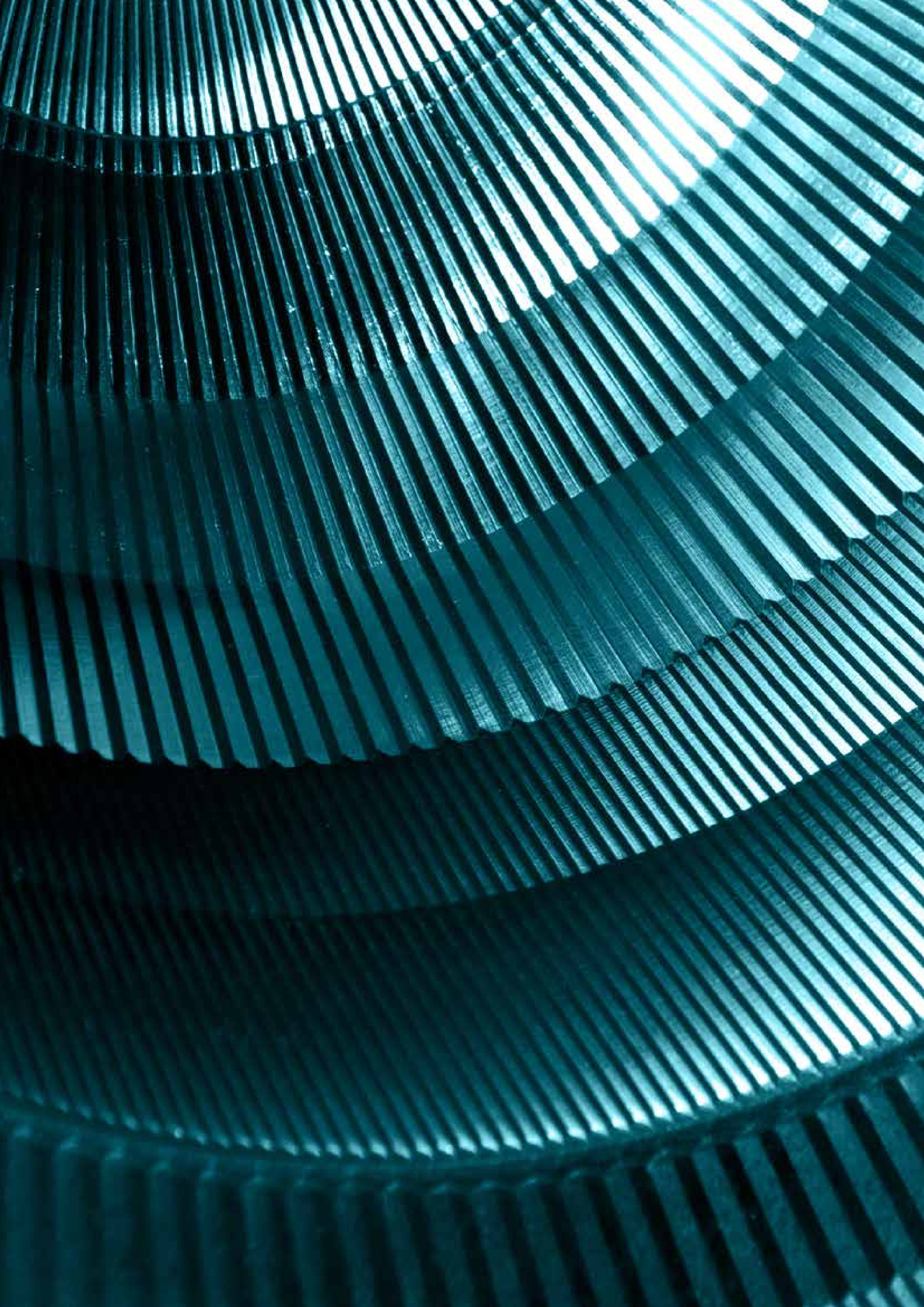
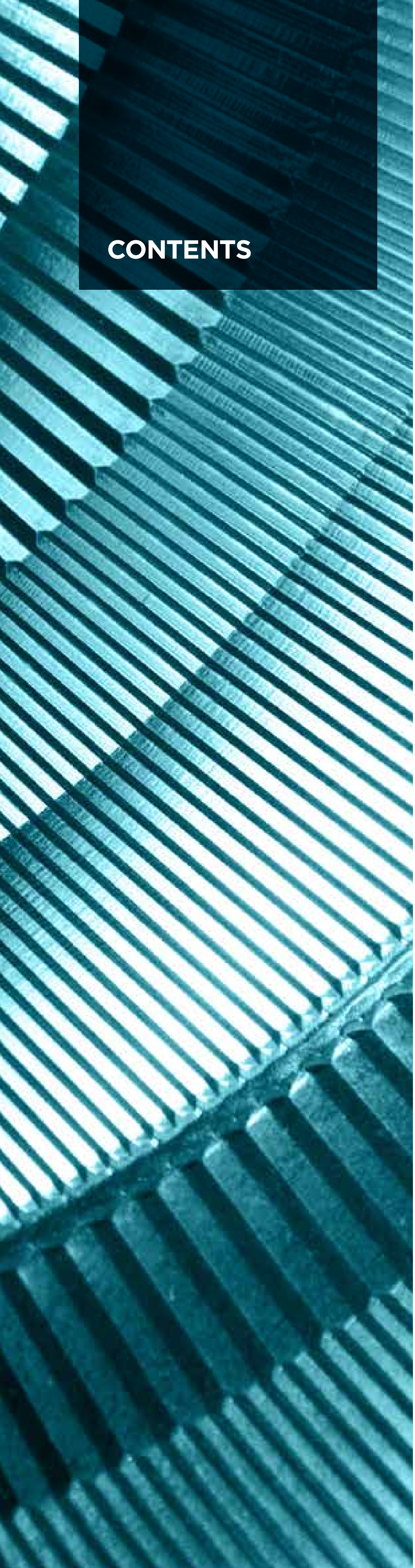
PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

ANNUAL REPORT
30 JUNE 2018

Perpetual





CONTENTS

CHAIRMAN'S REPORT
AUGUST 2018

THE FOURTH ANNUAL GENERAL MEETING WILL BE HELD ON THURSDAY 1 NOVEMBER 2018 AT PERPETUAL'S SYDNEY OFFICE

(LEVEL 18, 123 PITT STREET, SYDNEY NSW 2000).

Dear Fellow Shareholders,

Looking back on my first year as Chairman of Perpetual Equity Investment Company Limited (the Company), I am honoured to have been part of a listed investment company managed by one of Australia's most experienced fund managers. We have shared a firm commitment to deliver long term growth and consistent, reliable income to shareholders.

The Company first listed on the ASX in December 2014, raising more than $250 million. At the time, it was the largest raising for a listed investment company (LIC) following the global financial crisis. Since then, the LIC sector has grown substantially, giving investors access to a range of transparent, liquid financial products.

I would like to thank our existing shareholders for your continued support of the Company and welcome any new investors.

HIGHLIGHTS

I am pleased to share with you the following highlights for the financial year ending 30 June 2018:

- The Company has declared a fully franked final dividend of 3.3 cents per share, which brings total dividends declared for FY18 to 6.3 cents per share fully franked. This provides you with a cash dividend yield of 5.38% and a gross dividend yield of 7.55% (taking franking credits into account)[1] and represents an impressive increase of 1.6 cents per share fully franked on the total dividend declared in FY17.
- Net profit after tax (NPAT) of $24.8 million and an operating profit before tax of $32.3 million.
- Net Tangible Assets (NTA) after tax per share grew by 3.8% to $1.14 as of 30 June 2018.[2]
- Investment returns over the year to 30 June 2018 were 12.0% net of fees, expenses and before tax paid.[3]
- Total shareholder return (dividends and share price appreciation) was 18.8%.[4]

INVESTMENT PERFORMANCE

The 2018 financial year saw share prices continue to grow in local and global share markets. We are pleased to report that over the financial year we achieved our investment objective to provide investors with a growing income stream.

The Manager has also delivered strong investment performance for shareholders of 9.8% per annum since the Company's inception in December 2014.[3] Portfolio Manager Vince Pezzullo, along with his team, has continued to work hard to identify high quality companies with sustainable earnings, strong balance sheets and sound management, trading at attractive valuations to deliver these returns to you.

The net investment return after management fees and operating expenses and before tax paid of 12.0%[3] has been achieved with the benefit of diversification to global securities and the flexibility to hold relatively high levels of cash.

1 Based on a grossed up dividend of 8.8 cents per share (grossed up to take franking credits into account), and the closing share price of $1.17 on 30 June 2018.

2 'After tax' refers to after tax paid and provisions for deferred tax on set-up costs and on unrealised gains and losses in the Company's investment portfolio.

3 Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on set up costs and on unrealised gains and losses are excluded.

4 Total shareholder return assumes reinvestment of dividends.

CAPITAL RAISING

To meet investor demand and further position the Company for future growth we are undertaking a capital raising. This will include an Entitlement Offer for eligible existing shareholders of 1 new share for every 4 owned raising up to approximately $71.24 million, at an issue price of $1.12 and a $30 million General Offer. If the Entitlement Offer is not fully taken up, an offer of the shortfall will be made to the general public, including eligible shareholders who wish to apply for additional new shares in excess of their pro rata entitlement.

All new shares issued under the capital raising will receive the 2018 final dividend. We are pleased to be able to offer this opportunity to both existing shareholders and new investors.

