PERPETUAL EQUITY INVESTMENT COMPANY LIMITED

ACN 601 406 419

CONDENSED INTERIM FINANCIAL REPORT

FOR THE PERIOD FROM 25 AUGUST 2014 TO 31 DECEMBER 2014

Perpetual

Perpetual Equity Investment Company Limited

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Condensed Interim Financial Report
For the period from 25 August 2014 to 31 December 2014

Contents

Directors' Report

The directors present their report together with the condensed interim financial report of Perpetual Equity Investment Company Limited ("the Company") for the period from 25 August 2014 ("incorporation date") to 31 December 2014.

On 2 February 2015, the Australian Securities and Investments Commission granted the Company relief from Chapter 2M.3 of the *Corporations Act 2001* in respect of the requirement for the Company to prepare and lodge a condensed interim financial report for the half-year ended 24 February 2015. As a result, the Company will only lodge the condensed interim financial report for the period from 25 August 2014 to 31 December 2014 as required by the ASX Limited (ASX). The relief was granted on the grounds that the lodgement of two condensed interim financial reports would be inappropriate in this circumstance and would impose an unreasonable burden on the Company.

Directors

The following persons were directors of the Company from their appointment dates and up to the date of this report:

Name	Position	Appointment date
Peter Scott	Chairman and Non-executive Director	25 August 2014
Virginia Malley	Non-executive Director	25 August 2014
John Edstein	Non-executive Director	26 September 2014
Christine Feldmanis	Non-executive Director	26 September 2014
Michael Gordon	Executive Director	25 August 2014

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 years investment periods.

Review of operations

During the period ended 31 December 2014, the Company concluded its Initial Public Offering (“IPO”) in accordance with the Replacement Prospectus dated 14 October 2014. The Company raised $250,394,277 by the issue of 250,394,277 ordinary fully paid shares at an issue price of $1.00 per share and 250,394,277 free attaching options exercisable at $1.00 each expiring on 10 June 2016. The results of the period include transaction costs of the IPO (net of tax) that have been capitalised in the contributed equity, and are outlined in note 6.

The Company was admitted to the official list of ASX on 16 December 2014. The official quotation of its securities commenced on 18 December 2014.

The Company may take up to approximately three to six months to fully invest the Portfolio to be within the investment guidelines.

The operations of the Company during the period resulted in a loss after income tax of $72,248.

Directors' Report (continued)

Review of operations (continued)

	Period from 25 August 2014 to 31 December 2014 $'000
Loss before income tax	(103)
Income tax benefit	31
Loss for the period attributable to equity holders	(72)

Dividends

No dividend was declared or paid during the period.

Events subsequent to reporting date

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

Lead Auditor's Independence Declaration

A copy of the Lead Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Rounding of amounts to the nearest thousand dollars

The Company is of a kind referred to in Class Order 98/100 (as amended) issued by Australian Securities and Investments Commission and consequently amounts in the directors' report and condensed interim financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Directors' Report (continued)

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

Chairman

Director

Sydney
20 February 2015

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

To: the directors of Perpetual Equity Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the interim period from 25 August 2014 to 31 December 2014 there have been:

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

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Martin McGrath
Partner

Sydney

20 February 2015

Condensed Interim Statement of Profit or Loss and Other Comprehensive Income

	Notes	Period from 25 August 2014 to 31 December 2014 $'000
Investment income		
Distributions		**325**
Interest		**51**
Net gains on financial instruments held at fair value through profit or loss		**7**
Total investment income		**383**
Expenses		
Management fees	9	**96**
Other expenses		**390**
Total expenses		**486**
Loss before income tax		**(103)**
Income tax benefit		**31**
Loss after income tax		**(72)**
Other comprehensive income		**-**
Total comprehensive income for the period		**(72)**
Earnings per share		
Basic earnings per share (cents per share)	7	**(0.03)**
Diluted earnings per share (cents per share)	7	**(0.03)**

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

Condensed Interim Statement of Financial Position

	Notes	31 December 2014 $'000
Assets		
Cash and cash equivalents		**65**
Financial assets held at fair value through profit or loss	3	**250,336**
Receivables	4	**886**
Deferred tax asset		**2,004**
Total assets		**253,291**
Liabilities		
Payables	5	**7,573**
Total liabilities		**7,573**
Net assets		**245,718**
Equity		
Contributed equity	6	**245,790**
Retained earnings		**(72)**
Total equity		**245,718**

