

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

CONDENSED INTERIM
FINANCIAL REPORT

FOR THE PERIOD FROM 1 JULY 2017
TO 31 DECEMBER 2017

Perpetual 

Perpetual Equity Investment Company Limited

ACN 601 406 419

Condensed Interim Financial Report For the half-year ended 31 December 2017

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Directors' Report

The Directors present their report together with the condensed interim financial report of Perpetual Equity Investment Company Limited ("the Company") for the half-year ended 31 December 2017 and the auditor's report thereon.

Directors

The following persons were Directors of the Company during the half-year and up to the date of this report:

Current Directors	Position	Appointment date
Nancy Fox **	Chairman and Non-executive Director	1 July 2017
Virginia Malley	Non-executive Director	25 August 2014
John Edstein *	Non-executive Director	26 September 2014
Christine Feldmanis **	Non-executive Director	26 September 2014
David Lane	Executive Director	20 November 2017
Former Director	Position	Retirement date
Peter Scott	Chairman and Non-executive Director	30 June 2017
Geoff Lloyd	Executive Director	20 November 2017

* Re-appointed at the Annual General Meeting on 3 November 2016.

** Re-appointed at the Annual General Meeting on 2 November 2017.

Principal activities

The Company is a listed investment company established to invest predominantly in Australian listed securities with typically a mid-cap bias and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. The investment objective of the Company is to provide investors with a growing income stream and long term capital growth in excess of its benchmark (the S&P/ASX 300 Accumulation Index) over minimum 5 year investment periods.

Review of operations

	31 December 2017 \$'000	31 December 2016 \$'000
Profit/(loss) before income tax	28,425	31,538
Income tax benefit/(expense)	<u>(7,763)</u>	<u>(8,805)</u>
Profit/(loss) for the half-year attributable to shareholders	<u>20,662</u>	<u>22,733</u>

For the half-year ended 31 December 2017, the Company's Net Tangible Asset (NTA) after tax increased by 5.1% to \$1.153 per share. In addition, the Company paid a 2.5 cents per share fully franked dividend during the half-year.

As at 31 December 2017, eighty five percent of the Company's portfolio was invested in equity securities with 66% in Australian listed securities and 19% in global listed securities. Fifteen percent of the portfolio was in cash.

The Manager's investment process targets companies with sound management, conservative debt levels, quality businesses and recurring earnings, that are trading at attractive prices. The Manager focuses on identifying quality companies that can deliver strong absolute returns for the portfolio, with the objective of providing shareholders with a growing income stream and long term capital growth.

Directors' Report (continued)

Dividends

On 19 February 2018, the Directors declared a fully franked interim dividend payment of 3.0 cents per share (2017: 2.2 cents per share).

Events subsequent to reporting date

The Directors are not aware of any event or circumstance since the end of the half-year not otherwise dealt with in this report that has or may significantly affect the operations of the Company, the results of these operations or the state of affairs of the Company in subsequent financial years.

Lead Auditor's Independence Declaration

A copy of the Lead Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Rounding of amounts to the nearest thousand dollars

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the Directors' Report and the condensed interim financial report have been rounded to the nearest thousand dollars in accordance with the Legislative Instrument, unless otherwise indicated.

Signed on behalf and in accordance with a resolution of the Directors:



Chairman

Sydney
19 February 2018



Director



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

To the Directors of Perpetual Equity Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2017 there have been:

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

KPMG

KPMG

Martin McGrath

Partner

Sydney

19 February 2018

Perpetual Equity Investment Company Limited
Condensed Interim Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2017

Condensed Interim Statement of Profit or Loss and Other Comprehensive Income

		31 December 2017	31 December 2016
	Notes	\$'000	\$'000
Investment income			
Dividends		3,187	2,747
Interest		356	389
Net gains/(losses) on financial instruments held at fair value through profit or loss		27,128	30,493
Net foreign exchange gains/(losses)		(22)	12
Total investment income		<u>30,649</u>	<u>33,641</u>
Expenses			
Management fees	8	1,485	1,382
Other expenses		739	721
Total expenses		<u>2,224</u>	<u>2,103</u>
Profit/(loss) before income tax		<u>28,425</u>	<u>31,538</u>
Income tax (expense)/benefit	3	(7,763)	(8,805)
Profit/(loss) after income tax		<u>20,662</u>	<u>22,733</u>
Other comprehensive income		-	-
Total comprehensive income for the half-year		<u>20,662</u>	<u>22,733</u>
Earnings per share			
Basic earnings per share - cents per share	4	8.15	9.00
Diluted earnings per share - cents per share	4	8.15	9.00