PORTFOLIO OF HOLDINGS

As at 30 June 2018, the Company held a high quality portfolio of 28 Australian and global listed securities. The Company's portfolio was invested in the following asset classes:

- 67% in Australian listed securities
- 9% in global listed securities
- 24% in cash.

The Company can hold up to a maximum of 25% in cash. Holding higher levels of cash provides downside protection and flexibility to take advantage of opportunities when they arise. The Manager is comfortable with the construction of the portfolio and the quality assets in the portfolio. The Manager remains committed to buying shares in high quality companies using a fundamental, bottom-up investment approach. This allows the Manager to find true value in a stock while ignoring the 'noise' created by external factors. Further information can be found in the Portfolio Manager's report.

1 Based on a grossed up dividend of 8.8 cents per share (grossed up to take franking credits into account), and the closing share price of $1.17 on 30 June 2018.

DIVIDENDS

The Board's objective is to pay a regular dividend and we remain focused on achieving this objective for shareholders. It is the intention of the Board that, where possible, the Company will pay fully franked dividends twice a year. Factors considered by the Board when paying a dividend include the level of profit reserves, the franking account balance, future earnings, financial conditions, capital requirements and future prospects.

The Board is pleased to announce a fully franked final dividend of 3.3 cents per share, bringing total dividends declared for FY18 to 6.3 cents per share fully franked. This will provide our shareholders with a cash dividend yield of 5.38% and a gross dividend yield (taking franking credits into account) of 7.55%[1].

The Company is focused on paying dividends that provide a yield which compares favourably to the Australian market yield. Historically global stocks have provided a lower dividend yield than the Australian market. We recognise that our shareholders value a strong and sustainable, fully franked dividend stream. Throughout FY18 the Manager has steadily built a healthy franking account. In addition to the franking credits generated through the receipt of franked dividends paid by Australian securities in the portfolio, the Manager has successfully generated franking credits from the global component of the portfolio by actively realising gains on global stocks.

We believe this will assist us in delivering a sustainable fully franked dividend in future years. Total dividends declared in FY18 represent a significant increase on our 4.7 cents per share total dividends declared in FY17 and reflects the growing maturity of the Company.

Important dates for this dividend payment are as follows:

- Ex Dividend Date 18 October 2018
- Dividend Record Date 19 October 2018
- Dividend Payment Date 2 November 2018.

The dividend reinvestment plan will be temporarily suspended due to the capital raising.

COMMUNICATING WITH YOU

We understand the importance of keeping shareholders informed and that in a digital era our shareholders would like access to information about their investments when and where they want. With this in mind, www.perpetualequity.com.au provides you with accessible, up-to-date information about the Company's investment performance, news and insights from the Manager and the Manager's investment philosophy.

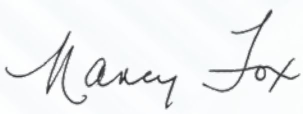
The website displays Net Tangible Asset statements daily and share price information, providing greater transparency for shareholders.

We produce a monthly newsletter which provides a regular summary of the Company's performance and the Manager's view on the market. The newsletter is available on our website and you can subscribe to have it emailed to you on a regular basis.

The Company will also be holding a series of shareholder updates in capital cities during September 2018, giving you an opportunity to hear first-hand how your capital is being invested. Please refer to our website for the event dates and how to register.

In addition, the Board values the opportunity to meet shareholders, and our fourth Annual General Meeting will be held on Thursday 1 November 2018 at Perpetual's Sydney office (Level 18, 123 Pitt Street, Sydney NSW 2000).

Yours sincerely,



Nancy Fox
Chairman

PORTFOLIO MANAGER'S REPORT AUGUST 2018

MARKET OVERVIEW

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose +13.2% in the financial year to 30 June 2018. The market was well supported by positive economic data over the year, including the Reserve Bank of Australia holding interest rates at a record low of 1.5% and the unemployment rate ending the year lower at 5.4%. The Federal Budget highlighted the Government's intentions of increased infrastructure spending over 2018/19 and an anticipated return to fiscal surplus earlier than expected. The Turnbull Government's proposed three-staged $144 billion income tax cuts were passed through the Senate, with the first stage coming into effect on 1 July 2018.

Rising commodity prices, symptomatic of a maturing economic cycle, benefited the resource sector which was among the best performing sectors of the market. Industrials continued to trade at historically elevated levels whilst the financial sector remained in the spotlight for much of the year owing to the government's decision to undertake a Royal Commission into banking. Industrial stocks (+6.2%) underperformed resource stocks (+38.8%) and large cap stocks (+9.9%) underperformed small cap stocks (+22.7%). Value stocks (-0.1%) also underperformed growth stocks (+22.0%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

Global equity markets also delivered strong gains over the year with all major U.S. indices – the S&P 500 Index (+14.4%), Dow Jones Industrial Average (+13.7%) and Nasdaq Composite (+22.3%) - reaching new highs. These gains were made despite a year which was dominated by ongoing changes to U.S. policy settings as the Trump administration settled into office. Confidence was renewed off the back of large tax cuts at the end of 2017, which helped drive economic activity meaning the US Federal Reserve was able to lead other central banks into a tightening policy. The only headwind that existed in the U.S. was rising concerns about trade protectionism. Technology stocks were the standout, driven by the continued dominance of a handful of large technology platforms (Facebook, Amazon, Netflix, Google). Energy and Materials stocks benefited from the continued reflation theme in the global economy. The threat of rising interest rates caused yield proxy and leveraged sectors like Telecommunications, Consumer Staples and Utilities to underperform. European markets were mixed with the FTSE 100 up +9.4%, the German DAX +4.9% and the French CAC 40 finished up +12.5%. Investors must remember that the U.S. fiscal stimulus is a pull forward of future demand and this will dissipate at some point. The market seems to be willing to capitalise current economic strength into higher multiples for securities while ignoring the potential unwind of fiscal stimulus.

A theme I have written about numerous times, investors pursuing yield at any price began to underperform during the year. But investors pursuing growth (or quality) at any price continued throughout the year. Many of the "high quality" stocks were trading at multiples twice what they have traded at in the past. This resulted in the outperformance of growth stocks versus value stocks, with price momentum now close to the highest levels of the past 20 years. As a value orientated investment manager this has again been a challenging environment. High P/E (price/earnings) stocks or momentum darlings like WiseTech Global Limited, Treasury Wine Estates Limited and CSL Limited have pushed the overall market higher. The underappreciation of market risks has resulted in companies with strong balance sheets being overlooked and little consideration being given to the price paid for securities. This in turn has led stocks exhibiting strong traditional growth indicators such as momentum and earnings per share (EPS) to continue to outperform those with attractive valuation factors such as stable earnings and dividend yields

- yet another sign that we may be at a relatively late stage in this market cycle. Ultimately through the long term, fundamentals will determine share prices. The discipline of investing in quality businesses at reasonable prices and avoiding the irrational exuberance seen in some pockets of the market will serve investors well. We recognise the importance of valuation in determining future returns and understand that it is fundamentals, not headlines, which drive share prices in the long term. Importantly at elevated prices it doesn't take much to go wrong for investors to be caught out. Perpetual Investment Management Limited (the Manager) continues to maintain our investment process, philosophy and discipline to identify investment opportunities in high quality companies that are out of favour or mispriced.

PORTFOLIO PERFORMANCE

Over the year to 30 June 2018 the performance of the Perpetual Equity Investment Company Limited (the Company), as measured by the growth of the net assets per share net of fees, expenses and before tax paid was +12.0%[1]. This underperformed the benchmark return by 1.2%[2].

With markets looking fully valued, the Company's average cash position of 17.7% over the year detracted from performance. Nevertheless, rather than chase a rising market and "skate to where the puck has been", as Manager of the Company's portfolio we remain true to label, disciplined and conservative in our approach.

When the Company was launched in December 2014, it had the goal of offering investors access to a portfolio of high quality Australian and global listed securities. Given the Australian equity market provides a concentrated exposure to the Financials and Materials sectors, the Company saw it as important to provide investors with genuine diversification and the opportunity to participate in other parts of the industrial cycle. As the Manager, we held the belief that opportunities to purchase global listed securities at cheaper valuations relative to Australian listed securities would add significant value to investors.

As always, the Company is managed from an Australian investor's perspective and the Australian listed securities within the portfolio remain the core focus. We remained true to the Company's concentrated and actively managed investment strategy, holding 25 Australian listed securities as at 30 June 2018 and with turnover of 29% over the year.

Along with long-term capital growth, one of the Company's key investment objectives is to provide investors with an income stream. The Board's intention continues to be to pay a dividend fully franked or franked to the extent possible, thereby providing shareholders with tax effective income. There are two main ways franking credits can be created. The first is when the Company receives franked dividends paid by securities in its portfolio. The second is when the Company pays income tax at the corporate rate on income earned and gains realised on the sale of securities by actively managing the portfolio to its investment strategy. It is important to highlight the amount of franking credits generated, as this will eventually be to the benefit of you, the shareholders, through the payment of franked dividends. The Board has announced a final fully franked dividend of 3.3 cents per share, bringing the total dividend declared for FY18 to 6.3 cents per share fully franked. To illustrate the benefit of the franking credits, on a grossed up basis this corresponds to a yield of 7.55%[3].

Despite approximately 17.9% (average over the year) of the Company's portfolio being invested in global listed securities, which do not pay franked dividends, we have achieved an above market fully franked yield. We believe this is competitive with the Company's peers, who have a large percentage of their portfolios invested in Australian stocks.