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

Condensed Interim Statement of Changes in Equity

	Notes	Contributed Equity $'000	Retained Earnings $'000	Total $'000
Balance on date of incorporation (25 August 2014)		**-**	**-**	**-**
Total comprehensive income for the period		**-**	**(72)**	**(72)**
Transactions with equity holders in their capacity as owners:				
Shares issued under IPO	6	**250,394**	**-**	**250,394**
Transaction costs on the shares issued under IPO, net of tax	6	**(4,604)**	**-**	**(4,604)**
Balance at 31 December 2014		**245,790**	**(72)**	**245,718**

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

Condensed Interim Statement of Cash Flow

	Notes	Period from 25 August 2014 to 31 December 2014 $'000
Cash flows from investing activities		
Payments for purchase of investments		(250,329)
Net cash from investing activities		**(250,329)**
Cash flows from financing activities		
Proceeds from issue of shares under IPO	6	250,394
Net cash from financing activities		**250,394**
Net increase in cash and cash equivalents		**65**
Cash and cash equivalents held at the beginning of the period		-
Cash and cash equivalents at the end of the period		**65**

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

1 General information

Perpetual Equity Investment Company Limited ("the Company") is a listed investment company incorporated in Australia. The Company was incorporated on 25 August 2014. The Company is domiciled in Australia.

During the period ended 31 December 2014, the Company concluded its Initial Public Offering ("IPO") in accordance with the Replacement Prospectus dated 14 October 2014. The Company raised $250,394,277 by the issue of 250,394,277 ordinary fully paid shares at an issue price of $1.00 per share and 250,394,277 free attaching options exercisable at $1.00 each expiring on 10 June 2016. The Company was admitted to the official list of ASX Limited (ASX) on 16 December 2014. The official quotation of its securities commenced on 18 December 2014.

On 2 February 2015, the Australian Securities and Investments Commission granted the Company relief from Chapter 2M.3 of the *Corporations Act 2001* in respect of the requirement for the Company to prepare and lodge a condensed interim financial report for the half-year ended 24 February 2015. As a result, the Company will only lodge the condensed interim financial report for the period from 25 August 2014 to 31 December 2014 as required by the ASX Limited (ASX). The relief was granted on the grounds that the lodgement of two condensed interim financial reports would be inappropriate in this circumstance and would impose an unreasonable burden on the Company.

The condensed interim financial report was authorised for issue on 20 February 2015 by the Company's directors, who have the power to amend and reissue the condensed interim financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the condensed interim financial report are set out as follows:

(a) Statement of compliance

This general purpose condensed interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting,* IAS 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

(b) Functional and presentation currency

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

(c) Estimates

The preparation of the condensed interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(d) 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 net foreign exchange gains/(losses) in the profit or loss.

2 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the profit or loss on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

(e) Financial instruments

(i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures, foreign exchange forward contracts, options and interest rate swaps are included under this classification. The Company does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial papers.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's published investment strategy. The Company's policy is for the manager to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Company has transferred substantially all risks and rewards of ownership.

(iii) Measurement

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

At initial recognition, the Company measures a financial instrument at its fair value. Transaction costs of financial assets and liabilities held at fair value through profit or loss are expensed in profit or loss as incurred.

Subsequent to initial recognition, all financial assets and financial liabilities held at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in profit or loss within 'net gains/(losses) on financial instruments held at fair value through profit or loss' in the period in which they arise.

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.

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets and financial liabilities is the last traded price.

2 Summary of significant accounting policies (continued)

(e) Financial instruments (continued)

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. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when 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.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown as a liability on the statement of financial position.

(g) Receivables

All receivables are recognised when a right to receive payment is established. Debts that are known to be uncollectible are written off.

(h) Payables

All payables and trade creditors are recognised when the Company becomes liable.

(i) Investment income

Interest income is recognised as it accrues in profit or loss for all interest bearing financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(e).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Dividend income is recognised on the ex-dividend date. Trust distributions (including distributions from cash management trusts) are recognised on a present entitlements basis.

Other income is brought to account on an accruals basis.

(j) Expenses

All expenses, including management fees, are recognised in profit or loss on an accruals basis.

Interest expense is recognised in profit or loss as it accrues, using the effective interest method.

2 Summary of significant accounting policies (continued)

(k) Income tax

Under current legislation, the Company is subject to income tax at 30% on taxable income.

The Company may incur withholding tax imposed by certain countries on investment income. Such income will be recorded net of withholding tax in profit or loss.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the 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 year, using tax rates enacted or substantially enacted at reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is 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 balance sheet 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 current tax assets and liabilities and the deferred tax balances relate to the same taxation authority. 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(l) Goods and Services Tax (GST)

GST generally applies to expenses payable by the Company, including management fees. The Company is entitled to claim Reduced Input Tax Credit (RITC), which represents a portion of the GST applicable to management fees and certain other expenses. Expenses are recognised in profit or loss net of the amount of GST recoverable from Australian Tax Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the cash flow statement on a gross basis.