The Condensed Interim Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Perpetual Equity Investment Company Limited
Condensed Interim Statement of Financial Position
As at 31 December 2017

Condensed Interim Statement of Financial Position

		31 December 2017	30 June 2017
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		47,202	61,421
Financial assets held at fair value through profit or loss	7	256,256	227,151
Receivables		222	3,372
Total assets		303,680	291,944
Liabilities			
Current tax payable		3,443	5,680
Payables		965	5,735
Deferred tax liability		6,485	2,569
Total liabilities		10,893	13,984
Net assets		292,787	277,960
Equity			
Contributed equity	6	249,211	248,712
Retained earnings		15,240	6,541
Profit reserve		28,336	22,707
Total equity		292,787	277,960

The Condensed Interim Statement of Financial Position should be read in conjunction with the accompanying notes.

Perpetual Equity Investment Company Limited
Condensed Interim Statement of Changes in Equity
For the half-year ended 31 December 2017

Condensed Interim Statement of Changes in Equity

	Notes	Contributed Equity \$'000	Retained Earnings \$'000	Profit Reserve \$'000	Total \$'000
Balance at 1 July 2017		248,712	6,541	22,707	277,960
Total comprehensive income for the half-year		-	20,662	-	20,662
Transfers to profit reserve		-	(11,963)	11,963	-
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	6	499	-	-	499
Dividends paid	5	-	-	(6,334)	(6,334)
Balance at 31 December 2017		249,211	15,240	28,336	292,787

	Notes	Contributed Equity \$'000	Retained Earnings \$'000	Profit Reserve \$'000	Total \$'000
Balance at 1 July 2016		247,718	(1,635)	9,676	255,759
Total comprehensive income for the half-year		-	22,733	-	22,733
Transfers to profit reserve		-	(9,642)	9,642	-
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	6	383	-	-	383
Dividends paid	5	-	-	(5,047)	(5,047)
Balance at 31 December 2016		<u>248,101</u>	<u>11,456</u>	<u>14,271</u>	<u>273,828</u>

The Condensed Interim Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Perpetual Equity Investment Company Limited
Condensed Interim Statement of Cash Flows
For the half-year ended 31 December 2017

Condensed Interim Statement of Cash Flows

	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities		
Dividends received	3,534	2,874
Interest received	356	418
Other income received	143	126
Management fees paid	(1,590)	(1,467)
Income tax paid	(6,084)	(1,787)
Other expenses paid	(796)	(786)
Net cash inflows/(outflows) from operating activities	(4,437)	(622)
Cash flows from investing activities		
Proceeds from sale of investments	112,705	135,872
Payments for purchase of investments	(116,652)	(136,260)
Net cash inflows/(outflows) from investing activities	(3,947)	(388)
Cash flows from financing activities		
Dividends paid - net of dividend reinvestment plan	(5,835)	(4,664)
Net cash inflows/(outflows) from financing activities	(5,835)	(4,664)
Net increase/(decrease) in cash and cash equivalents	(14,219)	(5,674)
Cash and cash equivalents held at the beginning of the half-year	61,421	58,350
Cash and cash equivalents at the end of the half-year	47,202	52,676

The above Condensed Interim Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Reporting entity

Perpetual Equity Investment Company Limited ("the Company") is domiciled in Australia. The Company was incorporated on 25 August 2014. The address of the Company's registered office is at Level 18, 123 Pitt Street, Sydney NSW 2000.

The Company is a listed investment company established to invest predominantly in Australian listed securities with typically a mid-cap bias and cash, deposit products and senior debt, together with opportunistic allocations to global listed securities. The investment objective of the Company is to provide investors with a growing income stream and long term capital growth in excess of its benchmark (the S&P/ASX 300 Accumulation Index) over minimum 5 year investment periods. The investment activities of the Company are managed by Perpetual Investment Management Limited ("the Manager").

The condensed interim financial report for the half-year ended 31 December 2017 was authorised for issue by the Directors on 19 February 2018.

2 Basis of preparation

The condensed interim financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 *Interim Financial Reporting*. The Company is a for-profit entity for the purpose of preparing the condensed interim financial report.

The condensed interim financial report does not include all notes normally included in a full financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made in respect of Perpetual Equity Investment Company Limited during the half-year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The condensed interim financial report has been prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The accounting policies applied in the condensed interim financial report are consistent with those applied in the annual report for the year ended 30 June 2017.

