contract by contract basis. Contracts may include a fee to establish a trust, as well as ongoing trustee and other service fees. Establishment fees are recognised when the trust has been established and is based on the amount specified in the contract.

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.

	2018 $'000	2017 $'000
1-3 Expenses		
Staff related expenses excluding equity remuneration expense	194,504	182,554
Occupancy expenses	18,638	18,418
Administrative and general expenses[1]	98,527	91,373
Distributions and expenses relating to structured products	5,104	5,111
Equity remuneration expense	9,750	12,027
Depreciation and amortisation expense	18,364	19,210
Impairment of assets	28	12
	344,915	328,705

[1]Administrative and general expenses includes $5.0 million of non-recurring legal costs ($3.5 million after tax) in connection w ith Perpetual Investment Management Limited (PIML) cross shareholding claim against Brickw orks and Washington H Soul Pattinson (WHSP). These costs w ere absorbed by the Company in order to align the client and Company's interest.

Accounting policies

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

1-4 Income taxes

	2018 $'000	2017[1] $'000
Current year tax expense		
Current year tax expense	60,156	62,058
Write back of tax provision - prior years	(4,731)	-
Adjustment for prior years	(265)	(702)
Research and development tax incentives from prior years	(240)	(359)
Total current tax expense impacting income taxes payable	54,920	60,997
Deferred tax expense		
Adjustment for prior years	287	-
Temporary differences	(4,107)	(8,948)
Total deferred tax expense	(3,820)	(8,948)
Total income tax expenses	51,100	52,049
Profit before tax for the year	191,327	189,342
Prima facie income tax expense calculated at 30% (2017: 30%) on profit for the year	57,398	56,803
– Recognition of previously unrecognised capital and revenue losses	(1,156)	(3,801)
– Prior year adjustments	(4,948)	(1,061)
– Other non-taxable income/expenses and tax credits	(369)	(331)
– Other non-deductible expenses	175	439
Total	51,100	52,049
Effective tax rate (ETR)	26.7%	27.5%
Income taxes payable at the beginning of the year	22,645	21,863
Income taxes payable for the financial year	54,920	60,997
Less: tax paid during the year	(71,638)	(60,132)
Other	57	(83)
Income taxes payable at the end of the year	5,984	22,645
Represented in the Statement of Financial Position by:		
Current tax liabilities	5,984	22,645

[1]Where necessary, comparative information has been restated to conform to changes in presentation in the current year.

Basis of calculation of ETR
The ETR is calculated as total income tax expenses divided by net 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 26.7% (2017: 27.5%). The 3.3% reduction in the effective tax rate compared to the legislated 30% is mainly attributed to the write back of prior years tax provision, the utilisation of previously unrecognised capital losses and prior year adjustments relating to the Research and Development tax concession.

Notes to and forming part of the financial statements for the year ended 30 June 2018

1-4 Income taxes (continued)

Capital tax (gains)/losses calculated at 30% tax in Australia
The total tax benefits of realised capital losses are $28,439,742.00 (30 June 2017: $31,071,000), comprising $3,000,000 (30 June 2017: $3,000,000) recognised in deferred tax assets and $25,439,742.00 (30 June 2017: $28,071,000) not recognised in deferred tax assets. These are net of realised tax capital gains and losses incurred in the current and/or prior years and are available to be utilised by the Australian income tax consolidated group in future years.

2018	Balance 1 July 2017 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Balance 30 June 2018 $'000
Deferred tax assets				
Provisions and accruals	9,272	(481)	-	8,791
Capital expenditure deductible over five years	379	(336)	-	43
Employee benefits	18,289	2,829	-	21,118
Property, plant and equipment	1,080	111	-	1,191
Recognised revenue losses	614	(184)	-	430
Recognised capital losses	3,000	-	-	3,000
Unrealised net capital losses	24	-	(24)	-
Other items	667	(321)	-	346
Deferred tax assets	33,325	1,618	(24)	34,919
Deferred tax liabilities				
Intangible assets	(12,664)	2,212	-	(10,452)
Unrealised net capital gains	(1,484)	-	(672)	(2,156)
Other items	-	(10)	-	(10)
Deferred tax liabilities	(14,148)	2,202	(672)	(12,618)
Net deferred tax assets	19,177	3,820	(696)	22,301

2017	Balance 1 July 2016 $'000	Recognised in profit or loss $'000	Recognised in other comprehensive income $'000	Balance 30 June 2017 $'000
Deferred tax assets				
Provisions and accruals	9,020	252	-	9,272
Capital expenditure deductible over five years	969	(590)	-	379
Employee benefits	17,004	1,285	-	18,289
Property, plant and equipment	188	892	-	1,080
Recognised revenue losses	-	614	-	614
Recognised capital losses	2,709	291	-	3,000
Unrealised net capital losses	113	(11)	(78)	24
Other items	381	286	-	667
Deferred tax assets	30,384	3,019	(78)	33,325
Deferred tax liabilities				
Intangible assets	(17,172)	4,508	-	(12,664)
Unrealised net capital gains	(1,539)	7	48	(1,484)
Property, plant and equipment	(1,412)	1,412	-	-
Other items	(2)	2	-	-
Deferred tax liabilities	(20,125)	5,929	48	(14,148)
Net deferred tax assets	10,259	8,948	(30)	19,177

1-4 Income taxes (continued)

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

	2018	2017
	Cents per share	
Basic earnings per share	305.0	300.0
Diluted earnings per share	299.5	293.9
	$'000	**$'000**
Net profit after tax attributable to equity holders of Perpetual Limited	140,227	137,293
	Number of shares	
Weighted average number of ordinary shares (basic)	45,969,419	45,761,358
Effect of dilutive potential ordinary shares (including those subject to rights)	857,016	945,269
Weighted average number of ordinary shares (diluted)	46,826,435	46,706,627

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.

Notes to and forming part of the financial statements for the year ended 30 June 2018

1-6 Dividends

	Cents per share	Total amount $'000	Franked / Unfranked	Date of payment
2018				
Final 2017 ordinary	135	62,875	Franked	29 Sep 2017
Interim 2018 ordinary	135	62,875	Franked	26 Mar 2018
Total amount	270	125,750		
2017				
Final 2016 ordinary	130	60,547	Franked	28 Sep 2016
Interim 2017 ordinary	130	60,547	Franked	24 Mar 2017
Total amount	260	121,094		

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's Dividend Reinvestment Plan (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 2018 ordinary	140	65,204	Franked	8 Oct 2018

[1]Calculation based on the ordinary shares on issue as at 30 June 2018.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

Dividend franking account	2018 $'000	2017 $'000
Amount of franking credits available to shareholders for subsequent financial years	56,606	55,320

The above available amounts are based on the balance of the dividend franking account at 30 June 2018 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 $28,660,000 (2017: $28,373,000).