(m) Share 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.

(n) Options

Options will be measured at the fair value of the options at the date of issue within equity. An adjustment will be made, with a corresponding adjustment to share capital, on exercise of the options. At the expiration of the option period, the portion relating to unexercised options will be transferred to a capital reserve.

2 Summary of significant accounting policies (continued)

(o) Dividends

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

(p) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding for the period from the date of listing to the reporting date.

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue and ordinary shares that the Company expects to issue through the exercise of outstanding options for the reporting period.

3 Financial assets held at fair value through profit or loss

	Fair value 31 December 2014 $'000
Designated at fair value through profit or loss	
Listed equities	336
Unlisted unit trusts	250,000
Total financial assets held at fair value through profit or loss	250,336

4 Receivables

	31 December 2014 $'000
Distributions receivable	325
Interest receivable	51
GST receivable	510
Total receivables	886

5 Payables

	31 December 2014 $'000
Transaction costs on the IPO	7,056
Management fees	103
ASX listing fees	349
Directors' remuneration	53
Other payables	12
Total payables	**7,573**

6 Contributed equity

(a) Share capital

		Period from 25 August 2014 to 31 December 2014 Quantity	Period from 25 August 2014 to 31 December 2014 $
Balance on incorporation date at 25 August 2014		1	1
Shares issued under IPO	12-Dec-2014	250,394,277	250,394,277
Less transaction costs on the IPO, net of tax		-	(4,604,180)
Issue of ordinary shares during the period		**250,394,278**	**245,790,098**

As at 31 December 2014, ordinary shares on issue totalled 250,394,278. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

6 Contributed equity (continued)

(b) Options

On 12 December 2014, as part of IPO the Company issued 250,394,277 free attaching options to acquire ordinary shares in the Company at an exercise price of $1.00. The number of options outstanding at the reporting date is 250,394,277.

The options can be exercised at any time on or before 10 June 2016. The options give the shareholders the right but not the obligation to subscribe for shares in the Company at $1.00 per share. The options can be exercised in full or in part. The options are currently trading on the ASX under the code PICO.

(c) Transaction costs on the IPO, net of tax

The Company incurred expenses associated with the offer. The breakdown of these expenses (GST inclusive less RITC) that have been deducted against the contributed equity are as follows:

	$
Joint Lead Manager fees	**2,566,541**
Broker firm fees	**3,433,918**
Other fees	**576,941**
Less current and future tax deductions	**(1,973,220)**
	4,604,180

Other fees include legal, registry, investigating accountant, tax advisor and ASIC lodgment fees. Certain other expenses such as ASX listing fees have been expensed in the profit or loss.

7 Earnings per share

	Period from 25 August 2014 to 31 December 2014
Basic earnings per share - cents per share	**(0.03)**
Diluted earnings per share - cents per share	**(0.03)**
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	**250,394,278**
	$'000
Earnings used in the calculation of basic and diluted earnings per share	**(72)**

In the calculation of diluted earnings per share, options are not considered to have a dilutive effect, as the average of market price of ordinary shares of the Company during the period did not exceed the exercise price of the options.

8 Dividends

No dividends were declared during the period ended 31 December 2014.

9 Management fees

The investment 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.

	Period from 25 August 2014 to 31 December 2014
Fees paid and payable for the period	**$'000**
Management fees (GST inclusive less RITC)	**96**
	96

The investment manager was 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 investment manager is also 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 security in each class of shares in the Company, as calculated under the ASX Listing Rules.

10 Related parties

All transactions with related parties are conducted on normal commercial terms and conditions, and include:

(i) The compensation arrangements with the Directors and Executive Directors (refer to note 10(a));

(ii) The interests in the Company held directly or indirectly by the Directors and Executive Directors (refer to note 10(b) and note 10(c)).

10 Related parties (continued)

(a) Directors' remuneration

Total Directors' remuneration paid and payable as at 31 December 2014 is $52,602.75. The remuneration is accrued since the appointment date of each director.

The following sets out the Directors' annualised remuneration (including superannuation) payable for the period ending 30 June 2015:

Director	Position	Independence	Directors' fees $
Peter Scott	Chairman and Non-executive Director	Not Independent	50,000
Virginia Malley	Non-executive Director	Independent	40,000
John Edstein	Non-executive Director	Independent	40,000
Christine Feldmanis	Non-executive Director	Independent	40,000
Michael Gordon	Executive Director	Not Independent	-

Michael Gordon is a Director of the investment manager (Perpetual Investment Management Limited) and the Group Executive of Perpetual Investments (a division of Perpetual Limited). He is remunerated by Perpetual Limited and is currently not entitled to Directors' fees or any other form of remuneration from the Company for his services.

