AUSTRALIAN FOUNDATION INVESTMENT COMPANY

90 YEARS OF INVESTMENT EXPERIENCE

Contents

These documents comprise the preliminary final report given to ASX under listing rule 4.3A

Australian Foundation Investment Company Limited
ABN 56 004 147 120

Appendix 4E Statement for the Full-Year ending 30 June 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2018 with the prior corresponding period being the year ended 30 June 2017.

This report is based on audited financial statements. A copy of the audit report can be found on page 37.

Results for announcement to the market

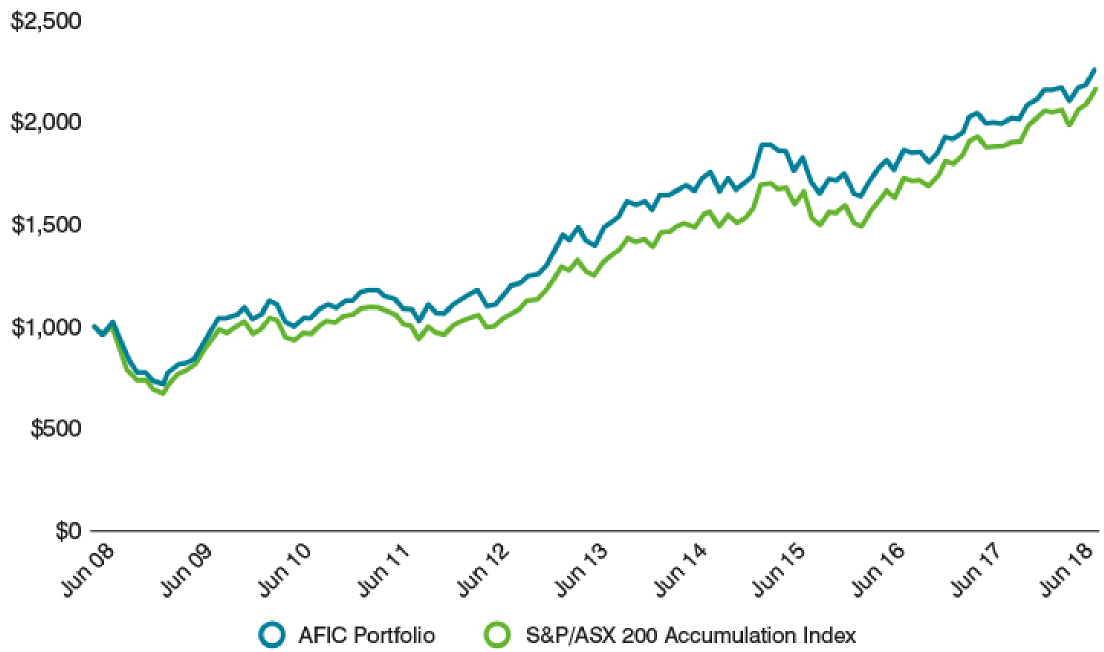
- Net profit was $279.0 million, 13.7% up from the prior year.
- Net profit attributable to members (excluding minority interests) was $278.7 million, 13.7% up from the prior year.
- Revenue from operating activities was $308.5 million, 11.1% up from the prior year.
- The Management Expense Ratio ("MER") calculated as the net expenses of managing the Company as a percentage of the average value of its investments including cash over the year, was 0.14% for the year (2017: 0.14%).
- Net tangible assets per share as at 30 June 2018, before allowing for the final dividend, were $6.27 per share before allowing for the provision for deferred tax on unrealised gains in the investment portfolio (2017: $5.89).
- A fully-franked final dividend of 14 cents per share, the same as last year's final dividend, will be paid on 31 August 2018 to shareholders on the register on 9 August 2018. The shares are expected to trade ex-dividend on 8 August 2018. There is no conduit foreign income component of the dividend.
- There is no New Zealand imputation credit attached to this year's final dividend.
- 2 cents of the final dividend are sourced from capital gains, on which the Group has paid or will pay tax. The amount of the pre-tax attributable gain, known as an "LIC capital gain", is therefore 2.86 cents. This enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements.
- The interim dividend of 10 cents per share was paid to shareholders on 23 February 2018.
- The total dividend for the financial year is therefore 24 cents per share, fully-franked, the same as last year.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for both of 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 after the shares trade ex-dividend. Notices of participation in the DRP & the DSSP need to be received by the share registry by 5 pm (AEST) on 10 August 2018. All shares issued under the DRP and DSSP will rank equally with existing shares.
- The 2018 AGM will be held at Zinc, Federation Square, Melbourne, at 10.00 AM on Tuesday 9 October.