Accounting policies

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

	2018 $'000	2017 $'000

1-7 Net cash from operating activities

Reconciliation of profit for the year to net cash from operating activities	2018 $'000	2017 $'000
Profit for the year	140,227	137,293
Items classified as investing/financing activities:		
Profit on sale of investments	(2,183)	(6,339)
Deferred acquisition consideration	1,000	1,000
Gain from sale of business	-	(371)
Non-cash items:		
Depreciation and amortisation expense	18,364	19,210
Equity remuneration expense	9,750	12,718
Transfer to foreign currency translation reserve	(304)	(5)
Reinvestment of dividends and unit distributions	(2,015)	(3,357)
Accrued fixed asset additions	(763)	2,526
(Increase)/decrease in assets		
Receivables	(64,000)	(8,152)
Prepayments	4,170	(5,591)
Deferred tax assets	(1,594)	(2,941)
Increase/(decrease) in liabilities		
Payables	(14,405)	11,599
Provisions	65,261	1,210
Current tax liabilities	(16,661)	782
Deferred tax liabilities	(1,530)	(5,977)
Employee benefits	8,956	4,777
Net cash from operating activities	144,273	158,382

Notes to and forming part of the financial statements for the year ended 30 June 2018

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.

	2018 $'000	2017 $'000
2-1 Receivables		
Current		
Trade receivables	93,583	90,046
Less : Provision for doubtful debts	(1,081)	(3,356)
	92,502	86,690
Other receivables[1]	67,806	9,618
	160,308	96,308

[1]Refer to section 3-5 for further information on the $64 million increase in other receivables during FY18.

Movements in the provision for doubtful debts are as follows:

	2018	2017
Balance as at beginning of the year	3,356	3,400
Doubtful debts provided for during the year	827	155
Receivables written off during the year as uncollectible	(3,102)	(199)
Balance as at end of the year	1,081	3,356

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.

	2018 $'000	2017 $'000
2-2 Other financial assets		
Non-current		
Listed equity securities available-for-sale – at fair value	2,343	10,473
Unlisted unit trusts available-for-sale – at fair value	72,109	52,127
Other	517	481
	74,969	63,081

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 i (a).

2-3 Property, plant and equipment

	Plant and equipment $'000	Leasehold improvements $'000	Project work in progress $'000	Total $'000
Year ended 30 June 2018				
Cost	9,612	49,105	5,545	64,262
Accumulated depreciation	(7,526)	(30,972)	-	(38,498)
Carrying amount	2,086	18,133	5,545	25,764
Movement				
Balance as at 1 July 2017	2,024	21,420	206	23,650
Additions	1,001	751	5,878	7,630
Transfers from work in progress	-	539	(539)	-
Depreciation	(939)	(4,534)	-	(5,473)
Disposals	-	(43)	-	(43)
Balance as at 30 June 2018	2,086	18,133	5,545	25,764

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 - 15 years
- leasehold improvements: 3 - 15 years.

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

Notes to and forming part of the financial statements for the year ended 30 June 2018

2-4 Intangibles

$'000	Goodwill	Intangible assets				
		Customer contracts	Capitalised software	Project work in progress	Other	Total
Year ended 30 June 2018						
At cost	276,959	55,688	69,875	3,059	2,157	407,738
Accumulated amortisation	-	(34,727)	(43,731)	-	(1,608)	(80,066)
Carrying amount	276,959	20,961	26,144	3,059	549	327,672
Balance at 1 July 2017	276,959	27,096	21,139	5,706	337	331,237
Additions	-	-	94	8,991	244	9,329
Transfers	-	-	11,638	(11,638)	-	-
Amortisation expense	-	(6,135)	(6,727)	-	(32)	(12,894)
Balance as at 30 June 2018	276,959	20,961	26,144	3,059	549	327,672
Year ended 30 June 2017						
At cost	276,959	55,688	58,147	5,706	1,913	398,413
Accumulated amortisation	-	(28,592)	(37,008)	-	(1,576)	(67,176)
Carrying amount	276,959	27,096	21,139	5,706	337	331,237
Balance at 1 July 2016	276,959	33,281	26,772	1,975	337	339,324
Additions	-	-	36	5,702	-	5,738
Transfers	-	-	1,971	(1,971)	-	-
Amortisation expense	-	(6,185)	(7,640)	-	-	(13,825)
Balance as at 30 June 2017	276,959	27,096	21,139	5,706	337	331,237

2-4 Intangibles (continued)

	2018 $'000	2017 $'000
Goodwill Impairment Testing		
The following cash-generating units have significant carrying amounts of goodwill:		
Perpetual Private	146,490	146,490
Perpetual Corporate Trust	126,973	126,973
Australian Equities (Perpetual Investments)	3,496	3,496
	276,959	276,959

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 pre-tax discount rates used in the current year ranged from 14.4% to 16.7% (2017: 15.9% to 18.2%).

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 2019-2021 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.

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 pre-tax discount rate would have to increase from 14.4% to 34.7% (2017: 15.9% to 32.0%).

Accounting policies

Goodwill
Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

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.

2-4 Intangibles (continued)

Accounting policies (continued)

Amortisation (continued)

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

- capitalised software: 2.5 - 8 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.

2-5 Provisions

	2018 $'000	2017 $'000
Current		
Insurance and legal provision[1]	64,653	440
Operational process review provision	1,570	619
Lease expense provision	1,081	761
Other provisions	29	29
	67,333	1,849

[1]Refer to section 3-5 for further information on the $64 million increase in the insurance and legal provision during FY18.

	2018 $'000	2017 $'000
Non-current		
Lease expense provision	19,147	19,370
	19,147	19,370

2-5 Provisions (continued)

$'000	Carrying amount at 1 July 2017	Additional provision made	Unused amounts reversed	Payments made	Carrying amount at 30 June 2018
Legal provision	440	64,812	(227)	(372)	64,653
Operational process review provision	619	2,025	(294)	(780)	1,570
Lease expense provision	20,131	14,402	-	(14,305)	20,228
Other provisions	29	-	-	-	29
Total provisions	21,219	81,239	(521)	(15,457)	86,480

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.

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.

2-6 Employee benefits

Aggregate liability for employee benefits, including on-costs

	2018		2017	
$'000	**Current**	**Non-current**	**Current**	**Non-current**
Provision for annual leave	5,626	-	5,709	-
Provision for long service leave	6,758	2,995	5,422	3,151
Other employee benefits[1]	43,455	10,987	37,572	9,258
Restructuring provision	643	-	396	-
	56,482	13,982	49,099	12,409

[1] Short-term incentives (STI) and deferred STI.

