



AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Appendix 4D Statement
for the Half-Year ending
31 December 2017

Contents

- Results for Announcement to the Market
- Media Release
- Appendix 4D Accounts
- Independent Auditors' Review Report

This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Company's 2017 Annual Report.

Australian Foundation Investment
Company Limited ABN 56 004 147 120

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2017 with the previous corresponding period being the half-year ended 31 December 2016. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities was \$154.0 million, up \$18.5 million or 13.6% from the previous corresponding period. This excludes capital gains on investments.
- Profit after tax attributable to members was \$136.4 million (up 15.6% on the previous corresponding period's \$118.0 million).
- The interim dividend is 10 cents per share, fully franked, the same as last year. It will be paid on 23 February 2018 to ordinary shareholders on the register on 9 February 2018 and the shares are expected to commence trading on an ex-dividend basis on 8 February 2018. There is no conduit foreign income component of the dividend.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for which will be set at a **nil discount** to the Volume Weighted Average Price of the Company's shares traded on the ASX and Chi-X automated trading systems over the five trading days from when the shares trade ex-dividend. The last date for the receipt of an election notice for participation in the DRP & DSSP is 5.00 pm (Melbourne time) on 12 February 2018.
- The final dividend for the 2017 financial year was 14 cents per share (fully franked), and it was paid to shareholders on 30 August 2017.
- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 31 December 2017 were \$6.15, up from \$5.83 at the end of the previous corresponding period (both before allowing for interim dividends).

Global Growth Fuels Market

Half Year Report to 31 December 2017

Key Themes –

- AFIC invests in a diversified portfolio of Australian equities, seeking to provide shareholders attractive income and capital growth over the medium to long term at a low cost.
 - Global equity markets have risen over the period with many major economies showing improved growth. Volatility is very low.
 - Resource and energy stocks have lifted in response to economic growth, however some sectors within the Australian index have been less buoyant. Many large companies face increased competition and the prospect of disruption to their business.
 - It is difficult to find stand out value in the Australian equity market at present. Companies with good growth prospects continue to be very expensive.
 - AFIC will continue to look for quality companies that can provide good long term growth, including dividends, but will only do so where long term value is on offer.
-

Result Summary –

- Half Year Profit of \$136.7 million, up 15.6% from \$118.3 million in the corresponding period last year:
 - Investment income increased \$18.5 million primarily due to a lift in dividends across a range of companies, particularly resource companies including participation in the Rio Tinto off market buy back
 - Interim Dividend maintained at 10 cents per share fully franked.
 - Management expense ratio of 0.11% (annualised).
 - Six month portfolio return was 6.9%; including franking it was 7.9%.
 - Twelve month portfolio return was 9.9%; including franking it was 11.8%.
-

Portfolio Performance

The emergence of a synchronised expansion in growth across many major economies has seen equity markets, including Australia, reach post GFC highs. The renewed confidence about global growth has led to rising commodity prices, with the Australian resources index up 26% over the six month period. During the same period the industrial and banking sectors were up only 5% and 3% respectively as many large companies encountered increased competition and the banks face an outlook of lower growth and intense scrutiny.

AFIC's portfolio was up 6.9% for the 6 months to 31 December 2017 compared with S&P/ASX 200 Accumulation Index which increased 8.4%. In the resources sector AFIC primarily invests in companies with long life assets and low cost production such as BHP and Rio Tinto. The portfolio was not exposed to the significant rise in the more cyclical small and mid-sized resource companies which increased by 41.5% and 21.1% respectively over the period.

The best performing companies in the AFIC portfolio outside the large resource companies were Wesfarmers, Westpac Banking Corporation, Treasury Wine Estates and Transurban.

The long term performance of the portfolio, which is more in line with the Company's investment timeframes, was 8.8% per annum for the 5 years to 31 December 2017 versus the Index return of 10.2% per annum. Including the full benefit of franking, these returns are 10.7% per annum for AFIC and 11.9% per annum for the Index. AFIC's performance numbers are after expenses and tax paid.

Portfolio Adjustments

Given the generally strong market conditions AFIC looked to selectively add to existing holdings, often during periods of temporary weakness. Major purchases included Macquarie Group, Westfield Corporation (which is now subject to a takeover offer), CSL, Origin Energy, Boral, CYBG (Clydesdale Bank) and Scentre Group. The only new holding added during the period was Adelaide Brighton Group. AFIC also participated in the Transurban rights issue which was completed toward the end of the period.