Peter Scott is the Chairman and a Director of Perpetual Limited.

Accordingly the Board of Directors has determined that Michael Gordon and Peter Scott are not independent in accordance with the requirements for independence which are set out in Principle (2) of the ASX Corporate Governance Principles.

(b) Share holdings of Directors

As at 31 December 2014, shares issued by the Company and held by the Directors and their related entities are set out as below:

Director	Opening balance (Number of shares)	Net number of shares acquired	Net number of shares disposed	Closing balance (Number of shares)
Peter Scott	-	100,000	-	100,000
Virginia Malley	-	40,000	-	40,000
John Edstein	-	50,000	-	50,000
Christine Feldmanis	-	100,000	-	100,000
Michael Gordon	-	100,000	-	100,000

10 Related parties (continued)

(c) Option holdings of Directors

As at 31 December 2014, options issued by the Company and held by the Directors and their related entities are set out as below:

Director	Opening balance (Number of options)	Net number of options acquired	Net number of options disposed	Closing balance (Number of options)
Peter Scott	-	100,000	-	100,000
Virginia Malley	-	40,000	-	40,000
John Edstein	-	50,000	-	50,000
Christine Feldmanis	-	100,000	-	100,000
Michael Gordon	-	100,000	-	100,000

11 Fair value measurement

The Company discloses fair value measurements by level of the following fair value hierarchy:

- 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 (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and equity securities) is based on last traded prices at the end of the reporting period without any deduction for estimated future selling costs. For the majority of financial assets and liabilities, information provided by the quoted market independent pricing services is relied upon for valuation.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market in which transactions for the financial asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Fair value in an inactive or unquoted market (level 2 and 3)

The fair value of financial assets and liabilities that are not traded in an active market are determined by using valuation techniques. Quoted market prices or dealer quotes for similar instruments are used for debt securities held. The Company uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Valuation techniques used for non-standardised financial instruments, such as options, swaps and other over-the-counter derivatives, include the use of comparable arm's length transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that is commonly used by market participants which maximises the use of market inputs and rely as little as possible on entity-specific inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

11 Fair value measurement (continued)

(ii) Fair value in an inactive or unquoted market (level 2 and 3) (continued)

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined using quoted exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts as at the valuation date. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The Company did not hold any financial instruments with fair value measurements using significant unobservable inputs during the period ended 31 December 2014.

The table below sets out the Company's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2014:

As at 31 December 2014

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	**336**	**-**	**-**	**336**
Unlisted unit trusts	**250,000**	**-**	**-**	**250,000**
Total	**250,336**	**-**	**-**	**250,336**

Transfer between levels

For the period ended 31 December 2014, there have been no transfers between levels.

12 Derivative financial instruments

In the normal course of business the Company enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

12 Derivative financial instruments (continued)

Derivative transactions include many different instruments such as foreign exchange forward contracts, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Company's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Company against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Company.

As at the reporting date, there were no derivative financial instruments held by the Company.

13 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.

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2014.

15 Events occurring after the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Company disclosed in the statement of financial position as at 31 December 2014 or on the results and cash flows of the Company for the period ended on that date.

Directors' Declaration

In the opinion of the directors of Perpetual Equity Investment Company Limited:

(a) the condensed interim financial statements and notes, set out on pages 6 to 22, are in accordance with the *Corporations Act 2001*, including:

   (i) complying with AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

   (ii) giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the period ended on that date.

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

This declaration is made in accordance with a resolution of the directors.

Chairman

Director

Sydney
20 February 2015

Independent auditor's review report to the members of Perpetual Equity Investment Company Limited

We have reviewed the accompanying interim financial report of Perpetual Equity Investment Company Limited (the Company) which comprises the condensed interim statement of financial position as at 31 December 2014, condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flow for the period from 25 August 2014 to 31 December 2014, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2014 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Perpetual Equity Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the financial report.

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Perpetual Equity Investment Company is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2014 and of its performance for the period from 25 August 2014 to 31 December 2014; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Martin McGrath
Partner

Sydney

20 February 2015

DIRECTORY

COMPANY
Perpetual Equity Investment Company Limited
ACN 601 406 419

DIRECTORS
Peter Scott - Chairman
Virginia Malley
John Edstein
Christine Feldmanis
Michael Gordon

COMPANY SECRETARIES
Sylvie Dimarco
Joanne Hawkins

INVESTMENT MANAGER
Perpetual Investment Management Limited
Level 12, 123 Pitt Street
Sydney NSW 2000
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Perpetual

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