The non-current portion of the long service leave provision has been discounted using a rate of 3.9 per cent (2017: 4.0 per cent) which is based on the 10 year corporate bond rate.

The number of full time equivalent employees at 30 June 2018 was 936 (2017: 891).

$'000	Carrying amount at 1 July 2017	Additional provision made	Unused amounts reversed	Payments made	Carrying amount at 30 June 2018
Restructuring provision	396	652	(35)	(370)	643

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.

	2018 $'000	2017 $'000

3-1 Cash and cash equivalents

Bank balances	109,137	121,987
Short-term deposits	211,100	201,500
	320,237	323,487

Short-term deposits represent rolling 90 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 $155.5 million as at 30 June 2018 (2017: $151.2 million).

	2018 $'000	2017 $'000

3-2 Borrowings

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

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 3.33 per cent at 30 June 2018, inclusive of the undrawn line fee (2017: 2.98 per cent). Repayment of the existing facility of $87 million is due on 31 October 2019.

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 2018. 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.

3-2 Borrowings (continued)

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.

	2018 $'000	2017 $'000
3-3 Contributed equity		
Fully paid ordinary shares 46,574,426 (2017: 46,574,426)	550,249	550,405
Treasury shares 560,569 (2017: 741,882)	(41,576)	(48,639)
	508,673	501,766

	2018		2017	
	Number of shares	$'000	Number of shares	$'000
Movements in share capital				
Balance at beginning of year	45,832,544	501,766	45,593,126	493,465
Shares issued:				
- Movement on treasury shares	181,313	6,907	239,418	8,301
Balance at end of year	46,013,857	508,673	45,832,544	501,766

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.

	2018 $'000	2017 $'000

3-4 Reserves

	2018 $'000	2017 $'000
General reserve	103	103
Available-for-sale reserve	5,031	3,405
Foreign currency translation reserve	169	(35)
	5,303	3,473
Equity compensation reserve	18,893	16,734
	24,196	20,207

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

	2018 $'000	2017 $'000
Capital expenditure commitments		
Contracted but not provided for and payable within one year	12,109	2,288

Operating lease commitments predominantly related to premises
At 30 June, the future minimum lease payments under non-cancellable leases were payable as follows:

	2018 $'000	2017 $'000
Not later than one year	16,615	16,452
Later than one year and not later than five years	63,335	66,193
Later than five years	47,893	62,843
	127,843	145,488

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 2-5). The provision is expected to be realised over the term of the underlying leases.

3-5 Commitments and contingencies (continued)

(b) Contingencies

Contingent liabilities

	2018 $'000	2017 $'000
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	644	846
	13,440	13,642

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.

On 10th November 2017 the plaintiffs agreed to a settlement in relation to their claim against TrustCo. The settlement was formalised and approved by the Supreme Court Victoria on 30th January 2018. Following the formalisation of the settlement, a provision has been recognised for the settlement (refer section 2-5) and a corresponding receivable has been recognised for the reimbursement of the settlement amount, inclusive of monies recoverable from the insurers (refer section 2-1). In April 2018, an appeal was lodged by a debenture holder. The appeal is currently part heard before the Court of Appeal Victoria with a resumed hearing on 4 September 2018. The resolution of this matter is not expected to have a material impact on the Company’s operation or financial position.

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.

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.

	2018 $'000	2017 $'000
Cash and cash equivalents	320,237	323,487
Trade receivables	92,502	86,690
Other receivables and other financial assets	68,323	10,099
Available-for-sale listed equity securities and unlisted unit trusts	74,452	62,600

4-1 Financial risk management (continued)

i. Credit risk (continued)

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 $283 million (2017: $278 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 $320 million at 30 June 2018 (2017: $323 million). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated 'BBB' 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 2018					30 June 2017				
	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	2,827	3,126	568	5,126	11,647	3,379	2,807	1,298	4,784	12,268

4-1 Financial risk management (continued)

i. Credit risk (continued)

(b) Other financial assets (continued)

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

	2018 $'000	2017 $'000
Trade and other receivables	1,081	3,356
Structured products - loans receivable	-	619
	1,081	3,975

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.

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 2018, total base capital requirements were $174 million ($156 million for operational risk, $14 million for credit risk and $4 million for market risk), compared to $375 million of available liquid funds.

The $156 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 six month forecast of liquid assets, cash flows and balance sheet is reviewed by the Board on a semi-annual basis 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 2019 (refer to section 3-2 for further information).

Notes to and forming part of the financial statements for the year ended 30 June 2018

4-1 Financial risk management (continued)

ii. Liquidity risk (continued)

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 2018			30 June 2017		
	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	39,285	-	39,285	51,850	1,840	53,690
Borrowings	-	87,000	87,000	-	87,000	87,000
	39,285	87,000	126,285	51,850	88,840	140,690

There are no financial liabilities maturing in more than five years as at 30 June 2018 (2017: $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 is 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.

Notes to and forming part of the financial statements for the year ended 30 June 2018

4-1 Financial risk management (continued)

iii. Market risk (continued)

(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 2018				
Financial assets				
Cash and cash equivalents	109,137	211,100	-	320,237
Receivables	1,340	-	158,968	160,308
Other financial assets	-	2	74,967	74,969
	110,477	211,102	233,935	555,514
Financial liabilities				
Payables	-	-	39,285	39,285
Borrowings	87,000	-	-	87,000
	87,000	-	39,285	126,285
At 30 June 2017				
Financial assets				
Cash and cash equivalents	121,987	201,500	-	323,487
Receivables	1,290	-	95,018	96,308
Other financial assets	-	-	63,081	63,081
	123,277	201,500	158,099	482,876
Financial liabilities				
Payables	-	-	53,690	53,690
Borrowings	87,000	-	-	87,000
	87,000	-	53,690	140,690

4-1 Financial risk management (continued)

iii. Market risk (continued)

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

	30 June 2018		30 June 2017	
	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	164/(164)	164/(164)	262/(262)	262/(262)

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.

(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 2018 (6,290), a 1 per cent movement in the market changes annualised revenue by approximately $2.25 million to $2.75 million.

(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.

4-1 Financial risk management (continued)

iii. Market risk (continued)

(d) Market risks arising from incubation funds (continued)
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 Bloomberg AusBond 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 2018. 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; and
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 2018				
Financial assets				
Available-for-sale listed equity securities	2,343	-	-	2,343
Available-for-sale unlisted unit trusts	-	72,109	-	72,109
Structured products - EMCF assets	3,607	279,384	-	282,993
	5,950	351,493	-	357,445

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
At 30 June 2017				
Financial assets				
Available-for-sale listed equity securities	10,473	-	-	10,473
Available-for-sale unlisted unit trusts	-	52,127	-	52,127
Structured products - EMCF assets	39,533	238,137	-	277,670
	50,006	290,264	-	340,270

4-1 Financial risk management (continued)

iv. Fair value (continued)

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.

