FINANCIAL REPORT

FINANCIAL STATEMENTS OF PERPETUAL LIMITED AND ITS CONTROLLED ENTITIES

For the year ended 30 June 2018

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2018

	SECTION	2018 $'000	2017 $'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 80 to 120.

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 80 to 120.

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 80 to 120.

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 80 to 120.

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 and Culture, and 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.

	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).

1-1 OPERATING SEGMENTS (CONTINUED)

	2018 $'000	2017 $'000
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

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.

1-3 EXPENSES

	2018 $'000	2017 $'000
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 with Perpetual Investment Management Limited (PIML) cross shareholding claim against Brickworks and Washington H Soul Pattinson (WHSP). These costs were 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.

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 CENTS PER SHARE	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	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.

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.

	2018 $'000	2017 $'000
Dividend franking account		
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.

1-7 NET CASH FROM OPERATING ACTIVITIES

	2018 $'000	2017 $'000
Reconciliation of profit for the year to net cash from operating activities		
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

SECTION 2 – OPERATING ASSETS AND LIABILITIES

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

2-1 RECEIVABLES

	2018 $'000	2017 $'000
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
Movements in the provision for doubtful debts are as follows:		
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

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

ACCOUNTING POLICIES

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

2-2 OTHER FINANCIAL ASSETS

	2018 $'000	2017 $'000
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.

2-4 INTANGIBLES

$'000	GOODWILL	CUSTOMER CONTRACTS	CAPITALISED SOFTWARE	PROJECT WORK IN PROGRESS	OTHER	TOTAL
		INTANGIBLE ASSETS				
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

	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%).

2-4 INTANGIBLES (CONTINUED)

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.

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
Non-current		
Lease expense provision	19,147	19,370
	19,147	19,370

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

$'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 exercises 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.

3-1 CASH AND CASH EQUIVALENTS

	2018 $'000	2017 $'000
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).

3-2 BORROWINGS

	2018 $'000	2017 $'000
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.

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.

3-3 CONTRIBUTED EQUITY

	2018 $'000	2017 $'000
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.

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

	2018 $'000	2017 $'000
(a) Commitments		
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:		
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.

	2018 $'000	2017 $'000
(b) Contingencies		
Contingent liabilities		
Bank guarantee in favour of the ASX Settlement and Transfer Corporation Pty Limited with respect to trading activities	1,000	1,000
Bank guarantee in favour of the Australian Securities and Investments Commission in relation to the provision of responsible entity services and custodial services	10,000	10,000
Bank guarantee issued in respect of the lease of premises of The Trust Company Limited	1,796	1,796
Bank guarantee issued in respect of the lease of premises of Perpetual Limited	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 10 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 30 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 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 operations 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

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.

4-1 FINANCIAL RISK MANAGEMENT (CONTINUED)

I. CREDIT RISK (CONTINUED)

(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

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).

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.

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

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.

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
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 ten 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).

ACCOUNTING POLICIES

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

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

(a) Available-for-sale financial assets

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

(b) Investments at fair value through profit or loss

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

(c) Loans

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

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

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

(d) Derivative financial instruments

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

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

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

(e) Financial guarantee contracts

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

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

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

SECTION 5 – OTHER DISCLOSURES

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

5-1 STRUCTURED PRODUCTS ASSETS AND LIABILITIES

I. EXACT MARKET CASH FUNDS

	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.

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

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.

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.

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

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
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

5-3 CONTROLLED ENTITIES (CONTINUED)

NAME OF COMPANY	BENEFICIAL INTEREST 2018 %	BENEFICIAL INTEREST 2017 %	COUNTRY OF INCORPORATION AND PRINCIPAL PLACE OF BUSINESS
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
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.

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

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 plans 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

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	OUT-STANDING 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.

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	OUT-STANDING 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.

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
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

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

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.

(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.

6-3 OTHER SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. FOREIGN CURRENCY (CONTINUED)

(b) Foreign operations

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into Australian dollars as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).

Foreign currency differences are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss or to non-controlling interest as part of the profit or loss on disposal.

III. PAYABLES

Payables are non-interest-bearing and are stated at amortised cost, with the exception of contingent consideration recognised in business combinations, which is recorded at fair value at the acquisition date.

Contingent consideration recognised in business combinations is classified as a financial liability and is subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

IV. IMPAIRMENT

(a) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the consolidated entity on terms that the consolidated entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in fair value below its cost is objective evidence of impairment.

The consolidated entity considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the available-for-sale reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(b) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than deferred tax assets (see section 1-4), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit' or CGU).

Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The consolidated entity's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6-4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new 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).

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*.

6-4 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

(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.

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.