The Manager's investment philosophy and process focuses on buying high quality companies at prices below what we perceive as fair value, based on company fundamentals and prevailing market conditions. Our team of 25 equities investment professionals undertake intensive research, on an ongoing basis, to determine both the quality and value of a company. Key to our process is the use of four quality filters:

1. **Quality of business** – This test looks at the industry in which the company operates, its market share and barriers to entry, its products and their positioning and any issues such as social and environmental impacts.
2. **Conservative debt** – Involves strict balance sheet scrutiny to avoid overleveraged companies. We seek to invest in companies that have less than 50% net debt to equity and strong interest coverage.
3. **Sound management** – Based on our assessment of the track record of a company's management. We are looking for management with a history of using shareholder's capital sensibly, a clear focus on maximising shareholder value and strong governance practices.
4. **Recurring earnings** – We look for companies that have at least a three year track record of generating earnings and cash flows.

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1 Returns have been calculated on the growth of Net Tangible Assets (NTA) after taking into account all operating expenses (including management fees) and assuming reinvestment of dividends and excluding tax paid. Any provisions for deferred tax on set up costs and on unrealised gains and losses are excluded. Past performance is not indicative of future performance.

2 The benchmark is the S&P/ASX 300 Accumulation Index.

3 Based on a grossed up dividend of 8.8 cents per share (grossed up to take franking credits into account), and the closing share price of $1.17 on 30 June 2018.

This investment process means that we do not focus on trying to predict where markets and prices are heading, rather making investment decisions based on in-depth research which allows us to understand the fundamental risks and opportunities of each company that we own in the portfolio. Through this approach we aim to minimise downside risk and protect the portfolio during periods of market stress. The Manager has a track record of outperforming the share market when it is down, which has been beneficial for investors over the long-term.

GLOBAL OPPORTUNITIES

As I've touched on, an advantage of the Company's investment strategy is that up to 25% of its portfolio can be held in global listed securities – allowing it to buy securities listed on overseas exchanges that represent more compelling value than similar businesses listed on the ASX. Over the year the portfolio had an average global equity exposure of 17.9%, which is reflective of the opportunities we've identified abroad. The global positions that were the largest contributors to performance over the year were Shire PLC, Deutsche Boerse AG and Bank of America Corporation.

The portfolio's position in Shire PLC contributed positively to performance as the share price rallied strongly on the announcement by Takeda Pharmaceutical Company Limited during the year of a part cash/part scrip offer for the company at £48.00 per share. The takeover offer validated the proprietary research conducted by the Manager's equities team in recognising Shire as a company with highly cash generative quality assets, but significantly mispriced by the market which had become too caught up in short term momentum while ignoring the long-term value on offer. The market was offering an opportunity to buy Shire at a significant discount compared to other comparable companies, but at the time market participants were looking for any reason not to buy Shire. These opportunities are rare and difficult to find and require significant in-house research capability plus the Manager's discipline to stick to our quality and value-based process.

AUSTRALIAN EQUITIES

The Australian listed companies that made the largest contribution to performance of the portfolio for FY18 were Alumina Limited (ASX: AWC), Oil Search Limited (ASX: OSH) and CYBG Plc (ASX: CYB). The decision to not hold Commonwealth Bank of Australia (ASX: CBA) was a significant contributor to performance over the year.

The overweight position in bauxite mining and aluminium producer Alumina Limited (ASX: AWC) contributed to relative performance over the year to 30 June 2018. The stock outperformed following strengthening alumina prices, which reached multi-year highs on the back of bauxite supply concerns and refinery cutbacks in China. Better-than-expected earnings releases by the company over the financial year (attributed to reduced operating costs and the strengthening of alumina and aluminium prices) were taken positively by the market. Proposed U.S. tariffs on aluminium imports by the Trump Government further assisted the stock price over the latter part of the financial year.

Woolworths Group Limited (ASX: WOW) has been a core holding in the portfolio and a stock I talk and write about frequently. Our initial investment thesis was based on our belief that Woolworths was a turnaround story with a sound strategy in place under a newly appointed Chairman, Board and Chief Executive Officer. Throughout the year we saw the turnaround continue to play out, with Woolworths reinvesting into lower prices to win back customers, resulting in like-for-like sales in their core Australian food and liquor business growing at the fastest rate since FY14.

The speed of this turnaround has been impressive, and Woolworths' share price has risen higher accordingly. As at 30 June 2018 Woolworths was still held in the portfolio.

The largest detractor from the value of the portfolio over the year was The Star Entertainment Group Limited (ASX: SGR). Star underperformed the market by more than 12% during the year due to a weaker than expected 1st half result and an increase in the total capex budget for the Queens Wharf Brisbane development. Star is mid-way through a capital investment program that will, on completion, provide them with three high quality assets in very attractive locations. Whilst short term operational hiccups are always disappointing, we maintain our positive view on the earnings potential for the business over the long term. At current share price levels, we see compelling value and maintain a position in the portfolio.

At this stage of the economic cycle we have invested in oil, gas, chemical and coal exposures. We believe that the 2014/15 oil price of US$35 a barrel led to a decline in spending by large integrated oil companies. We believe this lack of investment in exploration has notably reduced conventional oil reserves to cyclical lows. Oil capital expenditure cycles are long and difficult to predict, so for exploration spending to increase a persistently higher oil price will be required. Due to the rundown in reserves we expect energy prices to remain high. This also applies to the coal sector where potential new coal mines are finding it difficult to attain approvals or source funding for new projects.

This has led to an increase in the inherent value of existing coal mines as capital is being withdrawn from the sector.

As at 30 June 2018 the Company's portfolio held 67% in Australian securities, 9% in global securities and 24% in cash. Given current equity valuations both in Australia and globally, we remain cautious but are confident that our in-depth, fundamental analysis will continue to identify high quality companies for the portfolio. We remain committed to delivering a regular income stream and long-term capital growth for the Company's shareholders.

Thank you for your continued support and trust.

Vince Pezzullo
Portfolio Manager

This Portfolio Manager's Report has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535, AFSL 234426 and Perpetual Trustee Company Limited ABN 42 000 001 007 AFSL 236643. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. Past performance is not indicative of future performance.

INVESTMENT PORTFOLIO

List of investments held at 30 June 2018	Market value $'000
Australian listed securities	
Alumina Limited	8,421
AMP Limited	4,094
Bega Cheese Limited	5,455
BetaShares Australian Equities Bear Hedge Fund	3,440
BHP Billiton Limited	11,796
Brambles Limited	2,212
CYBG PLC	7,771
Downer EDI Limited	3,720
Dulux Group Limited	3,083
Fletcher Building Limited	6,766
Incitec Pivot Limited	10,636
Invocare Limited	2,759
Medibank Private Limited	9,867
Mineral Resources Limited	1,519
National Australia Bank Limited	13,650
New Hope Corporation Limited	897
Oil Search Limited	10,437
Select Harvests Limited	3,258
Sonic Healthcare Limited	3,680
Suncorp Group Limited	14,711
Tabcorp Holdings Limited	9,257
The Star Entertainment Group Limited	10,923
Westpac Bank Limited	23,777
Woodside Petroleum Limited	3,591
Woolworths Limited	22,558
Total Australian listed securities	**198,278**
Global listed securities	
DowDupont Inc	1,427
General Electric Company	1,089
Shire PLC	23,588
Total global listed securities	**26,104**
Cash and deposit products	
Cash at bank - ANZ Bank	69,093
Total cash and deposit products	**69,093**
Total	**293,475**

The total number of securities transactions entered during the year was 612.

The total brokerage paid during the year was $671,316 (GST inclusive).

DIRECTORS' REPORT

The Directors present their report together with the annual financial report of Perpetual Equity Investment Company Limited ("the Company") for the year ended 30 June 2018 and the auditor's report thereon.

Directors

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

Nancy Fox, Chairman and Non-executive Director
Director BA JD (Law) FAICD

Appointed Chairman and Director on 1 July 2017.

Nancy is currently a Non-executive Director of Perpetual Limited, a member of Perpetual's Audit, Risk and Compliance Committee and People and Remuneration Committee. She is also a Non-executive Director of ING Bank Australia, HCF Life and Lawcover Pty Ltd and Deputy Chairman of the Boards of Taronga Conservation Society Australia and the Australian Theatre for Young People.

Nancy has more than 30 years of experience in financial services, securitisation and risk management gained in Australia, the US and across Asia. A lawyer by training, she was Managing Director for Ambac Assurance Corporation from 2001 to 2011 and previously Managing Director of ABN Amro Australia from 1997 to 2001.

Listed company directorship held during the past three financial years:

- Perpetual Limited (from September 2015 to present)

Virginia Malley, Non-executive Director
BA, MAppFin, Juris Doctor, GradDipEnvLaw, LLM, FAICD

Appointed Director on 25 August 2014. Virginia serves the Company's Nomination and Corporate Governance Committee and the Audit and Risk Committee.

Virginia is currently a Non-executive Director of Perpetual Superannuation Limited, a member of several Perpetual Compliance Committees and the Sydney Airport Trust Compliance Committee, Deputy Chair of The NSW Biodiversity Conservation Trust, Member of the Clean Energy Regulator and Non-Executive Director of Morphic Ethical Equities Limited.

Virginia has 30 plus years of experience in the investment and banking sectors, including more than 16 years as a company director. Her areas of expertise are financial and environmental markets and governance, superannuation, risk management and regulatory compliance. Virginia previously worked at Macquarie Group from 1987 - 2012 where her roles included Chief Risk Officer and membership of the Clean Technology, Asia/Pacific, Private Equity and Global/Advisory Investment Committees at Macquarie Funds Management Group.