	2018		2017	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Structured products – EMCF liabilities	282,514	282,993	276,954	277,670

v. Capital risk management

A Capital Management Review is carried out on an annual basis and is submitted to the CFO for review and approval. If changes are required to funding requirements, the capital structure or to the capital management strategy of the consolidated entity, the CFO will present their recommendation to the Board via the Audit, Risk and Compliance Committee. 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.

(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 EBIT interest cover (EBIT/interest expense) of more than 10 times. Based on the corporate debt of $87.0 million, the gearing ratio is 11.6% as at 30 June 2018 (2017: 12.1%) and well within the stated gearing policy. The EBIT interest cover ratio for the consolidated entity as at 30 June 2018 was 75 times (2017: 68 times).

4-1 Financial risk management (continued)

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.

4-1 Financial risk management (continued)

Accounting policies (continued)

(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.

	2018 $'000	2017 $'000

5-1 Structured products assets and liabilities

i. Exact Market Cash Funds

	2018 $'000	2017 $'000
Current assets		
Perpetual Exact Market Cash Fund	185,513	178,043
Perpetual Exact Market Cash Fund No. 2	97,480	99,627
	282,993	277,670
Current liabilities		
Perpetual Exact Market Cash Fund	185,267	177,659
Perpetual Exact Market Cash Fund No. 2	97,247	99,295
	282,514	276,954

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 Bloomberg AusBond Bank Bill Index (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 (2017: $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 (2017: $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.

5-1 Structured products assets and liabilities (continued)

i. Exact Market Cash Funds (continued)

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.

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:

30 June 2018	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Corporate bonds and money market securities	76,100	65,914	14,367	156,381
Mortgage and asset backed securities	122,257	748	-	123,005
Cash	3,607	-	-	3,607
	201,964	66,662	14,367	282,993

30 June 2017	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Corporate bonds and money market securities	44,272	60,963	12,142	117,377
Mortgage and asset backed securities	119,019	1,741	-	120,760
Cash	39,533	-	-	39,533
	202,824	62,704	12,142	277,670

Notes to and forming part of the financial statements for the year ended 30 June 2018

5-1 Structured products assets and liabilities (continued)

i. Exact Market Cash Funds (continued)

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.

	2018 $'000	2017 $'000
1 per cent increase	2,304	2,777
1 per cent decrease	(2,304)	(2,777)

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 unitholders 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 unitholders 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.

	2018 $'000	2017 $'000

5-2 Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2018 the parent entity of the consolidated entity was Perpetual Limited.

	2018 $'000	2017 $'000
Result of the parent entity		
Profit after tax for the year	124,927	130,872
Other comprehensive income	1,113	1,057
Total comprehensive income for the year	**126,040**	**131,929**
Financial position of the parent entity at year end		
Current assets	280,804	311,708
Total assets	**928,904**	**954,568**
Current liabilities	187,146	227,744
Total liabilities	**221,945**	**260,705**
Total equity of the parent entity comprising:		
Share capital	508,673	501,766
Reserves	23,688	20,411
Retained earnings	174,598	171,686
Total equity	**706,959**	**693,863**

Parent entity contingencies
The Directors are of the opinion that provisions are not required in respect of any parent entity contingencies, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	2018 $'000	2017 $'000
Uncalled capital of the controlled entities	12,450	12,450

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.

	2018 $'000	2017 $'000

5-2 Parent entity disclosures (continued)

Operating lease commitments

At 30 June, the future minimum lease payments under non-cancellable leases were payable as follows.

	2018 $'000	2017 $'000
Not later than one year	9,286	8,885
Later than one year and not later than five years	41,479	39,711
Later than five years	23,583	34,637
	74,348	83,233

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 bank facility ($87,000,000 is utilised) of a controlled entity amounting to $130,000,000 (2017: $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.

5-3 Controlled entities

Name of company	Beneficial interest 2018 %	Beneficial interest 2017 %	Country of incorporation and principal place of business
Perpetual Limited[8]			
Controlled Entities [1]			
Australian Trustees Limited[8]	100	100	Australia
Commonwealth Trustees Pty. Ltd.[2]	100	100	Australia
Fordham Business Advisors Pty Ltd[2]	100	100	Australia
Perpetual Acquisition Company Limited[8]	100	100	Australia
Perpetual Assets Pty. Ltd.[2]	100	100	Australia
Perpetual Australia Pty Limited[2,8]	100	100	Australia
Perpetual Digital Holdings Pty Limited[2,9]	100	-	Australia
Perpetual Investment Management Limited	100	100	Australia
Perpetual Loan Company Limited[4]	-	100	Australia
Perpetual Loan Company No. 2 Limited[4]	-	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 Tax and Accounting Pty Ltd[2]	100	100	Australia
Perpetual Trust Services Limited	100	100	Australia
Perpetual Trustee Company (Canberra) Limited[8]	100	100	Australia
Perpetual Trustee Company Limited[5]	100	100	Australia
Perpetual Trustees Consolidated Limited[8]	100	100	Australia
Perpetual Trustees Queensland Limited[8]	100	100	Australia
Perpetual Trustees Victoria Limited[8]	100	100	Australia
Perpetual Trustees W.A. Ltd[8]	100	100	Australia
Queensland Trustees Pty. Ltd.[2]	100	100	Australia
Perpetual Australian Equity Model Portfolio	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
Perpetual Global Innovation Share Fund[11]	-	100	Australia
Perpetual Global Opportunities Share Fund[10]	-	100	Australia

Notes to and forming part of the financial statements for the year ended 30 June 2018

5-3 Controlled entities (continued)

Name of company	Beneficial interest 2018 %	2017 %	Country of incorporation and principal place of business
Entities under the control of Perpetual Acquisition Company Limited			
The Trust Company Limited	100	100	Australia
Fintuition Pty Limited[2]	100	100	Australia
Fintuition Unit Trust[6]	-	100	Australia
Fintuition Institute Pty Limited[2]	100	100	Australia
Fintuition Institute Unit Trust[6]	-	100	Australia
Skinner Macarounas Pty Limited[2]	100	100	Australia
Entities under the control of Perpetual Digital Holdings Pty Limited			
Perpetual Digital Pty Limited[2,9]	100	-	Australia
Entities under the control of Perpetual Trustee Company Limited			
Perpetual Corporate Trust Limited	100	100	Australia
Perpetual Custodians Ltd	100	100	Australia
Perpetual Legal Services Pty Limited[2,12]	100	100	Australia
P.T. Limited	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.	100	100	Singapore
The Trust Company (Australia) Limited	100	100	Australia
The Trust Company (UTCCL) Limited	100	100	Australia
Perpetual C T (Asia) Limited[7]	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 (RE Services) Limited	100	100	Australia

Notes to and forming part of the financial statements for the year ended 30 June 2018

5-3 Controlled entities (continued)

Name of company	Beneficial interest 2018 %	2017 %	Country of incorporation and principal place of business
Entities under the control of Perpetual (Asia Holdings) Pte. Ltd.			
Perpetual (Asia) Limited	100	100	Singapore
Entities under the control of The Trust Company (RE Services) Limited			
The Trust Company (Sydney Airport) Limited	100	100	Australia
Associates			
Loan RQ Ltd[3]	26	26	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] The carrying amount of this investment is $nil (2017: $nil).

