

CHAIRMAN'S REPORT



Dear Shareholder

I am pleased to present our Annual Report for the year ended 30 June 2012.

This year, there have been a significant number of changes within Perpetual. What has not changed however is the unique ability of this organisation to continue to adapt to an environment that remains volatile and challenging, and respond in a manner that reflects our qualities and experience.

Perpetual is in a strong financial position. The investment returns created for unit holders by our asset managers still lead the industry, the longstanding expertise supporting our wealth advice is highly regarded, and the corporate fiduciary services we provide are the benchmark amongst our corporate clients.

During 2012, we conducted a thorough review of our business. We took on the challenges that affect our industry in an even stronger and more decisive manner.

TOWARDS FUNDAMENTAL CHANGE

In May 2011, the Company announced a range of initiatives targeting improved performance and focus, cost reduction, and a more active management of our capital. We started the 2012 financial year with the implementation of these initiatives.

However, the market entered a period of extreme volatility that further undermined investor confidence. This affected the flow of funds into our key investment products. Some institutional clients withdrew mandates during that period, leading to a reduction in our total funds under management.

Nevertheless, good progress was made to enhance our focus on our core objectives by exiting some businesses and by partnering in other areas.

In line with our more active capital management approach, we conducted the off-market share buy-back announced in the previous year, completing it in October 2011. We bought back around 3.35 million shares and in doing so, we returned approximately \$70.0 million to shareholders.

In February 2012, it became clear that there were differences between Chris Ryan – our previous CEO – and the Board concerning the emphasis and execution of strategy for the immediate and longer term. This was disappointing for all concerned.

Following this, the Board appointed Geoff Lloyd as the Company's new Chief Executive Officer and Managing Director.

Mr Lloyd was the Group Executive Private Wealth and Retail Distribution since joining Perpetual in 2010. The Board felt he was ideally placed to step into the CEO and Managing Director role, having been closely involved in Perpetual's review of its overall business strategy, structure and cost base during the preceding year. Mr Lloyd was recruited to Perpetual as a potential future CEO and he has demonstrated since his appointment a clear ability to identify the challenges we face, lead the necessary responses and create growth for the Company.

You can read more about his views and actions in the CEO Report section of this Annual Report. I encourage you to read his overview of Transformation 2015. I am confident that you will appreciate the importance of this strategy and recognise both the honesty of the assessment on which it is based and the fundamental nature of the changes it will introduce.

REMUNERATION REVIEW

At the 2011 Annual General Meeting, the Company received a 'no' vote on the Remuneration Report from 26.2% of the votes cast by proxy or at the Meeting. This represented approximately 8.5% of the eligible shares on issue.

In response, the Board has undertaken a thorough review of the remuneration framework and structures, consulted a wide group of stakeholders, and engaged a specialist remuneration consultant to further assist with the development of an improved remuneration framework.

As a result of this review, the Board decided to reduce overall Board costs by approximately 30%, or \$0.5 million, from 1 July 2012. My remuneration has been reduced by 42%. Non-Executive Director remuneration, including committee allowances, has been reduced by an average of 25%. These Board cost reductions are being mirrored by an ongoing revision to the remuneration of key management personnel and staff in general to ensure all of our interests are fully aligned with those of shareholders.

Evidence of that alignment can be seen in the reduction in variable remuneration expenses in the 2012 financial year, which is in line with the Company's lower financial performance during the year. More detail on our performance can be found in the Financial Results and Business Unit Review sections of this Annual Report.

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BOARD SUCCESSION PLANNING

During and after the end of the financial year, the composition of your Board changed.

On 20 September 2011, Meredith Brooks informed the Board that she had decided not to seek re-election as a Director at the 2011 AGM. Her last day as a Director of Perpetual was 28 October 2011. She served as a Director for seven years and her contribution was highly valued.

On 8 August 2012, Paul McClintock advised he would be stepping down as a Director following this year's AGM on 1 November 2012. He has served as a Director of Perpetual for eight years and brought valuable experience and strategic insight to the Board during that period.

On 6 September 2012, we announced the appointment of two new Directors. Sylvia Falzon and Craig Ueland will join the Board on 20 November and 25 September 2012 respectively.

THE FUTURE

The Transformation 2015 implementation has started the year on a positive note. The new leadership team and their responsive and committed staff are tackling the challenges ahead of us with vigour and determination. I am confident this will improve our performance for our shareholders and clients.

I thank you, the shareholders, for your support and I thank the Board and our staff for their hard work and commitment to Perpetual.



PETER SCOTT
Chairman