Listed company directorship held during the past three financial years:

- Morphic Ethical Equities Limited (from March 2017 to present)
- 1-Page Limited (from June 2016 to December 2016)

Directors' Report

Directors (continued)

John Edstein, Non-executive Director
Director BEc, LLB, LLM (Hons)

Appointed Director on 26 September 2014. John is also the Chairman of the Nomination and Corporate Governance Committee and a member of the Audit and Risk Committee of the Company.

John is currently a Director of Macquarie Investment Management Limited (appointed 1 July 2013) and now Chairman of that Board (appointed 16 November 2017) and is a Director of Retail Employees Superannuation Pty Ltd (Trustee of the Retail Employees Superannuation Trust, appointed 4 October 2013). John is also a Special Counsel for Carroll & O'Dea Lawyers and Special Counsel for Walsh Bay Partners Pty Ltd (a family office for high net worth individuals, families and foundations).

John has more than 35 years of experience as a legal practitioner. His primary practice areas have been superannuation, life insurance and trusts and the tax aspects of those areas. That experience has included extensive consideration of corporate law, corporate governance and the legal aspects of investment structures. John was formerly a partner in the Tax and Superannuation Group of King & Wood Mallesons (formerly Mallesons Stephen Jaques) from 1990 to 2012 and was National Practice Team Leader of that group from 2006 to 2011. He was a member of the Law Council of Australia Superannuation Committee from 1988 to 2008 and is now an Emeritus Member and, is a member of the Tax Institute of Australia and is a Chartered Tax Adviser.

Christine Feldmanis, Non-executive Director
FAICD, SFFin, TFASFA, CPA, CSA, BComm, MAppFin, JP

Appointed Director on 26 September 2014. Christine is also the Chairman of the Audit and Risk Committee and a member of the Nomination and Corporate Governance Committee of the Company.

Christine is currently a Non-executive Director and Chair of the Audit and Risk Committees of Hunter Water Corporation and FIIG Securities Limited. She is also a Director of Uniting Financial Services and Bell Asset Management Limited.

Christine has more than 30 years of experience in the financial arena, both government and private sectors. She has extensive experience in investment management, finance, accounting and risk management, legal and regulatory compliance, governance and business building in both the listed and unlisted financial products markets. Christine formerly held senior executive and C suite positions with firms including Deloitte, Elders Finance, Bankers Trust, NSW TCorp and Treasury Group.

David Lane, Executive Director
BEc, GAICD

Appointed Director on 20 November 2017.

David is the Group Executive of Perpetual Investments (a division of Perpetual Limited) and a Director of Perpetual Investment Management Limited.

David has more than 20 years of experience in asset management, wealth management and investment banking, and a deep understanding of the local and global financial services landscape. Before Perpetual, David spent five years as CEO of Count Financial after initially joining the Commonwealth Bank of Australia in the role of General Manager - Wealth Management Strategic Development. Prior to this he held COO positions at both Neuberger Berman and Liberty View Capital where he was responsible for managing a number of multi-billion-dollar hedge funds. He has also held roles at Aetos Capital, JP Morgan and Goldman Sachs.

Former Director

Geoff Lloyd, Executive Director
Barrister at Law, LLM (Distinction), Adv. Mgt Program

Appointed Director on 23 September 2016. Resigned on 20 November 2017.

Directors' Report

Company secretaries

Sylvie Dimarco
LLB, GIA (Cert), MAICD

Appointed Company Secretary on 25 August 2014.

Sylvie joined Perpetual Limited in March 2014 and is the Deputy Company Secretary. Sylvie has over eleven years of experience in company secretariat practice and administration. She previously practiced as a commercial lawyer.

Eleanor Padman
BA(Hons), OXON, AGIA, ACIS

Appointed Company Secretary on 20 November 2017.

Eleanor joined Perpetual Limited in July 2017 as the General Manager, Legal, Compliance and Company Secretariat. Prior to joining Perpetual, Eleanor was the General Counsel and Company Secretary at Pinnacle Investment Management Limited. Eleanor is a lawyer with over 20 years commercial experience gained in house and in private practice, both in the UK and Australia. She has also served on a number of boards in the public, private and not for profit arenas.

Directors' meetings

The following table sets out the number of meetings held and attended by the Company's Directors during the year ended 30 June 2018:

	Board		Audit and Risk Committee		Nomination and Corporate Governance Committee	
	Held	Attended	Held	Attended	Held	Attended
Directors						
Nancy Fox	11	11	-	-	-	-
Virginia Malley	11	8	4	3	3	3
John Edstein	11	11	4	4	3	3
Christine Feldmanis	11	11	4	4	3	3
David Lane*	9	9	-	-	-	-
Former Director						
Geoff Lloyd**	1	1	-	-	-	-

*David Lane was appointed as a Director on 20 November 2017
**Geoff Lloyd resigned as a Director on 20 November 2017

Corporate Governance Statement

The Company's Corporate Governance Statement, which meets the requirements of Australian Securities Exchange Listing Rule 4.10.3, is provided on the Company's website at www.perpetualequity.com.au.

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.

Directors' Report

Review of operations

	30 June 2018 $'000	30 June 2017 $'000
Profit/(loss) before income tax	**32,260**	43,462
Income tax benefit/(expense)	**(7,433)**	(11,648)
Profit/(loss) for the year attributable to shareholders	**24,827**	31,814

For the year ended 30 June 2018, the Company's Net Tangible Asset (NTA) after tax increased by 3.8% to $1.14 per share. In addition, the Company paid two fully franked dividends totalling 5.5 cents per share during the year. For the 2018 financial year, the Company is subject to 30% tax on its earnings and any tax payments contribute to its ability to pay fully franked dividends. In accordance with the Treasury Laws Amendment (Enterprise Tax Plan) Act 2017, the applicable tax rate for the Company will be reduced to 27.5% effective from 1 July 2018.

As at 30 June 2018, 76% of the Company's portfolio was invested in equity securities with 67% in Australian listed securities and 9% in global listed securities. 24% 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.

Further information on the operating and financial review of the Company and its prospects is contained in the Chairman's Report and Portfolio Manager's Report.

Dividends

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

	Cents per share	Total amount $'000	Payment date
Declared and paid during the financial year 2018			
Final 2017 dividend	**2.5**	**6,334**	**8 September 2017**
Interim 2018 dividend	**3.0**	**7,615**	**11 April 2018**
Declared after the end of financial year 2018			
On 20 August 2018, the Directors declared :			
Final 2018 dividend	**3.3**	**11,380**	**2 November 2018**

All dividends paid during the year were fully franked at a tax rate of 30%. The final 2018 dividend is fully franked based on the tax rate of 27.5%. The final 2018 dividend amount is calculated assuming a full take up of the capital raising and includes all new shares under the offer.

The financial effect of dividends declared after year end is not reflected in the financial report for the year ended 30 June 2018 and will be recognised in the subsequent financial report.

Directors' Report

Capital raising

On 20 August 2018, the Company announced a capital raising comprising of a non-renounceable pro rata Entitlement Offer to eligible shareholders of 1 new share for every 4 existing shares at an issue price of $1.12 to raise up to approximately $71.24 million and an accompanying General Offer to the general public to subscribe for new shares at an issue price of $1.12 to raise up to $30 million. The additional capital will be used to undertake investments consistent with the current investment objectives and guidelines.

State of affairs

There were no significant changes in the state of affairs of the Company during the financial year other than the matter previously disclosed under the review of operations.

Events subsequent to reporting date

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

Likely developments

The Company will continue to be managed in accordance with the investment objectives and guidelines as set out in the Replacement Prospectus dated 14 October 2014 and in accordance with the provisions of the Company's Constitution.

Environmental regulation

The operations of the Company are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Remuneration report

This report sets out the remuneration arrangements for all Key Management Personnel, being the Non-executive Directors and the Executive Directors of Perpetual Equity Investment Company Limited for the year ended 30 June 2018.

The information in this Remuneration report has been audited by the Company’s auditor, KPMG, as required by section 308(3C) of the *Corporations Act 2001*.

(a) Key management personnel

Below are the Company’s Key Management Personnel for the year ended 30 June 2018:

Name	Position	Term
Directors		
Nancy Fox	Chairman and Non-executive Director	Appointed 1 July 2017
Virginia Malley	Non-executive Director	Full year
John Edstein	Non-executive Director	Full year
Christine Feldmanis	Non-executive Director	Full year
David Lane*	Executive Director	Appointed 20 November 2017
Former Director		
Geoff Lloyd	Executive Director	Resigned 20 November 2017

*David Lane was appointed to the Perpetual Equity Investment Company Limited Board, succeeding Geoff Lloyd.

Directors' Report

Remuneration report (continued)

(b) Remuneration of directors

Remuneration policy

The Board, with the recommendation of the Nomination and Corporate Governance Committee, determines the size and composition of the Board and its Committees. The Company has not established a remuneration committee as the Board has determined it is not necessary to establish a separate remuneration committee given there are no paid employees.

The Board reviews and approves the remuneration of individual Board members. Remuneration paid to the Non-executive Directors aims to ensure the Company can attract and retain suitably skilled, experienced and committed individuals.

Non-executive Directors do not receive performance-related remuneration and are not entitled to participate in equity-based incentive plans.