[4] Deregistered on 30 July 2017.

[5] Perpetual Trustee Company Limited has a branch operation in New Zealand known as Perpetual Trustee Company Limited (New Zealand branch).

[6] Terminated on 18 December 2017.

[7] Company changed its name from The Trust Company (Hong Kong) Limited to Perpetual C T (Asia) Limited on 20 July 2017.

[8] Company is a party to the Deed of Cross Guarantee as noted in section 5-4.

[9] Company was registered on 19 June 2018.

[10] Fund was closed on 27 April 2018.

[11] The Fund was deconsolidated in the current year as ownership dropped below 50%.

[12] Indirectly owned through Perpetual Legal Services Charitable Trust

Notes to and forming part of the financial statements for the year ended 30 June 2018

5-4 Deed of cross guarantee

Perpetual Limited and certain wholly owned subsidiaries listed below (collectively, ‘the Closed Group’) have entered into a Deed of Cross Guarantee (‘the Deed’) effective 29 June 2017. The effect of the Deed is that Perpetual Limited has guaranteed to pay any deficiency in the event of a winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. The subsidiaries have also given a similar guarantee in the event that Perpetual Limited is wound up.

Pursuant to *ASIC Corporations (wholly-owned companies) Instrument 2016/785* (‘Instrument’), the wholly owned subsidiaries noted below within the Closed Group are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of their financial reports.

The subsidiaries to the Deed forming the Closed Group are:

Perpetual Trustees Consolidated Limited
Perpetual Trustee Company (Canberra) Limited
Perpetual Trustees Victoria Limited
Perpetual Trustees Queensland Limited
Perpetual Trustees WA Limited
Perpetual Australia Pty Limited
Perpetual Acquisition Company Limited
Australian Trustees Limited

A summarised Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position comprising the Closed Group as at 30 June 2018 are set out below.

	Year ended 30 June 2018 $'000	Year ended 30 June 2017 $'000
Revenue	140,972	150,380
Expenses	(19,008)	(17,932)
Financing costs	(2,603)	(2,834)
Net profit before tax	**119,361**	**129,614**
Income tax benefit	5,610	674
Net profit after tax	**124,971**	**130,288**
Other comprehensive income, net of income tax	1,778	(688)
Total comprehensive income	126,749	129,600
Total comprehensive income attributable to:		
Equity holders of the Company	126,749	129,600

Notes to and forming part of the financial statements for the year ended 30 June 2018

5-4 Deed of cross guarantee (continued)

	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	148,523	185,740
Receivables	118,869	109,738
Structured Products - EMCF assets	282,993	277,670
Prepayments	14,931	17,687
Total current assets	565,316	590,835
Non-current assets		
Other financial assets	642,138	638,199
Property, plant and equipment	12,452	13,823
Intangibles	215	-
Deferred tax assets	33,754	30,587
Total non-current assets	688,559	682,609
Total assets	1,253,875	1,273,444
Current liabilities		
Payables	129,973	161,462
Structured Products - EMCF liabilities	282,514	276,954
Current tax liabilities	5,984	22,645
Employee benefits	12,377	11,124
Provisions	76,334	66,868
Total current liabilities	507,182	539,053
Non-current liabilities		
Borrowings	87,000	87,000
Deferred tax liabilities	2,185	1,026
Employee benefits	2,995	3,151
Provisions	-	1,840
Total non-current liabilities	92,180	93,017
Total liabilities	599,362	632,070
Net assets	654,513	641,374
Equity		
Contributed equity	508,672	501,766
Reserves	23,689	20,411
Retained earnings	122,152	119,197
Total equity	654,513	641,374

5-5 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:

Investment funds - Company managed	Carrying amount $'000	Maximum exposure to loss[1] $'000
Year ended 30 June 2018		
Statement of Financial Position line item		
Other financial assets - non-current	72,086	65,646
Year ended 30 June 2017		
Statement of Financial Position line item		
Other financial assets - non-current	52,106	48,207

[1] The maximum exposure to loss is the maximum loss that could be recorded through profit and loss as a result of the involvement with these entities.

Company managed investment funds

The Company manages investment funds through 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 revenue from the provision of services 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.

5-6 Share-based payments

i. Employee share purchase plans

(a) Long-term Incentive Plan (LTI)

The LTI plan was introduced for the purpose of making future long-term incentive grants to eligible employees.

(b) Executive Share Plan (ESP)

The ESP is no longer used for new grants.

(c) Deferred Share Plan (DSP)

The DSP is no longer used for new grants.

(d) 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 net profit after tax 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 over the performance period with the corresponding entry directly in equity.

(e) Details of the movement in employee shares

All shares granted under the LTI and OPSP plan in the 2018 financial year were issued 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, $9,750,466 (2017: $12,027,302) of amortisation relating to shares, performance rights and share rights was recognised as an expense with the corresponding entry directly in equity.

Shares are granted to eligible employees under the LTI plan. The number of shares granted is determined by dividing the value of the grant by the VWAP of Perpetual shares traded on the ASX in the five business days up to and including the grant date.

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
2018	741,882	(181,313)	(73,013)	73,013	560,569
2017	981,300	(239,418)	(100,342)	100,342	741,882

5-6 Share-based payments (continued)

ii. Rights

During the year, the Company granted $8,203,095 (30 June 2017: $6,770,507) of share rights and performance rights in accordance with the LTI plan.

Share rights are granted to Executives under the Variable Incentive Plan. The number of share rights granted is determined by dividing the value of the grant by the VWAP of Perpetual shares traded on the ASX in the five business days up to and including the grant date.