Major sales included a reduction in the holdings of Incitec Pivot, Coca-Cola Amatil, QBE Insurance and Japara Healthcare. There was also the complete sale of Australian Agricultural Company from the portfolio. AFIC also participated in the Rio Tinto off-market buy back given the high level of fully franked income that was available.

Going Forward

It is difficult to find stand out value in the current market. Companies that are displaying prospects for strong growth are being sought by investors and are fully valued.

Another remarkable feature of 2017 was the very low level of volatility. Further increases in interest rates in the US or a slowdown in China may provide some scope for adjustments in markets, including a move to more normal levels of volatility. Our view is that many investors are in a similar position to AFIC, waiting for better prices. In this context, any pullback may be modest unless there is a major correction arising from an unexpected coordinated tightening in global interest rates by central banks or an unforeseen geopolitical event. AFIC will continue to look for quality companies that can provide good long term growth, including dividends, but will only do so where sensible long term value is on offer.

Please direct any enquiries to:

Mark Freeman
Managing Director
(03) 9225 2122

Geoff Driver
General Manager
(03) 9225 2102

22 January 2018

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (above \$10 million)	Cost (\$'000)
Macquarie Group	32,128
Westfield Corporation	17,483
Transurban Group (participation in 3 for 37 Rights Issue at \$11.40 per share)	16,948
CSL	16,152
Origin Energy	13,849
Boral	12,924
CYBG	12,808
Scentre Group	10,798
Adelaide Brighton	10,092

Disposals (above \$10 million)	Proceeds (\$'000)
Incitec Pivot	27,848
Coca-Cola Amatil	23,623
QBE Insurance	17,317
Australian Agricultural Company [#]	14,220
Rio Tinto (participation in off-market buy back)	12,409
Japara Healthcare	10,454

[#] complete disposal from the portfolio

New Companies Added to the Investment Portfolio

Adelaide Brighton

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2017

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 29 December 2017

		Total Value \$ million	% of Portfolio
1	Commonwealth Bank of Australia	634.7	8.9%
2	Westpac Banking Corporation	487.3	6.8%
3	* BHP	419.1	5.9%
4	Wesfarmers	298.6	4.2%
5	* National Australia Bank	294.7	4.1%
6	* CSL	262.6	3.7%
7	Rio Tinto	262.1	3.7%
8	Transurban Group	246.4	3.4%
9	Australia and New Zealand Banking Group	243.9	3.4%
10	Telstra Corporation	190.4	2.7%
11	Amcor	189.7	2.7%
12	* Woolworths	143.1	2.0%
13	Brambles	135.4	1.9%
14	Oil Search	128.4	1.8%
15	Woodside Petroleum	108.6	1.5%
16	* Treasury Wine Estates	107.1	1.5%
17	AGL Energy	104.9	1.5%
18	AMP	104.3	1.5%
19	* Macquarie Group	102.7	1.4%
20	Ramsay Health Care	99.2	1.4%
21	Qube Holdings	90.6	1.3%
22	* James Hardie Industries	81.2	1.1%
23	Computershare	76.0	1.1%
24	* Westfield Corporation	75.2	1.1%
25	* Origin Energy	71.5	1.0%
		4,957.6	

As % of Total Portfolio Value
(excludes Cash)

69.4%

* Indicates that options were outstanding against part of the holding

PORTFOLIO PERFORMANCE TO 31 DECEMBER 2017

PERFORMANCE MEASURES TO 31 DECEMBER 2017	6 MONTHS	1 YEAR	5 YEARS %PA	10 YEARS %PA
NET ASSET BACKING RETURN INCLUDING DIVIDENDS REINVESTED	6.9%	9.9%	8.8%	4.7%
S&P/ASX 200 ACCUMULATION INDEX	8.4%	11.8%	10.2%	4.1%

NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*	7.9%	11.8%	10.7%	6.6%
S&P/ASX 200 GROSS ACCUMULATION INDEX*	9.2%	13.4%	11.9%	5.7%

*Incorporates the benefit of franking credits for those who can fully utilise them.

Note: AFIC net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments. It should also be noted that Index returns for the market do not include the impact of management expenses and tax on their performance.