The Executive Director, David Lane is not entitled to Directors' fees or any other form of remuneration from the Company for his services. David is the Group Executive of Perpetual Investments (a division of Perpetual Limited) and a Director of Perpetual Investment Management Limited (the Manager). His remuneration is governed by the remuneration policy of Perpetual Limited, the parent company of the Manager.

Fee framework

Non-executive Directors receive a base fee. They do not receive additional fees for participating in Board Committees.

Total remuneration available to the Directors is a maximum of $250,000 as set out in the Company's Constitution (excluding the Executive Director). The aggregate amount of Directors' remuneration has been set initially at $170,000 per annum (including superannuation). Any increase in the aggregate amount of Directors' fees over $250,000 must be approved by a resolution of the shareholders as required by the Company's Constitution.

	30 June 2018 $	30 June 2017 $
Non-executive Directors' fees		
Chairman	**50,000**	50,000
Directors	**40,000**	40,000
Audit and Risk Committee	**-**	-
Nomination and Corporate Governance Committee	**-**	-

The fees above are inclusive of superannuation contributions, capped at the maximum prescribed under Superannuation Guarantee legislation. Non-executive Directors may also salary-sacrifice superannuation contributions out of their base fees if they so wish.

Directors' Report

Remuneration report (continued)

(b) Remuneration of directors (continued)

Remuneration of directors

The following table sets out the Directors' remuneration paid and accrued by the Company for the years ended 30 June 2018 and 30 June 2017.

Name	Directors' fees $	Superannuation $	Total $
Directors			
Nancy Fox*			
2018	**45,662**	**4,338**	**50,000**
2017	-	-	-
Virginia Malley			
2018	**32,877**	**7,123**	**40,000**
2017	32,877	7,123	40,000
John Edstein			
2018	**36,530**	**3,470**	**40,000**
2017	36,530	3,470	40,000
	-		
Christine Feldmanis			
2018	**36,530**	**3,470**	**40,000**
2017	36,530	3,470	40,000
David Lane			
2018	**-**	**-**	**-**
2017	-	-	-
Former Directors			
Peter Scott*			
2018	**-**	**-**	**-**
2017	45,662	4,338	50,000
Geoff Lloyd			
2018	-	-	-
2017	-	-	-
Total 2018	**151,599**	**18,401**	**170,000**
Total 2017	151,599	18,401	170,000

*Nancy Fox joined the Perpetual Equity Investment Company Limited Board on 1 July 2017 as Chairman and Non-executive Director, following the retirement of Peter Scott on 30 June 2017.

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

David Lane and Geoff Lloyd were not entitled to Directors' fees or any other form of remuneration from the Company for their services. They are remunerated by Perpetual Limited, the parent company of the Manager.

(c) Retirement policy

Directors who have been in office for three years since their last election must retire and may seek re-election at the Company's next annual general meeting of shareholders.

Directors' Report

Remuneration report (continued)

(c) Retirement policy (continued)

The Company's Board Tenure and Performance Policy provides that in order to revitalise the Board, Directors should not seek re-election after three elected terms of three years (i.e. a total of 9 years on the Board) unless the Board (through the Nomination and Corporate Governance Committee) requests them to do so.

(d) Key Management Personnel shareholdings held directly or indirectly

The relevant interests in ordinary shares of the Company that each Director held (in number of shares) at the reporting date were:

Name	Balance at 1 July 2017	Number of shares acquired	Number of shares disposed	Balance at 30 June 2018
Directors				
Nancy Fox	150,000	7,833	-	157,833
Virginia Malley	94,454	4,933	-	99,387
John Edstein	98,268	-	-	98,268
Christine Feldmanis	208,103	10,868	-	218,971
David Lane	-	-	-	-
Former Director				
Geoff Lloyd*	-	-	-	-

* This is reported up to the date of Geoff Lloyd's resignation as a Director at 20 November 2017.

Indemnification of directors and officers

The Company indemnifies, to the extent permitted by law, each Director in respect of certain liabilities which the Director may incur as a result of being or acting as an officer of the Company, including legal expenses.

Insurance

The Company has a directors and officers' liability policy of insurance which covers all Directors for the period that they are officers and for seven years after they cease to act as officers.

Non-audit services

There were no fees paid to KPMG for non-audit services for the year ended 30 June 2018 and 30 June 2017.

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 18.

Directors' Report

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 annual 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	Director

Sydney
20 August 2018

KPMG

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 audit of Perpetual Equity Investment Company Limited for the financial year ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Martin McGrath

Partner

Sydney

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	30 June 2018 $'000	30 June 2017 $'000
Investment income			
Dividends/distributions		**7,529**	6,767
Interest		**755**	830
Net gains/(losses) on financial instruments held at fair value through profit or loss	3(c)	**28,345**	40,323
Net foreign exchange gains/(losses)		**(38)**	(99)
Other operating income		**2**	2
Total investment income		**36,593**	47,823
Expenses			
Management fees	4(a)	**2,973**	2,830
Other expenses	4(b)	**1,360**	1,531
Total expenses		**4,333**	4,361
Profit/(loss) before income tax		**32,260**	43,462
Income tax benefit/(expense)	5(a)	**(7,433)**	(11,648)
Profit/(loss) after income tax		**24,827**	31,814
Other comprehensive income		**-**	-
Total comprehensive income for the year		**24,827**	31,814
Earnings per share			
Basic earnings per share - cents per share	6	**9.78**	12.58
Diluted earnings per share - cents per share	6	**9.78**	12.58

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

STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2018 $'000	30 June 2017 $'000
Assets			
Cash and cash equivalents	12(c)	**69,093**	61,421
Financial assets held at fair value through profit or loss	9	**224,382**	227,151
Receivables	10	**1,590**	3,372
Total assets		**295,065**	291,944
Liabilities			
Current tax payable		**531**	5,680
Payables	11	**388**	5,735
Deferred tax liability	5(c)	**4,159**	2,569
Total liabilities		**5,078**	13,984
Net assets		**289,987**	277,960
Equity			
Contributed equity	8(a)	**249,861**	248,712
Retained earnings		**10,403**	6,541
Profit reserve		**29,723**	22,707
Total equity		**289,987**	277,960

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

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 year		**-**	**24,827**	**-**	**24,827**
Transfers to profit reserve		**-**	**(20,965)**	**20,965**	**-**
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	8(a)	**1,149**	**-**	**-**	**1,149**
Dividends paid	7(a)	**-**	**-**	**(13,949)**	**(13,949)**
Balance at 30 June 2018		**249,861**	**10,403**	**29,723**	**289,987**

	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 year		-	31,814	-	31,814
Transfers to profit reserve		-	(23,638)	23,638	**-**
Transactions with members in their capacity as shareholders:					
Shares issued from dividend reinvestment plan	8(a)	994	-	-	994
Dividends paid	7(a)	-	-	(10,607)	(10,607)
Balance at 30 June 2017		248,712	6,541	22,707	277,960

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

STATEMENT OF CASH FLOWS

	Notes	30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Dividends/distributions received		**6,433**	6,547
Interest received		**754**	911
Other income received		**293**	216
Management fees paid		**(3,196)**	(3,011)
Income tax paid		**(10,992)**	(3,251)
Other expenses paid		**(1,411)**	(1,617)
Net cash from operating activities	12(a)	**(8,119)**	(205)
Cash flows from investing activities			
Proceeds from sale of investments		**228,179**	271,650
Payments for purchase of investments		**(199,588)**	(258,761)
Net cash from investing activities		**28,591**	12,889
Cash flows from financing activities			
Dividends paid - net of dividend reinvestment plan		**(12,800)**	(9,613)
Net cash from financing activities		**(12,800)**	(9,613)
Net increase/(decrease) in cash and cash equivalents		**7,672**	3,071
Cash and cash equivalents held at the beginning of the year		**61,421**	58,350
Cash and cash equivalents at the end of the year	12(c)	**69,093**	61,421

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

NOTES TO THE FINANCIAL STATEMENTS

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

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 annual financial report for the year ended 30 June 2018 was authorised for issue by the Directors on 20 August 2018.

2 Basis of preparation

The annual 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 Company is a for-profit entity for the purpose of preparing the annual financial report.

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

Compliance with International Financial Reporting Standards

The annual financial report also complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

Use of estimates

Management makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial years. Estimates and associated assumptions are continuously evaluated and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Functional and presentation currency

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

New and amended standards adopted by the Company

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial reporting period beginning 1 July 2017 that have a material impact on the Company.

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

3 Investment income

(a) Dividend income/distribution income

Dividend income is recognised on the ex-dividend date.

Distributions (including distributions from cash management trusts) are recognised on the ex-distribution date.

(b) Interest income

Interest income is recognised as it accrues in profit or loss based on nominated interest rates available on the bank accounts held.

(c) Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) arising from changes in the fair value measurement comprise:

	30 June 2018 $'000	30 June 2017 $'000
Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss	**5,448**	12,155
Net realised gains/(losses) on financial instruments held for trading	**-**	(623)
Net realised gains/(losses) on financial instruments designated at fair value through profit or loss	**22,897**	28,791
Net gains/(losses) on financial instruments held at fair value through profit or loss	**28,345**	40,323

(d) Other income

Other income is brought to account on an accruals basis.

(e) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date 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 profit or loss as net foreign exchange gains/(losses).

Translation differences on financial assets and liabilities carried at fair value are reported as part of their fair value gain or loss.

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

4 Expenses

All expenses are recognised, net of the amount of Goods and Services Tax ("GST") recoverable from the taxation authority, in profit or loss on an accruals basis.