Performance rights are granted to eligible employees under the LTI Plan. The number of performance rights granted is determined by dividing the value of the LTI grant by the VWAP of Perpetual shares traded on the ASX in the five business days up to and including the grant date, discounted for the non-payment of dividends during the performance period, as calculated by an independent external adviser.

Performance rights and share rights do not receive dividends or have voting rights until they have vested and have been converted into Perpetual shares.

30 June 2018					**Movement in number of rights granted**				
Grant date	**Vest date**	**Expiry date**	**TSR hurdle or non-TSR hurdle**	**Issue price**	**1 July 2017**	**Granted**	**Forfeited**	**Vested**	**Outstanding at 30 June 2018**
Oct 2014	Oct 2017	Oct 2017	TSR	$21.82	33,000	-	(15,183)	(17,817)	-
Oct 2014	Oct 2017	Oct 2017	Non TSR	$38.00	90,713	-	(22,166)	(68,547)	-
Aug 2015[1]	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	238,804	-	(51,069)	(3,023)	184,712
Oct 2016	Oct 2019	Sep 2023	Non TSR	$39.40	145,451	-	(15,139)	(5,924)	124,388
Sep 2017	Sep 2019	Sep 2032	Non TSR	$46.93	-	51,055	(21,104)	-	29,951
Oct 2017	Oct 2018	Sep 2032	Non TSR	$44.64	-	3,989	-	-	3,989
Oct 2017	Oct 2020	Sep 2032	Non TSR	$44.64	-	126,098	(6,832)	-	119,266
					547,429	181,142	(131,493)	(96,100)	500,978

[1] Valuation date 1 October 2014.

5-6 Share-based payments (continued)

ii. Rights (continued)

30 June 2017					Movement in number of rights granted				
Grant date	Vest date	Expiry date	TSR hurdle or non-TSR hurdle	Issue price	1 July 2016	Granted	Forfeited	Vested	Outstanding at 30 June 2017
Oct 2013	Oct 2016	Oct 2020	TSR	$22.65	29,589	-	(13,021)	(16,568)	-
Oct 2013	Oct 2016	Oct 2020	Non TSR	$34.57	96,752	-	(1,229)	(95,523)	-
Oct 2014	Oct 2017	Oct 2017	TSR	$21.82	33,000	-	-	-	33,000
Oct 2014	Oct 2017	Oct 2017	Non TSR	$38.00	105,510	-	(11,925)	(2,872)	90,713
Oct 2014[1]	Oct 2016	Oct 2020	Non TSR	$34.57	1,157	-	-	(1,157)	-
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[2]	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	272,057	907	(29,626)	(4,534)	238,804
Oct 2016	Oct 2019	Sep 2023	Non TSR	$39.40	-	171,079	(25,055)	(573)	145,451
					580,563	171,986	(80,856)	(124,264)	547,429

[1] Valuation date 1 October 2013.

[2] Valuation date 1 October 2014.

The fair value of services received in return for performance rights and share rights granted is based on the fair value of rights granted, measured using a face value approach for scorecard performance conditions, Monte Carlo simulation for TSR performance conditions and the Black Scholes option pricing formula for share rights and EPS performance conditions, with the following inputs:

	Valuation Date 1 Jul 2014	Valuation Date 1 Oct 2014	Valuation Date 1 Oct 2015	Valuation Date 1 Oct 2016	Valuation Date 1 Sep 2017	Valuation Date 1 Oct 2017
Performance period	3 years	3 years	3 years	3 years	2 years	3 years
Share price ($)	47.45	43.84	40.00	46.28	54.70	51.94
Dividend yield (%)	5.07	5.23	6.23	5.51	5.10	5.18
Expected volatility (%)	N/A	25	25	N/A	25	N/A
Risk free interest rate (%)	N/A	2.63	1.86	N/A	N/A	N/A

5-6 Share-based payments (continued)

Accounting policies

Employee share purchase plans

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.

The fair value of the rights granted is measured using a binomial model, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of rights 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 LTI 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 performance and 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.

Rights

Performance rights and share rights are issued for the benefit of eligible 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 rights grant date.

Over the vesting period of the rights, an equity remuneration expense will be amortised to the equity compensation reserve based on the fair value of the rights at the grant date.

On vesting, the intention is to settle the 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 rights at the vesting date.

Notes to and forming part of the financial statements for the year ended 30 June 2018

5-7 Key management personnel and related parties

Total compensation of key management personnel

	2018 $	2017 $
Short-term	6,411,774	5,572,735
Post-employment	174,131	168,275
Termination benefits	-	-
Share-based	740,444	3,146,335
Other long-term	139,540	57,262
Total	7,465,889	8,944,607

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.

5-8 Auditor's remuneration

	2018 $	2017 $
Audit and review services		
Auditor of the Company - KPMG Australia		
Audit and review of financial statements	642,723	631,016
Other assurance and regulatory audit services	354,559	361,238
Overseas KPMG firms:		
Audit and review services of other financial statements	26,494	26,000
Other assurance and regulatory audit services	25,985	25,500
	1,049,761	1,043,754
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]	1,022,116	1,291,166
Audit of other funds for which Perpetual acts as administrator or trustee[1]	1,052,317	751,450
Other regulatory audit services[1]	315,856	319,967
Total audit fee attributable to the audit and review of non-consolidated funds	2,390,289	2,362,583
	3,440,050	3,406,337

[1] The fees are incurred by the consolidated entity and are recovered from the funds via management fees.

	2018 $	2017 $
Non-audit services		
KPMG Australia:		
Advisory services	93,500	15,000
Tax services	9,000	92,000
Risk management review	-	58,000
Other services	23,415	5,100
	125,915	170,100

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

A final dividend of 140 cents per share fully franked was declared on 30 August 2018 and is to be paid on 8 October 2018.

Other than the matters noted above, the Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in the financial statements 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 2018 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 2018 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 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 30 August 2018.

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 2018 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.

Where necessary, comparative information has been restated to conform to changes in presentation in the current year.

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.

6-2 Basis of preparation (continued)

ii. Basis of preparation (continued)

(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.

(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 2018 are included in the following notes:

- Section 1-4 Income taxes
- Section 2-4 Intangibles
- Section 2-5 Provisions
- Section 2-6 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 (ie as prices) or indirectly (ie 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 2-6 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.

6-3 Other significant accounting policies (continued)

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.

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.

6-3 Other significant accounting policies (continued)

iv. Impairment (continued)

(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 standards, amendments to standards and interpretations have been issued but are not yet mandatory. The consolidated entity has not early adopted any of these standards or amendments in this financial report. Those that are applicable to the consolidated entity and will apply to future periods are described as follows:

(a) *AASB 9 Financial Instruments*

AASB 9 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 the calculation of 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 applies to the consolidated entity from 1 July 2018.