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2017**

COMPANY PARTICULARS

Australian Foundation Investment Company Limited (“AFIC”)

ABN 56 004 147 120

AFIC is a Listed Investment Company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

Directors: Terrence A. Campbell AO, Chairman
Ross E. Barker
Jacqueline C. Hey
Graeme R. Liebelt
John Paterson
David A. Peever
Catherine M. Walter AM
Peter J. Williams
R. Mark Freeman, Managing Director

Company Secretaries: Matthew J. Rowe
Andrew J.B. Porter

Auditor: PricewaterhouseCoopers, Chartered Accountants

Country of incorporation: Australia

Registered office: Level 21
101 Collins Street
Melbourne, Victoria 3000

Contact Details: Mail Address: Level 21, 101 Collins St., Melbourne, Victoria 3000
Telephone : (03) 9650 9911
Facsimile: (03) 9650 9100
Email: invest@afi.com.au
Internet address: www.afi.com.au

For enquiries regarding net asset backing (as advised each month to the Australian Securities Exchange):

Telephone: 1800 780 784 (toll free)

Share Registrar: Computershare Investor Services Limited
Mail Address: GPO Box 2975, Melbourne, Victoria 3001
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067
AFIC Shareholder enquiry lines : 1300 662 270 (Aus)
0800 333 501 (NZ)
+613 9415 4373 (from overseas)
Facsimile: (03) 9473 2500
Internet: www.investorcentre.com/contact

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar.

Securities Exchange

Codes: AFI Ordinary shares (ASX and NZX)

DIRECTORS' REPORT

The Directors present their report in relation to the half-year to 31 December 2017 on the consolidated entity ("the Group") consisting of Australian Foundation Investment Company Limited ("the Company" and "AFIC") and its subsidiary, Australian Investment Company Services Limited ("AICS").

Directors

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

T.A. Campbell AO (appointed September 1984)
R.E. Barker (appointed September 2001)
J.C. Hey (appointed July 2013)
G.R. Liebelt (appointed June 2012)
J. Paterson (appointed June 2005)
D.A. Peever (appointed November 2013)
C.M. Walter AM (appointed August 2002)
P.J. Williams (appointed February 2010)
R.M. Freeman (appointed January 2018)

Review of the Group's operations and results

Overview

The Company maintains a diversified portfolio of equity and similar securities, predominantly in entities listed on the Australian Securities Exchange. There has been no change in the nature of the Company's activities during the period. Its primary objectives are to pay dividends which, over time, will grow at a faster rate than inflation, and to generate attractive total returns in terms of growth in net asset backing plus dividends.

Profit Performance and Dividend

Profit for the half-year was \$136.7 million, up 15.6% from the previous corresponding period.

The net profit per share for the six months to 31 December 2017 was 11.6 cents per share with an interim dividend declared of 10 cents per share fully-franked, the same as last year.

The portfolio return for the 6 months (measured by change in net asset backing per share plus dividends reinvested) was 6.9% compared to the return of the S&P/ASX 200 Accumulation Index for the same period which was 8.4%. AFIC's portfolio return is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits or LIC credits attached to the dividends. Index returns for the market do not include the impact of management expenses and tax on their performance.

During the half-year 5.9 million shares were issued under the DRP and the DSSP resulting in an additional \$32.2 million of capital (after costs).

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

Rounding of amounts to nearest thousand dollars

The Group is of a kind referred to in the ASIC Corporations' (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the directors' report and financial report. Unless specifically stated otherwise, amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Instrument.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'T. Campbell', written in a cursive style.

T.A. Campbell AO
Chairman
Melbourne
22 January 2018



Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Australian Foundation Investment Company Limited and the entity it controlled during the period.

A handwritten signature in black ink, appearing to read 'Nadia Carlin', written in a cursive style.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
22 January 2018

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Half-year 2017 \$'000	Half-year 2016 \$'000
Dividends and distributions		150,792	132,043
Revenue from deposits and bank bills		810	928
Other revenue		2,380	2,523
Total revenue		153,982	135,494
Net gains/(losses) on trading portfolio and non-equity investments		(6,553)	(363)
Income from operating activities	3	147,429	135,131
Finance & related costs		(425)	(6,597)
Administration expenses		(6,240)	(6,502)
Profit before income tax expense		140,764	122,032
Income tax expense		(4,023)	(3,745)
Profit for the half-year		136,741	118,287
Profit is attributable to :			
Equity holders (members) of Australian Foundation Investment Company Ltd		136,402	118,023
Minority Interest		339	264
		136,741	118,287
		Cents	Cents
Basic earnings per share	8	11.56	10.40
Diluted earnings per share	8	11.56	10.45

This Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Half-Year to 31 December 2017			Half-Year to 31 December 2016		
	Revenue	Capital	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit for the half-year	136,741	-	136,741	118,287	-	118,287
Other Comprehensive Income						
<i>Items that will not be recycled through the Income Statement</i>						
Gains for the period on equity securities in the investment portfolio	-	317,183	317,183	-	418,915	418,915
Deferred tax on above	-	(95,707)	(95,707)	-	(130,335)	(130,335)
Total other comprehensive income ¹	-	221,476	221,476	-	288,580	288,580
Total comprehensive income ²	136,741	221,476	358,217	118,287	288,580	406,867

¹ Net capital income not accounted for through the Income Statement

² This is the company's Net Return for the half-year, which includes the Net Profit plus the net realised and unrealised gains or losses on the Company's investment portfolio.

	Half-Year to 31 December 2017			Half-Year to 31 December 2016		
	Revenue	Capital	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total Comprehensive Income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	136,402	221,476	357,878	118,023	288,580	406,603
Minority Interest	339	-	339	264	-	264
	136,741	221,476	358,217	118,287	288,580	406,867

This Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

	Note	31 Dec 2017 \$'000	30 June 2017 \$'000
Current assets			
Cash		102,356	105,125
Receivables		9,486	52,011
Tax refund		5,388	-
Total current assets		117,230	157,136
Non-current assets			
Investment portfolio		7,156,793	6,790,368
Deferred tax assets		9,735	349
Total non-current assets		7,166,528	6,790,717
Total assets		7,283,758	6,947,853
Current liabilities			
Payables		1,068	6,953
Tax payable		-	1,980
Trading portfolio	4	10,926	546
Provisions		3,158	4,448
Total current liabilities		15,152	13,927
Non-current liabilities			
Provisions		1,083	1,332
Deferred tax liabilities - investment portfolio	5	1,073,578	967,091
Total non-current liabilities		1,074,661	968,423
Total liabilities		1,089,813	982,350
Net Assets		6,193,945	5,965,503
Shareholders' equity			
Share Capital	6	2,788,436	2,756,256
Revaluation Reserve		2,342,829	2,123,209
Realised Capital Gains Reserve		432,768	430,912
General Reserve		23,637	23,637
Retained Profits		605,517	631,070
Parent Entity Interest		6,193,187	5,965,084
Minority Interest		758	419
Total equity		6,193,945	5,965,503

This Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Attributable to members of Australian Foundation Investment Company
Ltd

Half-Year to 31 December 2017	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,756,256	2,123,209	430,912	23,637	631,070	5,965,084	419	5,965,503
Dividends paid	7	-	-	-	-	(161,955)	(161,955)	-	(161,955)
Shares issued - Dividend Reinvestment Plan	6	32,249	-	-	-	-	32,249	-	32,249
Other Share Capital Adjustments	6	(69)	-	-	-	-	(69)	-	(69)
Total transactions with shareholders		32,180	-	-	-	(161,955)	(129,775)	-	(129,775)
Profit for the half-year		-	-	-	-	136,402	136,402	339	136,741
Net gains for the period on equity securities in the investment portfolio		-	221,476	-	-	-	221,476	-	221,476
Other Comprehensive Income for the half-year		-	221,476	-	-	-	221,476	-	221,476
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(1,856)	1,856	-	-	-	-	-
Total equity at the end of the half-year		2,788,436	2,342,829	432,768	23,637	605,517	6,193,187	758	6,193,945

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DEC. 2017 (CONT)

Attributable to members of Australian Foundation Investment Company Ltd									
Half-Year to 31 December 2016	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,521,441	1,767,628	457,593	23,637	637,094	5,407,393	1,148	5,408,541
Dividends paid	7	-	-	(16,698)	-	(139,154)	(155,852)	-	(155,852)
Shares issued - Dividend Reinvestment Plan		32,493	-	-	-	-	32,493	-	32,493
- Convertible Note Conversion		5,133	-	-	-	-	5,133	-	5,133
- Share Purchase Plan		(61)	-	-	-	-	(61)	-	(61)
Other Share Capital Adjustments		37,565	-	(16,698)	-	(139,154)	(118,287)	-	(118,287)
Total transactions with shareholders									
Profit for the half-year		-	-	-	-	118,023	118,023	264	118,287
<i>Other Comprehensive Income for the half-year</i>									
Net gains for the period on equity securities in the investment portfolio		-	288,580	-	-	-	288,580	-	288,580
Other Comprehensive Income for the half-year		-	288,580	-	-	-	288,580	-	288,580
Transfer to Realised Capital Gains Reserve of net cumulative losses on investments sold		-	208	(208)	-	-	-	-	-
Total equity at the end of the half-year		2,559,006	2,056,416	440,687	23,637	615,963	5,695,709	1,412	5,697,121