(a) Management fees

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 drawndown and adding back borrowings repaid. The management fees are calculated and accrued daily and paid monthly in arrears.

	30 June 2018 $'000	30 June 2017 $'000
Management fees	**2,973**	2,830

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 each 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.

In addition, the Manager has agreed to pay any costs incurred in the making of an offer in August 2018 to issue new shares in the Company. If the Management Agreement is terminated during the initial or extended term, then in certain circumstances the Manager will be entitled to be reimbursed for these costs, multiplied by the number of days in the period from the date of termination to the last day of the extended term and divided by the number of days in the period from the date of issue of the new shares (or if the offer does not proceed, the date of proposed issue of the new shares) and the last day of the extended term.

(b) Other expenses

	30 June 2018 $'000	30 June 2017 $'000
Directors' remuneration	**170**	170
Auditors' remuneration	**80**	79
ASX fees	**78**	83
Registry services	**116**	143
Custody administration fees	**63**	54
Brokerage	**639**	749
Other operating expenses	**214**	253
Total other expenses	**1,360**	1,531

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

4 Expenses (continued)

(c) Auditor's remuneration

	30 June 2018 $	30 June 2017 $
Amount received or due and receivable by KPMG:		
Audit and review of financial statements	**80,158**	78,587

5 Income tax

For the 2018 financial year, the Company is subject to income tax at 30% on taxable income. In accordance with the Treasury Laws Amendment (Enterprise Tax Plan) Act 2017, the applicable tax rate for the Company will be reduced to 27.5% effective from 1 July 2018. As a result, the deferred tax balance has been restated to reflect the tax rate of 27.5%.

(a) Income tax benefit/(expense)

	30 June 2018 $'000	30 June 2017 $'000
Current tax		
Current income tax benefit/(expense)	**(5,841)**	(7,691)
Adjustment for prior years	**(2)**	22
Deferred tax		
Temporary differences	**(1,590)**	(3,979)
Total income tax benefit/(expense)	**(7,433)**	(11,648)

Income tax expense comprises current and deferred tax. Income tax expense is recognised in 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 expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date and, where applicable, any adjustment to tax payable in respect of previous periods. Current tax assets and 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.

Deferred tax is explained in note 5(c).

5 Income tax (continued)

(b) Reconciliation of income tax benefit/(expense) to prima facie tax payable

	30 June 2018 $'000	30 June 2017 $'000
Profit/(loss) before income tax	**32,260**	43,462
Prima facie income tax calculated at Company's tax rate of 30%	**(9,678)**	(13,039)
(Increase)/decrease tax payable		
Franking credits	**1,794**	1,098
Foreign income tax offsets	**75**	271
Reduction in closing deferred taxes resulting from change in tax rate	**378**	-
Adjustment for prior years	**(2)**	22
Income tax benefit/(expense)	**(7,433)**	(11,648)

(c) Deferred tax asset/(liability)

The balance comprises temporary differences attributable to:

	30 June 2018 $'000	30 June 2017 $'000
Net unrealised (gains)/losses	**(4,515)**	(3,380)
Auditors' remuneration	**15**	15
Dividends receivable	**(37)**	(29)
Transaction costs on the IPO - future tax deductions	**378**	825
Total deferred tax asset/(liability)	**(4,159)**	(2,569)

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 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.

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 reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the statement of financial position. This arises when the carrying amount of an asset exceeds its tax base.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset deferred tax assets and liabilities and the deferred tax balances relate to the same taxation authority.

6 Earnings per share

	30 June 2018	30 June 2017
Basic earnings per share - cents per share	**9.78**	12.58
Diluted earnings per share - cents per share	**9.78**	12.58
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**253,887,759**	252,846,517
	$'000	$'000
Earnings used in the calculation of basic and diluted earnings per share	**24,827**	31,814

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue during the year.

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares on issue and ordinary shares that the Company expects to issue. There have been no new subscriptions for ordinary shares other than those issued under the dividend reinvestment plan, therefore diluted earnings per share equals basic earnings per share.

7 Dividends

The Company currently intends to pay a dividend twice a year. The amount of the dividend will be at the discretion of the Board and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the Board deems relevant. It is the Board's intention that all dividends paid will be franked to 100% or to the maximum extent possible.

(a) Dividends paid

	Cents per share	**Total amount $'000**	**Franking**	**Payment date**
30 June 2018				
Final 2017 ordinary	**2.5**	**6,334**	**100%**	**8 September 2017**
Interim 2018 ordinary	**3.0**	**7,615**	**100%**	**11 April 2018**
Total	**5.5**	**13,949**		

	Cents per share	Total amount $'000	Franking	Payment date
30 June 2017				
Final 2016 ordinary	2.0	5,047	100%	12 September 2016
Interim 2017 ordinary	2.2	5,560	100%	17 March 2017
Total	4.2	10,607		

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

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

7 Dividends (continued)

(b) Subsequent events

On 20 August 2018, the Directors declared the following dividend.

	Cents per share	Total amount $'000	Franking	Payment date
Final 2018 ordinary	**3.3**	**11,380**	**100%**	**2 November 2018**

The final dividend is fully franked based on the tax rate of 27.5%. The final 2018 dividend amount is calculated assuming a full take up of the capital raising and includes all new shares under the offer.

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 the subsequent financial statements.

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

(c) Franking account

	30 June 2018 $'000	30 June 2017 $'000
The available balance in the franking account at the reporting date	**9,649**	7,223
Impact on franking account of the final dividend declared after the reporting date but not recognised as a liability at the reporting date	**(4,316)**	(2,715)
The available balance in the franking account after the adjustment for the final dividend declared	**5,333**	4,508

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 suspended the Dividend Reinvestment Plan for the final 2018 dividend payment to prevent any dilution to the Entitlement Offer under the capital raising announced on 20 August 2018.

8 Equity

(a) Share capital

	30 June 2018 Number of shares	**30 June 2018** $'000	30 June 2017 Number of shares	30 June 2017 $'000
Opening balance	**253,366,220**	**248,712**	252,341,662	247,718
Shares issued from dividend reinvestment plan	**1,076,706**	**1,149**	1,024,558	994
Shares on issue	**254,442,926**	**249,861**	253,366,220	248,712

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.

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.

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.

Capital raising

On 20 August 2018, the Company announced a capital raising comprising of a non-renounceable pro rata Entitlement Offer to eligible shareholders of 1 new share for every 4 existing shares at an issue price of $1.12 to raise up to approximately $71.24 million and an accompanying General Offer to the general public to subscribe for new shares at an issue price of $1.12 to raise up to $30 million. The full subscription of the capital raising will increase the total shares on issue by approximately 36%. The existing shareholders' holdings will be diluted as a result of the capital raising, but it will be to a lesser extent if the eligible shareholders participate in the Entitlement Offer.

(b) Profit reserve

The profit reserve represents profit, transferred from accumulated retained earnings, available for distribution as a dividend. Dividends declared subsequent to the reporting date will be paid out of the profit reserve and any outstanding balance is available for future dividend payments.

(c) Capital risk management

The Company's objective in managing capital is to provide shareholders with a growing income stream and long-term capital growth, by investing in a portfolio of typically 20 to 40 quality securities, underpinned by the Manager’s fundamental, in-depth, bottom-up research. The Company considers its capital to comprise ordinary share capital, profit reserve and accumulated retained earnings. Borrowing does not form part of the investment strategy of the Manager, however, the Company retains the right to leverage up to 10% of the investment portfolio at the Board’s discretion.

9 Financial assets and liabilities held at fair value through profit or loss

The Company's investments are classified at fair value through profit or loss.

	Fair value 30 June 2018 $'000	Fair value 30 June 2017 $'000
Designated at fair value through profit or loss		
Listed equities	**224,382**	227,151
Total financial assets held at fair value through profit or loss	**224,382**	227,151

Recognition/derecognition

The Company recognises financial assets and liabilities on the date it becomes party to the purchase contractual agreement (trade date). Financial assets and liabilities are derecognised on the date the Company becomes party to the sale contractual agreement (trade date).

Fair value measurement

At initial recognition, the Company measures the financial assets and liabilities at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently, all financial assets and liabilities are measured at fair value without any deduction for estimated future selling costs. Gains and losses arising from changes in the fair value measurement are included in profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the end of the reporting date without any deductions for the estimated future selling cost. Listed securities and exchange traded derivatives are valued at the last traded price.

(ii) Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm’s length market transactions, reference to current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

10 Receivables

	30 June 2018 $'000	30 June 2017 $'000
Dividends/distributions receivable	**1,443**	347
Interest receivable	**3**	2
GST receivable	**84**	96
Withholding tax receivable	**60**	57
Proceeds from sales of financial assets	**-**	2,870
Total receivables	**1,590**	3,372

Receivables are recognised when a right to receive payment is established. Due to the short term nature of the receivables, their carrying value is considered to approximate fair value.

Receivables are stated inclusive of the amount of GST.

11 Payables

	30 June 2018 $'000	30 June 2017 $'000
Payables for securities purchased	**-**	5,355
Accrued expenses comprising:		
Management fees	**253**	259
Directors' remuneration	**43**	42
Other payables	**92**	79
Total payables	**388**	5,735

Payables are recognised when the Company becomes liable. Due to the short term nature of the payables, their carrying value is considered to approximate fair value.

Payables are stated inclusive of the amount of GST.