Under the revised guidance, the concepts of "Held to Maturity" and "Available-for-Sale" ("AFS") are removed and on initial recognition, financial instruments are classified into one of three primary measurement categories: Amortised cost; Fair value through profit and loss (FVTPL); or Fair value through other comprehensive income (FVOCI).

6-4 New standards and interpretations not yet adopted (continued)

(a) *AASB 9 Financial Instruments* (continued)

At 30 June 2018 the consolidated entity held $74.5 million of financial assets classified as available-for-sale, which includes the consolidated entity's incubation funds. From 1 July 2018, these financial assets will be classified as FVTPL, with the associated unrealised and realised gains and losses taken to the income statement. The $5.0 million of unrealised gains currently held within the available-for-sale reserve will remain in equity upon realisation, and not be recycled to the income statement.

The Group's $283 million of structured products – EMCF assets will also change from AFS to FVTPL. There will be no change to the recognition or measurement of the corresponding $282.5 million liability that represents the obligation to fund investors and measured at cost, being redemption value. Refer section 5-1 for further information on how these products are managed.

Upon adoption, impairment charges will be calculated on an "expected credit loss" basis, replacing the current methodology which is calculated on a "historical loss" basis. The expected credit loss is measured as either 12-month expected credit loss or lifetime credit loss (where there is a significant change in the credit risk since initially recognising the financial instrument.) This means the credit loss may be recognised earlier than the current methodology where a customer's credit profile changes. Based on the consolidated entity's historical loss patterns, and the low credit risk profile of its customers, the consolidated entity does not expect this change to have a material impact on the impairment of financial assets, and any increase in impairment provisions will be adjusted against retained earnings at transition date.

The AASB 9 hedge accounting model introduces improvements by more closely aligning accounting with risk management and increases the eligibility of hedged items for hedge accounting. Adoption of the new model is optional, and the revised requirements are not expected to have a material impact on the Group.

The Group does not intend to restate prior period comparatives on adoption of the new standard, with adjustments recognised against retained earnings on 1 July 2018 but will provide detailed transitional disclosures in the 30 June 2019 financial statements in accordance with the transitional provisions of AASB 9 and AASB 7 *Financial Instruments: Disclosures.*

(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 Programs*.

AASB 15 applies to the consolidated entity from 1 July 2018.

The standard introduces a new five step model to measure and recognise revenue from contracts from customers and additional disclosure requirements.

Under the model, new customer contracts are assessed to identify the performance obligations under the contract and determine the price (which may be either fixed or variable), which is then allocated across the identified performance obligations using estimation and judgement. Revenue is recognised once the performance obligation has been completed.

Variable revenue (such as performance fees) is recognised in the period the obligation has been completed if it is unlikely that there will be a reversal of revenue in future periods.
The new disclosure requirements are designed to enable users to understand the nature, timing, and uncertainty of revenue and related cash flows and the assets recognised from obtaining or fulfilling a customer contract.

Notes to and forming part of the financial statements for the year ended 30 June 2018

6-4 New standards and interpretations not yet adopted (continued)

(b) *AASB 15 Revenue from Contracts with Customers* (continued)

As described in section 1-2, the consolidated entity derives most of its revenue from the provision of financial products and services. Revenue is recognised as these services are provided to customers, which is consistent with the principles of AASB 15. Following a review of open customer contracts (including those with upfront fees and bundled services) the consolidated entity has assessed that on adoption, the new standard will not materially change how revenue is measured and recognised.

The consolidated entity has not early adopted the standard. As the impact to the financial statements is not considered material, no restatement of comparatives will be made, which is an option under the practical expedients and transition provisions of the standard.

On 1 July 2018 the Group reduced opening retained earnings by $3.8 million to reflect the cumulative effect of applying the standard. The $3.8 million has been recognised as deferred revenue and will be recognised as the Deceased Estates' to which they relate are settled. This is likely to occur within the next 12 months.

(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 lease asset will be amortised over the life of the lease, resulting in a depreciation and amortisation charge. The unwinding of the discount on the lease liability will be disclosed as a financing cost in the Consolidated Statement of Profit or Loss and Other comprehensive Income. The new standard is likely to result in a reduction in the consolidated entity's occupancy expenses as lease costs will instead be allocated to the depreciation and amortisation charge on lease assets and interest expense on lease liabilities.

The new standard is expected to impact leases which are currently classified by the consolidated entity as operating leases; primarily the lease of office space around Australia. See section 3-5 for a summary of the consolidated entity's existing operating leases.

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 performance of the consolidated entity, and as noted above are expected to have a material impact on lease assets and liabilities.

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 49 to 109, 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 2018 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) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. There are reasonable grounds to believe that the Company and the certain wholly owned subsidiaries identified in section 5-4 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and these entities pursuant to ASIC Corporations (wholly owned companies) Instrument 2016/785.

3. The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Interim Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2018.

4. The Directors draw attention to section 6-2(i) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Dated at Sydney this 30th day of August 2018.

Tony D'Aloisio
Director

Independent Auditor's Report

To the shareholders of Perpetual Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Perpetual Limited (the Company) and its controlled entities (the Consolidated Entity).

In our opinion, the accompanying Financial Report of the Consolidated Entity is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- notes (sections 1 to 6) including a summary of significant accounting policies; and
- the Directors' Declaration.

The Consolidated Entity consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Consolidated Entity in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Revenue recognition
- Valuation of goodwill
- Employee remuneration

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition ($519m)

Refer to Note 1-2 'Revenue' to the Financial Report

The key audit matter	How the matter was addressed in our audit
Revenue is a key audit matter due to: (i) its significance to the Consolidated Entity's results; (ii) the complexity added to the audit from fees derived from a number of diverse products and services, each with unique contractual terms and; (iii) the Consolidated Entity's use of third party service providers for certain accounting recording processes which increases the complexity of our audit procedures. The Consolidated Entity generates revenue across its three business units from a variety of products and services. Significant revenue streams include fees from investment management, securitisation services, adviser services, and trustee services. As such, key drivers of revenue include funds under management (FUM), funds under advice and administration (FUA), market performance and underlying contractual terms. Third party service providers are engaged to provide administration and accounting services for certain key revenue streams.	Our procedures included: • Obtaining an understanding of processes and controls for significant revenue streams across the three business units. This included performing walkthroughs with the Consolidated Entity's respective business and finance teams to check our understanding of the processes. • Testing of management's control over the review and approval of fee calculations for significant revenue streams. • Assessing the Consolidated Entity's vendor management control environment used to engage third party service providers, including testing monitoring and oversight controls. • For significant third-party service providers, inspecting their independent assurance report on internal controls which cover the relevant services for the financial period. We assessed the scope of the report, the internal control findings and any potential implications on our audit approach. • Performing data analytical procedures for each significant revenue stream to identify trends and outliers within each tested stream. Examples of outliers can include months where management fees exhibit inverse movement to FUM flows or client fees which fall considerably outside of statistical trend lines. For outliers identified, we check the revenue (i.e. fee rates) to the underlying client fee agreements.