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Half-year 2017 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2016 \$'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	52,731	20,119
Purchases for trading portfolio	(6,253)	(13,810)
Interest received	800	924
Dividends and distributions received	141,036	163,702
	<u>188,314</u>	<u>170,935</u>
Other receipts	2,380	2,521
Administration expenses	(7,692)	(7,982)
Finance costs paid	(425)	(6,349)
Taxes paid	(9,410)	(9,797)
Net cash inflow/(outflow) from operating activities	<u>173,167</u>	<u>149,328</u>
Cash flows from investing activities		
Sales from investment portfolio	181,877	103,555
Purchases for investment portfolio	(228,247)	(207,522)
Taxes paid on capital gains	-	(7,635)
Net cash inflow/(outflow) from investing activities	<u>(46,370)</u>	<u>(111,602)</u>
Cash flows from financing activities		
Share issue costs	(69)	(61)
Dividends paid	(129,497)	(123,171)
Net cash inflow/(outflow) from financing activities	<u>(129,566)</u>	<u>(123,232)</u>
Net increase/(decrease) in cash held	(2,769)	(85,506)
Cash at the beginning of the half-year	105,125	155,903
Cash at the end of the half-year	<u>102,356</u>	<u>70,397</u>

This Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

1. Basis of preparation of half-year financial report

This general purpose half-year financial report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. This report should be read in conjunction with the 2017 Annual Report and public announcements made by the Group during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

In the interests of transparency in its reporting, the Group uses the phrase “market value” in place of the AASB terminology “fair value for actively traded securities.”

2. Financial reporting by segments

The Group consists of a Listed Investment Company and a subsidiary which provides administration services to it and to other Listed Investment Companies in Australia. It has no reportable business or geographic segments.

(a) Segment information provided to the Board

The internal reporting provided to the Board for the Group's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards, except that net assets are reviewed both before and after the effects of capital gains tax on investments (as reported in the Group's Net Tangible Asset announcements to the ASX).

The relevant amounts as at 31 December 2017 and 31 December 2016 were as follows:

	2017	2016
	\$	\$
Net tangible asset backing per share		
Before Tax	6.15	5.83
After Tax	5.24	5.01

(b) Other segment information

Segment Revenue

Revenues from external parties are derived from the receipt of dividend, distribution and interest income, and income arising on the trading portfolio.

The Company is domiciled in Australia and the Group's dividend and distribution income is predominantly from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group's investment in Commonwealth Bank : 12.5% and Westpac Bank : 10.0% comprising more than 10% of the Group's income (including trading portfolio) for the half-year ending 31 December 2017 (2016 : Commonwealth Bank : 13.0%, Westpac Bank 10.8%).

3. Income from operating activities	Half-year 2017 \$'000	Half-year 2016 \$'000
Income from operating activities is comprised of the following:		
Dividends & distributions		
• securities held in investment portfolio	150,683	131,934
• securities held in trading portfolio	109	109
	<u>150,792</u>	<u>132,043</u>
Interest income		
• securities held in investment portfolio	-	-
• deposits and income from bank bills	810	928
	<u>810</u>	<u>928</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	49	655
• unrealised gains/(losses) in trading portfolio	(6,602)	(1,018)
• gains/(losses) on non-equity investments	-	-
	<u>(6,553)</u>	<u>(363)</u>
Administration fees received from other Listed Investment Companies	2,180	2,256
Expenses recovered from other Listed Investment Companies	147	133
Other expenses recovered	53	51
Other income	-	83
	<u>147,429</u>	<u>135,131</u>

4. Current liabilities – trading portfolio

The Company enters into option contracts in the trading portfolio for the purpose of enhancing returns, offsetting risk or providing opportunities to acquire or sell securities at advantageous prices.