Use of estimates

Management makes estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses. Estimates and associated assumptions are continuously evaluated and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Functional and presentation currency

The condensed interim financial report is presented in Australian dollars, which is the Company's functional currency.

New accounting standards and interpretations

Except as disclosed in the annual report for the year ended 30 June 2017, there are no new accounting standards, amendments or interpretations issued during the half-year that are not yet effective and are expected to have a material impact on the Company in current or future reporting period and on foreseeable future transactions. Management's assessment has not changed since 30 June 2017.

3 Income tax

	31 December 2017 \$'000	31 December 2016 \$'000
Current tax		
Current income tax (expense)/benefit	(3,845)	(3,048)
Adjustment for prior years	(2)	22
Deferred tax		
Temporary differences	(3,916)	(5,779)
Total income tax (expense)/benefit	(7,763)	(8,805)

4 Earnings per share

	31 December 2017 Cents per share	31 December 2016 Cents per share
Basic earnings per share	8.15	9.00
Diluted earnings per share	8.15	9.00
	\$'000	\$'000
Profit after income tax attributable to shareholders	20,662	22,733
	Number of shares	Number of shares
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	253,666,070	252,587,082

There have been no new subscriptions for ordinary shares other than those issued under the dividend reinvestment plan during the current or previous reporting period, therefore diluted earnings per share equals basic earnings per share.

5 Dividends

(a) Dividends paid

	Cents per share	Total amount \$'000	Franking	Payment date
31 December 2017				
Final 2017 ordinary	2.5	6,334	100%	8 September 2017

	Cents per share	Total amount \$'000	Franking	Payment date
31 December 2016				
Final 2016 ordinary	2.0	5,047	100%	12 September 2016

All dividends declared or paid during the half-year were fully franked at a tax rate of 30% and paid out of the profit reserve.

(b) Subsequent events

On 19 February 2018, the Directors declared the following dividend.

	Cents per share	Total amount \$'000	Franking	Payment date
Interim 2018 ordinary	3.0	7,615	100%	11 April 2018

The interim dividend is fully franked based on a tax rate of 30%.

The financial effect of this dividend has not been brought to account in the financial statements for the half-year ended 31 December 2017 and will be recognised in subsequent financial statements.

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

(c) Franking account

	31 December 2017 \$'000	31 December 2016 \$'000
The available balance in the franking account at the reporting date	<u>8,838</u>	<u>2,500</u>
Impact on franking account of the interim dividend declared after the reporting date but not recognised as a liability at the reporting date	<u>(3,264)</u>	<u>(2,383)</u>
The available balance in the franking account after the adjustment for the interim dividend declared	<u>5,574</u>	<u>117</u>

5 Dividends (continued)

(c) Franking account (continued)

The available balance in the franking account includes the adjustments for franking credits that will arise from the payment of current tax liabilities, and franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which eligible shareholders may elect to have all or part of their dividend entitlements satisfied by the issue of ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 2.5% discount to the average market price.

6 Contributed Equity

	31 December 2017		31 December 2016	
	Number of shares	\$'000	Number of shares	\$'000
Fully paid ordinary shares	<u>253,845,980</u>	<u>249,211</u>	<u>252,748,485</u>	<u>248,101</u>

Movements in ordinary share capital

	31 December 2017		31 December 2016	
	Number of shares	\$'000	Number of shares	\$'000
Opening balance	253,366,220	248,712	252,341,662	247,718
Shares issued from dividend reinvestment plan	479,760	499	406,823	383
Closing balance	<u>253,845,980</u>	<u>249,211</u>	<u>252,748,485</u>	<u>248,101</u>

Ordinary shares

Ordinary shares entitle the holders to receive dividends as declared and one vote per share at shareholders' meetings.

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

7 Fair value measurement

The Company classifies fair value measurement of its financial assets and liabilities using a fair value hierarchy model that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table analyses within the fair value hierarchy model, the Company's financial assets and liabilities measured at fair value at the reporting date:

31 December 2017	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	<u>256,256</u>	-	-	<u>256,256</u>
Total	<u>256,256</u>	-	-	<u>256,256</u>
30 June 2017	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	<u>227,151</u>	-	-	<u>227,151</u>
Total	<u>227,151</u>	-	-	<u>227,151</u>

Rationale for classification of financial assets and liabilities as level 1

All listed equities held by the Company are valued using unadjusted quoted prices in active markets and are classified as level 1 in the fair value hierarchy model.

Transfers between levels

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

There were no transfers between levels for the half-year ended 31 December 2017 and the year ended 30 June 2017.