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

12 Notes to the statement of cash flows

	30 June 2018 $'000	30 June 2017 $'000
(a) Reconciliation of profit/(loss) after income tax to net cash flows from operating activities		
Profit/(loss) after income tax	**24,827**	31,814
(Increase)/decrease in dividends/distributions receivable	**(1,096)**	(220)
(Increase)/decrease in interest receivable	**(1)**	81
(Increase)/decrease in other receivables	**9**	(62)
(Increase)/decrease in deferred tax asset	**-**	1,410
Increase/(decrease) in deferred tax liability	**1,590**	2,569
Increase/(decrease) in current tax payable	**(5,149)**	4,418
Increase/(decrease) in accrued expenses	**8**	9
Net (gains)/losses on financial instruments held at fair value through profit or loss	**(28,345)**	(40,323)
Net foreign exchange (gains)/losses	**38**	99
Net cash flows from operating activities	**(8,119)**	(205)

Cash flows are presented on a gross basis. The GST components of cash flows arising from operating and investing activities, which are recovered from the taxation authority, are recognised separately as other income received in the operating cash flows.

(b) Non-cash financing activities

During the year, the following dividend payments were satisfied by the issue of shares under the dividend reinvestment plan	**1,149**	994

(c) Components of cash and cash equivalents

Cash at the end of the year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash at bank	**69,093**	61,421

Cash and cash equivalents include cash at bank, deposits held at call and other short term deposits with a maturity period of three months or less from the date of acquisition, which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

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

13 Financial risk management

This note presents information about the Company's objectives, policies and processes for measuring and managing risks.

The Company's activities expose it to a variety of financial risks. These risks include market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Manager has been given the discretionary authority to manage and undertake investments in line with the Company's investment objective, investment strategy and guidelines detailed in the Replacement Prospectus dated 14 October 2014.

The Manager is required to act in accordance with the Management Agreement and to report to the Board quarterly on the portfolio's performance, material actions of the Manager during the quarter and an explanation of the Manager's material proposed actions for the upcoming quarter. The Manager is also responsible for designing and implementing day to day risk management and internal control systems which identify material risks for the Company.

The oversight and management of the Company's risk management program has been conferred upon the Audit and Risk Committee. The Committee is responsible for reviewing that the Company maintains effective risk management and internal control systems and processes and providing regular reports to the Board. The Board will review the effectiveness of the Company's risk management and internal control system annually.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices such as equity prices, foreign exchange rates, interest rates and credit spreads.

The Company is predominantly exposed to market risk from its investment activities. The Company seeks to reduce the risk by a policy of diversification of investments across industries and companies operating in various sectors of the market. The Company's market risk is managed on a daily basis by the Manager in accordance with the policies and procedures in place.

The Company may use derivative instruments to manage its exposure to market risk. Derivatives are not permitted to be used for gearing purposes.

(i) Price risk

Market prices fluctuate due to a range of factors specific to the individual investment or factors affecting the market in general. Price risk exposure arises from the Company's investment portfolio which comprises predominantly Australian listed securities with some opportunistic allocation to global securities.

The Manager's securities selection process is fundamental to the management of price risk. The Manager undertakes fundamental, in-depth, bottom-up research to identify high quality and attractively valued securities using a disciplined investment process. The investment process first assesses companies on four key quality filters: sound management, conservative debt, quality business and recurring earnings. The companies are then valued according to the differing natures of their business and ranked on a scale of one (strong overweight) to five (sell). Price risk is also managed on the basis that the Company is limited to a maximum holding in any individual security to 15% of the portfolio's net asset value. The Company's investment strategy allows the flexibility to invest up to 25% of its investment portfolio in cash and deposit products to manage the downward risk.

13 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

Price risk sensitivity analysis

An increase of 10% (2017: 15%) in market prices applicable at the reporting date would have increased the Company's profit and net assets by $22,438,194 (2017: $34,072,720). A decrease of 10% (2017: 15%) in market prices would have an equal but opposite effect. This analysis assumes that all other variables remain constant.

The sensitivity of the Company's profit and net asset to price risk is estimated based on the historical levels of movements of the Company's benchmark (S&P/ASX 300 Accumulation Index). The analysis assumes that the Company's investments move in correlation with the index. The actual movement in security prices may vary significantly to the movement in the index.

(ii) Currency risk

The Company is exposed to the movements in exchange rates that may have an adverse effect on the fair value or future cash flows of the Company's financial assets or financial liabilities denominated in currencies other than Australian dollars. This exposure arises from its investments in global listed securities and any transactions that are denominated in foreign currency. The Company's investment strategy allows up to 25% of its investment portfolio in global listed securities.

The Manager considers currency valuations at the entity level when analysing securities, however the Company's investment portfolio is typically unhedged. Currency exposure may be hedged defensively where the Manager sees a significant risk of currency weakness.

The Company did not hold any derivative instruments to manage its exposure to currency risk at the reporting date.

The following table summarises the Company's exposure to currency risk arising from its financial assets and financial liabilities, monetary and non-monetary, at the reporting date:

	30 June 2018 $'000	30 June 2017 $'000
British Pound	**23,588**	18,282
United States Dollar	**2,524**	15,114
Euro	**60**	32,265
Total foreign currency exposure	**26,172**	65,661

13 Financial risk management (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

Currency risk sensitivity analysis

The following table analyses the impact on the Company's profit and net assets from possible movements in exchange rates. The analysis is based on the assumption that the Australian dollar is strengthened or weakened by the sensitivity rates against the other currencies. The sensitivity rates represent the Manager's estimate of a reasonably possible movement in foreign currency exchange rates given the current exchange rates and the historic volatility.

	AUD strengthened/ (weakened) %	**30 June 2018 $'000**	30 June 2017 $'000
British Pound	**+10**	**(2,359)**	(1,828)
	-10	**2,359**	1,828
United States Dollar	**+10**	**(252)**	(1,511)
	-10	**252**	1,511
Euro	**+8**	**(5)**	(2,581)
	-8	**5**	2,581

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company can hold up to 25% of its investment portfolio in cash, deposit products and senior debts with less than one year to maturity (including any exposure to such investments gained by investing into cash management trusts). Consequently, the Company is exposed to the changes in market interest rates that may have a negative impact, either directly or indirectly, on the investment return.

The following table summarises the Company's exposure to interest rate risk at the reporting date:

	30 June 2018 $'000	30 June 2017 $'000
Cash at bank	**69,093**	61,421

Interest rate risk sensitivity analysis

An increase of 1% in interest rates applicable at the reporting date would have increased the Company's profit and net assets by $690,933 (2017: $614,210). A decrease of 1% in interest rates would have an equal but opposite effect. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

13 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk of a counterparty failing to meet its financial obligations or contractual commitments resulting in a financial loss to the Company.

The maximum exposure to credit risk for derivatives is any unrealised profit and margins paid on the positions that the Company held at the reporting date. The credit risk exposure for cash, deposit holdings and debt securities is the carrying amount at the reporting date.

Transactions in listed securities are entered with approved brokers. The risk of default is considered low because payment is only made once a broker has received the securities and delivery of securities sold only occurs once the broker receives the payment.

The Manager regularly monitors the credit rating of counterparties.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The following tables summarise the contractual maturity of the Company's financial liabilities at the reporting date:

	Carrying amount $'000	**Contractual cash flow $'000**	**At call $'000**	**6 months or less $'000**
30 June 2018				
Non-derivative financial liabilities				
Current tax payable	**531**	**531**	**-**	**531**
Payables	**388**	**388**	**-**	**388**
Total	**919**	**919**	**-**	**919**

	Carrying amount $'000	Contractual cash flow $'000	At call $'000	6 months or less $'000
30 June 2017				
Non-derivative financial liabilities				
Current tax payable	5,680	5,680	-	5,680
Payables	5,735	5,735	-	5,735
Total	11,415	11,415	-	11,415

The Company has sufficient liquidity to meet these liabilities as the majority of its investment portfolio is considered readily realisable.

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

13 Financial risk management (continued)

(d) 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:

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
30 June 2018				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	**224,382**	**-**	**-**	**224,382**
Total	**224,382**	**-**	**-**	**224,382**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2017				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	227,151	-	-	227,151
Total	227,151	-	-	227,151

Rationale for classification of financial assets 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 years ended 30 June 2018 and 30 June 2017.

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

14 Related party transactions

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

(a) Total Directors' remuneration paid and payable for the year ended 30 June 2018 was $170,000 (2017: $170,000). Details of remuneration are disclosed in the Directors' report.

(b) Directors' interests in the Company held directly or indirectly are disclosed in the Directors' report.

(c) 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) and a Director of Perpetual Investment Management Limited (the Manager). 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.

15 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.

16 Commitments and contingencies

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

17 New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published, but are not yet mandatory and have not been early adopted by the Company for the reporting period ended 30 June 2018. The assessment of the impact of these new standards (to the extent relevant to the Company) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (and applicable amendments) (effective for financial reporting period beginning on or after 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has also introduced revised rules around hedge accounting and impairment. The standard is available for early adoption.

Management has concluded that the adoption of this standard does not have a significant impact on the recognition and measurement of the Company's financial instruments because they are carried at fair value through profit or loss and the Company does not adopt hedge accounting.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective for financial reporting period beginning on or after 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

17 New accounting standards and interpretations not yet adopted (continued)

The Company's main sources of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. Management has concluded that the new revenue recognition rules do not have a significant impact on the Company's accounting policies or the amounts recognised in the financial statements.

(iii) AASB 16 *Leases* (effective for period beginning 1 January 2019)

AASB 16 removes the lease classification test for leases and requires all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for leases.