As at balance date there were call options outstanding which, if they were all exercised, would require the Company to deliver securities to the value of \$193.5 million (30 June 2017: \$82.4 million).

As at balance date the Company had outstanding put options which at the option of the purchaser may have required the Company to buy \$41.1 million worth of securities prior to the respective expiry dates if they were all exercised (30 June 2017 :\$18.4 million).

5. Deferred tax liabilities – investment portfolio

In accordance with AASB 112 *Income Taxes*, deferred tax liabilities have been recognised for Capital Gains Tax on the unrealised gain in the investment portfolio at current tax rates (30%) totalling \$1,073.6 million (30 June 2017 : \$967.1 million). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

6. Shareholders' equity – share capital

Movements in Share Capital of the Company during the half-year were as follows:

Date	Details	Notes	Number of shares '000	Issue price \$	Paid-up Capital \$'000
01/07/2017	Opening Balance		1,176,079		2,756,256
30/08/2017	Dividend Reinvestment Plan	i	5,448	5.92	32,249
30/08/2017	Dividend Substitution Share Plan	ii	455	5.92	n/a
Various	Other Share Capital adjustments		-		(69)
31/12/2017	Balance		1,181,982		2,788,436

- i The Company has a Dividend Reinvestment Plan under which some shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares was based on the average selling price of shares traded on the Australian Securities Exchange & Chi-X automated trading systems in the five days from the day the shares begin trading on an ex-dividend basis.
- ii The Company has a Dividend Substitution Share Plan under which some shareholders elected to forego all or part of their dividend payment and receive shares instead. Pricing of the new DSSP shares was done on the same basis as the DRP.
- iii The Company introduced an on-market Buy-Back Programme in December 2000. This plan remains active. No shares were bought back during the period.

7. Dividends	Half-year 2017 \$'000	Half-year 2016 \$'000
Dividends (fully franked) paid during the period (excluding DSSP shares)	161,955 (14 cents per share)	155,852 (14 cents per share)

Dividends not recognised at period end

Since the end of the half-year the Directors have declared an interim dividend of 10 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 23 February 2018, but not recognised as a liability at the end of the half-year is

118,198

8. Earnings per Share	Half-year 2017	Half-year 2016
	Number	Number
Weighted average number of ordinary shares used as the denominator	1,180,025,058	1,135,136,382
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the Company	136,402	118,023
	Cents	Cents
Basic earnings per share	11.56	10.40
Diluted*	Number	Number
Weighted average number of ordinary shares attributable to members of the Company	1,180,025,058	1,135,136,382
Weighted maximum number of potential shares as a result of possible conversion	0	36,779,110
	<hr/> 1,180,025,058	<hr/> 1,171,915,492
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the Company	136,402	118,023
Interest & fees on convertible notes (after tax)	0	4,396
Adjusted profit after tax attributable to members of the Company	<hr/> 136,402	<hr/> 122,419
	Cents	Cents
Diluted earnings per share	11.56	10.45

*The calculation of diluted earnings per share for the half-year ended 31 December 2016 adjusts the profit or the net operating result attributable to ordinary equity holders and the weighted average number of shares on issue for the effect of the convertible notes on issue at 31 December 2016.

9. Events subsequent to balance date

Since 31 December 2017 to the date of this report there has been no event specific to the Company of which the Directors are aware which has had a material effect on the Group or its financial position.

10. Contingencies

At balance date Directors are not aware of any material contingent liabilities or contingent assets other than those already disclosed elsewhere in the financial report.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 22 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance, as represented by the results of the operations, changes in equity and cash flows, for the half-year ended on that date; and
- (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.



T.A. Campbell AO
Chairman
Melbourne
22 January 2018



Independent auditor's review report to the members of Australian Foundation Investment Company Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Foundation Investment Company Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of changes in equity, consolidated cash flow statement and consolidated income statement and statement of comprehensive income for the half-year ended on that date, selected explanatory notes and the directors' declaration for Australian Foundation Investment Company Limited (the consolidated entity). The consolidated entity comprises the Company and the entity it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year 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 half-year financial report based on our review. We conducted our review in accordance with Australian 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Foundation Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Foundation Investment Company Limited is not in accordance with the *Corporations Act 2001* including:

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

A stylized signature or mark for PricewaterhouseCoopers.

PricewaterhouseCoopers

A handwritten signature in dark ink.

Nadia Carlin
Partner

Melbourne
22 January 2018