8 Management agreement

The Manager, Perpetual Investment Management Limited, receives a management fee of 1.00% per annum (plus GST) for the first \$1 billion of the Portfolio Net Asset Value, and 0.85% per annum (plus GST) of the Portfolio Net Asset Value in excess of \$1 billion. In accordance with the Replacement Prospectus dated 14 October 2014, the Portfolio Net Asset Value means the market value of the assets of the Portfolio, reduced by any accrued but unpaid expenses of the Company, but not provisions for tax payable or unpaid dividends of the Company, and after subtracting any borrowings drawdown and adding back borrowings repaid. The management fees are calculated and accrued daily and paid monthly in arrears.

	31 December 2017 \$'000	31 December 2016 \$'000
Management fees	1,485	1,382

The Manager is appointed for an initial term of five years unless terminated earlier. The Management Agreement will be automatically extended for a further five-year term on the expiry of the initial term unless terminated earlier in accordance with its terms.

If the Management Agreement is terminated during the extended term, then in certain circumstances the Manager will be entitled to a termination payment equal to 5.0%, reduced by one sixtieth (1/60) for each whole calendar month elapsed between the commencement of the extended term and the termination date, of the net tangible asset backing of a share in each class of shares in the Company as calculated under the ASX Listing Rules multiplied by the number of shares on issue in that class of shares as at the termination date.

9 Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions.

There have been no significant changes to the related party transactions disclosed in the previous annual financial report, with the exception of the appointment of Nancy Fox on 1 July 2017 and David Lane on 20 November 2017 to the Perpetual Equity Investment Company Board, succeeding Peter Scott and Geoff Lloyd respectively.

Nancy Fox (Chairman and Non-executive Director) and David Lane (Executive Director) are not independent in accordance with the requirements for independence set out in Principle (2) of the ASX Corporate Governance Principles. Nancy is a Non-executive Director of Perpetual Limited, the parent company of the Manager. David is the Group Executive of Perpetual Investments (a division of Perpetual Limited). He is remunerated by Perpetual Limited and is currently not entitled to Directors' fees or any other form of remuneration from the Company for his services.

As at 31 December 2017, Nancy Fox held 153,605 shares and David Lane had no shareholdings in the Company.

10 Segment information

The Company is organised into one main operating segment with only one key function, being the investment of funds predominantly in Australia together with opportunistic investments globally.

11 Commitments and contingencies

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2017 and 30 June 2017.

12 Events occurring after the reporting period

On 19 February 2018, the Directors declared a fully franked interim dividend payment of 3.0 cents per share payable on 11 April 2018.

No other significant events have occurred since the reporting date which would impact the financial position of the Company as at 31 December 2017 or the results and cash flows of the Company for the half-year ended on that date.

Directors' Declaration

1. In the opinion of the Directors of Perpetual Equity Investment Company Limited ("the Company"):
 - (a) the condensed interim financial statements and notes, set out on pages 5 to 15, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the persons performing the functions of the Chief Executive Officer and the Chief Financial Officer for the half-year ended 31 December 2017.

Signed in accordance with a resolution of the Directors:



Chairman

Sydney
19 February 2018



Director



Independent Auditor's Review Report

To the members of Perpetual Equity Investment Company Limited

Report on the Condensed Interim Financial Report

Conclusion

We have reviewed the accompanying **Condensed Interim Financial Report** of Perpetual Equity Investment Company Limited (the Company).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Condensed Interim Financial Report of the Company is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Condensed Interim Financial Report** comprises:

- Condensed interim statement of financial position as at 31 December 2017
- Condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows for the half-year ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

Responsibilities of the Directors for the Condensed Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Condensed Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Condensed Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Condensed Interim Financial Report

Our responsibility is to express a conclusion on the Condensed Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Condensed Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Perpetual Equity Investment Company Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Condensed Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



KPMG



Martin McGrath

Partner

Sydney

19 February 2018

DIRECTORY

COMPANY

Perpetual Equity Investment Company Limited
ACN 601 406 419

DIRECTORS

Nancy Fox – Chairman
Virginia Malley
John Edstein
Christine Feldmanis
David Lane

COMPANY SECRETARIES

Sylvie Dimarco
Eleanor Padman

INVESTMENT MANAGER

Perpetual Investment Management Limited
Level 18, 123 Pitt Street
Sydney NSW 2000
AFSL 234426

REGISTERED OFFICE

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AUDITOR

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300 Barangaroo Avenue
Sydney NSW 2000

AUSTRALIAN SECURITIES EXCHANGE CODES

Shares: PIC

SHARE REGISTRY

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WEBSITE

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