The Company does not have any lease agreements, therefore the new lease standard will not have any significant impact to the financial statements.

18 Events occurring after the reporting period

Since the end of the financial year, the Directors have declared a fully franked final dividend payment of 3.3 cents per share payable on 2 November 2018 (refer to note 7).

The Company also announced a capital raising comprising of a non-renounceable pro rata Entitlement Offer to eligible shareholders of 1 new share for every 4 existing shares at an issue price of $1.12 to raise up to approximately $71.24 million and an accompanying General Offer to the general public to subscribe for new shares at an issue price of $1.12 to raise up to $30 million (refer to note 8).

No other significant events have occurred since the reporting date which would have an impact on the financial position of the Company disclosed in the statement of financial position as at 30 June 2018 or on the results and cash flows of the Company for the year ended on that date.

DIRECTORS' DECLARATION

Directors' Declaration

1. In the opinion of the Directors of Perpetual Equity Investment Company Limited (the "Company"):

   (a) the financial statements and notes, set out on pages 19 to 40, and the Remuneration Report within the Directors' Report, are in accordance with the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

   (b) the financial report also complies with International Financial Reporting Standards as discussed in note 2.

   (c) 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 year ended 30 June 2018.

Signed in accordance with a resolution of the Directors.

Chairman

Director

Sydney
20 August 2018

Independent Auditor's Report

To the shareholders of Perpetual Equity Investment Company Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Perpetual Equity Investment Company Limited (the Company).

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

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

The ***Financial Report*** comprises:

- Statement of financial position as at 30 June 2018
- Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

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

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

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

Key Audit Matters

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

- Valuation of the financial assets held at fair value through profit or loss

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

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

Valuation of the financial assets held at fair value through profit or loss ($224.4m)	
Refer to Note 9 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
Financial assets held at fair value through profit or loss are comprised of listed equities. Valuation of investments in listed equities is a key audit matter due to: • these assets represent 76% of the Company's total assets; and • the importance of the performance of these assets in driving the Company's investment income and capital performance, as reported in the financial report. As a result, valuation of these investments was a focus of our audit team.	Our procedures included: • Read the Company's custodian's GS007 (Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services) assurance report to assess the custodian's processes to record and value the Company's investments; • Checked the valuation of the investments, as recorded in the general ledger, to externally quoted prices. • Checked the ownership of the investments to custody reports to test existence of investments being valued.

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

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

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 13 to 16 of the Directors' report for the year ended 30 June 2018.

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

KPMG

KPMG

Martin McGrath

Partner

Sydney

20 August 2018

SHAREHOLDER INFORMATION

Shareholder Information

The 2018 Annual General Meeting of the Company will be held at the Company's registered office, Level 18, 123 Pitt Street, Sydney on 1 November 2018 commencing at 2:00 pm.

The ordinary shares of Perpetual Equity Investment Company Limited are listed on the Australian Securities Exchange under the ASX code PIC with Sydney being the home exchange.

Twenty largest shareholders

The names of the twenty largest holders of ordinary shares as at 31 July 2018 are listed below:

	Number of ordinary shares	%
Navigator Australia Limited	8,992,282	3.53
Nulis Nominees (Australia) Limited	8,466,110	3.33
Netwealth Investments Limited (Wrap Services A/C)	6,200,602	2.44
National Nominees Limited	4,690,000	1.84
Mr Victor John Plummer	2,500,000	0.98
HSBC Custody Nominees (Australia) Limited	2,392,216	0.94
Mrs Anne Marie Thornton & Mr Brian Edmond Thornton	2,108,449	0.83
Netwealth Investments Limited (Super Services A/C)	1,785,928	0.70
D E C Investments Pty Limited	1,202,596	0.47
Boksburg Nominees Pty Ltd	1,160,000	0.46
BNP Paribas Nominees Pty Ltd	1,067,501	0.42
Noilly Pty Ltd	1,000,000	0.39
Australian Executor Trustees Limited	997,000	0.39
Magnet Investments Pty Ltd	838,301	0.33
Lawvan Pty Ltd	800,000	0.31
Megfam Investment Company Pty Ltd	620,000	0.24
Yalambie Pty Ltd	578,750	0.23
Invia Custodian Pty Limited	557,052	0.22
Dance Investment Portfolio Pty Ltd	518,360	0.20
Ahrens Group Pty Ltd	500,000	0.20

Substantial shareholders

No substantial shareholder appeared in the Company's Register of Substantial Shareholders maintained in accordance with section 671B of the *Corporations Act 2001* as at 31 July 2018.

Shareholder Information (continued)

Distribution of securities

Schedule of holdings As at 31 July 2018	Number of shareholders	Number of ordinary shares
1 - 1,000 shares	**186**	**82,346**
1,001 - 5,000 shares	**1,045**	**3,674,525**
5,001 - 10,000 shares	**1,329**	**10,934,167**
10,001 - 100,000 shares	**4,196**	**141,220,829**
100,001 shares and over	**311**	**98,531,059**
Total	**7,067**	**254,442,926**

The number of shareholders holding less than a marketable parcel is 77 and they hold 3,166 securities.

Other information

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

Voting rights

Each share will confer on its holder the right to vote at a general meeting of shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on shares (at present there are none).

On-market buy back

There is no current on-market buy back.

Final dividend

The final dividend of 3.3 cents per share will be paid on 2 November 2018 to shareholders entitled to receive dividends and registered on 19 October 2018 being the record date.

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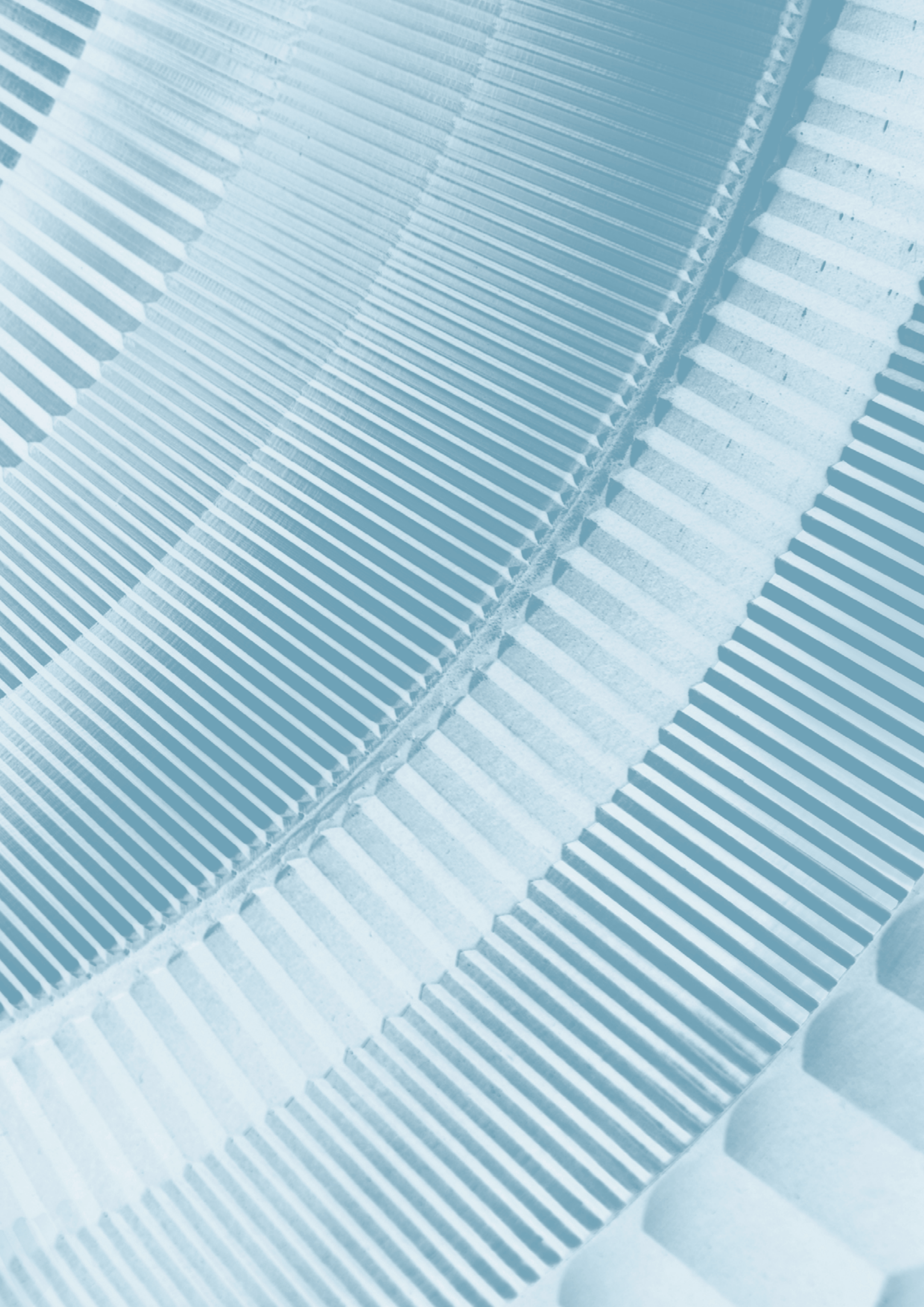

DIRECTORY

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

MANAGER
Perpetual Investment Management Limited
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AUSTRALIAN SECURITIES EXCHANGE CODE
Shares: PIC

SHARE REGISTRY
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