	• Testing fee revenue for a statistical sample drawn from significant revenue streams. We applied fee rates obtained from underlying client fee agreements to the balance of funds under management, advice, and administration obtained from third party service provider reports.

Valuation of goodwill ($277m)	
Refer to Note 2-4 'Intangibles' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The valuation of goodwill is a key audit matter due to: (i) The magnitude of the balance in relation to total assets (22.2% of total assets); (ii) The use of forward-looking assumptions in the Consolidated Entity's value in use model. Estimating assumptions into the future is inherently subjective and susceptible to differences in outcomes. Our audit focus concentrated on projections of cash flows, discount rates (including CGU specific risk premiums), growth rates and terminal growth rates.	Our procedures included: • Checking the integrity of the value in use model including the accuracy of the underlying calculation formulas. • Assessing the Consolidated Entity's ability to accurately project cash flows by comparing the accuracy of previous cash flow forecasts to actual results. • Checking key assumptions used in the value in use model against relevant internal and external market data. This included board approved business plans, historical and projected Australian CPI per the Australian Bureau of Statistics, revenue growth per published industry reports, and spot yields on Australian government bonds per Bloomberg. • Working with our Corporate Finance valuation specialists to assess the discount rates, including the CGU specific risk premiums and terminal growth rates used in the value in use models by assessing the metrics against those of comparable entities. • Evaluating management's sensitivity analysis to stress key value in use model assumptions including discount rates and CGU specific risk premiums.

KPMG

Employee remuneration ($204m)	
Refer to Note 1-3 'Expenses' and Note 5-6 'Share-based payments'	
The key audit matter	**How the matter was addressed in our audit**
Employee remuneration is a key audit matter due to: (i) its quantum in relation to total expenses; (ii) the judgemental nature of variable ('at risk') components of the Consolidated Entity's incentive plans which remain unpaid at balance date and therefore estimated. This necessitated senior team member involvement in assessing the reasonableness of the achievement of incentive plan terms, such as likelihood of vesting and performance conditions being met. These may crystallise over an extended period of time; (iii) The complexity of share-based compensation plan agreements and resulting risk of interpretational differences against principles based criteria contained in accounting standards; and (iv) The range of remuneration package offerings and the specific accounting requirements unique to those. This increases the audit effort.	Our procedures included: • Obtaining an understanding of the remuneration process, structure and various remuneration types from inquiry of management and inspection of Consolidated Entity policies and plan documents. • Generating an expectation for cash salaries, superannuation, packaged employee benefits, and other fixed remuneration accounts based upon current year headcount and prior year audited balances. • For rights granted during the year, examining third party valuation reports obtained by the Consolidated Entity and checking the value and key model inputs to disclosures and underlying documentation. • Assessing the professional competence, experience and objectivity of the Consolidated Entity's third party valuation specialist and obtaining an understanding of their work. • Evaluating the Consolidated Entity's judgements on key vesting conditions, such as number of employees who are expected to complete the service period and its consistency with historical five-year averages. • Checking current year share-based compensation expense for a sample of employees using underlying offer letters, equity incentive plan agreements, and third party valuation reports obtained by the Consolidated Entity. • Testing a sample of current year grants, vests and forfeitures of rights and options to underlying offer letters and equity incentive plan agreements. • Assessing disclosures, as required by AASB 2, reflect underlying agreements, transactions, calculations, and estimates, as tested by us above.

KPMG

Other Information

Other Information is financial and non-financial information in Perpetual Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Perpetual Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 8 to 44 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Martin McGrath

Partner

Sydney

30 August 2018

Securities exchange and investor information

2018 Annual General Meeting

The 2018 Annual General Meeting of the Company will be held at Perpetual's offices, Level 18, 123 Pitt Street, Sydney on 1 November 2018 commencing at 10:00am.

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 31 July 2018.

Distribution schedule of holdings as at 31 July 2018	Number of holders	Number of shares
1 – 1,000 shares	20,478	7,852,262
1,001 – 5,000 shares	5,409	11,141,363
5,001 – 10,000 shares	465	3,253,148
10,001 - 50,000 shares	263	4,725,142
50,001 – 100,000 shares	15	1,169,615
100,001 and over shares	25	18,432,896
Total	26,655	46,574,426

Twenty largest shareholders as at 31 July 2018

Name	Number of ordinary shares	Percentage of issued capital
HSBC Custody Nominees (Australia) Limited	6,079,986	13.05%
JP Morgan Nominees Australia Limited	3,011,013	6.46%
Citicorp Nominees Pty Limited	1,989,613	4.27%
Milton Corporation Limited	1,231,982	2.65%
National Nominees Limited	1,086,317	2.33%
Australian Foundation Investment Company Limited	1,061,110	2.28%
BNP Paribas Noms Pty Ltd (Agency Lending)[1]	489,457	1.05%
Carlton Hotel Ltd	423,973	0.91%
Enbeear Pty Ltd	368,841	0.79%
Queensland Trustees Pty Ltd (Executive Share Plan)[1,2]	299,668	0.64%
BNP Paribas Noms Pty Ltd (DRP)[1]	275,125	0.59%
Queensland Trustees Pty Ltd (Long Term Incentive Share Plan)[1,2]	263,127	0.56%
Argo Investments Limited	238,905	0.51%
Diversified United Investment Limited	200,000	0.43%
Citicorp Nominees Pty Limited (CFS Inv. A/c)[1]	198,740	0.43%
BKI Investment Company Limited	181,751	0.39%
J S Millner Holdings Pty Limited	166,300	0.36%
Dixson Trust Pty Limited	116,400	0.25%
AMP Life Limited	113,523	0.24%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	111,684	0.24%
Total	17,907,515	38.43%

[1] Held in capacity as executor, trustee or agent.

[2] The total number of shares held by Queensland Trustees Pty Ltd as trustee of the various Employee Share Plans is 563,336 shares.

Securities exchange and investor information (continued)

Other information

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

Voting rights

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

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 2018 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 140 cents per share will be paid on 8 October 2018 to shareholders entitled to receive dividends and registered on 13 September 2018, 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
1A Homebush Bay Drive
Rhodes NSW 2138

Locked Bag A14
Sydney South NSW 1235

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

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

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

Company Secretary
Eleanor Padman

Website address: www.perpetual.com.au

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