Increase in Dividends Lifts Profit 13.7%

Full Year Report to 30 June 2018

- **AFIC invests in a diversified portfolio of Australian equities, seeking to provide attractive income and capital growth over the medium to long term at a low cost.**
- **Full Year Profit of $279.0 million, up 13.7% from $245.3 million in the corresponding period last year:**
  - **Investment income increased $31.5 million (up 11.6%), due primarily to a lift in dividends across a range of companies, particularly resource companies, including participation in the Rio Tinto off-market buy-back.**
  - **Finance costs were down $8.1 million following the conversion or redemption of convertible notes in February 2017.**
- **Earnings per share of 23.6 cents, up from 21.3 cents.**
- **Final dividend maintained at 14 cents per share fully franked, bringing total dividends for the year to 24 cents per share fully franked, the same as last year.**
- **Management expense ratio of 0.14%.**
- **Twelve-month portfolio return was 10.8%, including franking it was 12.7%. For the S&P/ASX 200 Accumulation Index the respective figures were 13.0% and 14.6%. AFIC's performance numbers are after costs.**

Growth in Investment of $1,000 (including benefit of franking) − 10 Years to 30 June 2018



Note assumes an investor can take full advantage of the franking credits. This chart calculates the benefit of franking credits at the time dividends are paid for both AFIC and the Index. In practice there is a timing difference between receipt of the dividend and the realisation of the franking benefit in the following tax year.

Portfolio Performance

The return of the market over the year was characterised by a pronounced divergence of performance across sectors and companies. Ongoing growth across global economies, in particular the United States and China, led to rising commodity prices, with the Australian resources index up 41% over the twelve month period. Within this growth, the small and mid cap resource sectors were up 49 % and 42% respectively. However, during the same period the industrial sector was up only 8%, whilst the banking sector fell just over 1%. Furthermore, in an environment where many large companies are facing subdued growth, there has been an increased flow of funds into the small and mid cap section of the market. This has seen very strong share price performance in those companies with the strongest growth expectations, primarily through a re-rating of valuations.

AFIC's portfolio was up 10.8% for the twelve months to 30 June 2018 compared with the S&P/ASX 200 Accumulation Index which increased 13.0%. In the resources sector AFIC's primary exposure is to companies with long-life assets and low-cost production such as BHP and Rio Tinto, rather than the more cyclical small and mid-sized companies.

The best performing companies in the AFIC portfolio outside the large resource companies were CSL, Wesfarmers, Macquarie Group, Oil Search and Woolworths.

The long term performance of the portfolio, which is more in line with the Company's investment timeframes, was 6.5% per annum for the ten years to 30 June 2018 versus the Index return of 6.4% per annum. Including the full benefit of franking, these returns are 8.5% per annum for AFIC and 8.0% per annum for the Index. AFIC's performance numbers are after costs and tax paid.

Portfolio Adjustments

A key restraint on the current Australian market is the prolonged, subdued growth outlook facing many large companies. This arises from their market positions with no further consolidation possible, increased competition and disruption, and greater regulatory intervention. AFIC has continued to adjust the portfolio to respond to this situation. Whilst larger companies continue to make up a significant proportion of the portfolio, AFIC has been increasing its holdings in a number of mid-sized and small companies with good growth prospects. This has been done having regard to balancing the need to grow dividends as well as provide meaningful capital growth within the portfolio over the long term.

Major purchases included adding to holdings in Macquarie Group, CSL, Sonic Healthcare, James Hardie Industries and Alumina, all of which have unique industry exposures in global markets, and Sydney Airport and Boral. Additions were also made to smaller companies, Reliance Worldwide and Reece, including participation in their respective capital raisings to fund offshore acquisitions, and Carsales.com. Unibail-Rodamco-Westfield (which acquired Westfield Corporation through a scrip bid), NEXTDC and Qantas were the more significant new additions to the portfolio.

Major sales included the complete disposal of Incitec Pivot, Coca-Cola Amatil and Japara Healthcare. Westfield Corporation and Tox Free Solutions were sold because of takeovers. Other major sales included a small reduction in the positions of QBE Insurance, AMP, Telstra and Treasury Wine Estates, all of which have been long term holdings in the portfolio, and Vicinity Centres.

Going Forward

The ongoing strength of the Australian market continues to create a challenging investment environment. In particular, the drive by investors towards companies displaying good growth prospects is pushing share prices for these businesses very high. For AFIC it is a matter of being patient and making adjustments that make sense as a long-term investor in quality and growing companies. In this context, high valuation levels at a time when interest rates are starting to move from very low levels may create some uncertainty for markets and therefore could then provide investment opportunities.

Please direct any enquiries to:

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23 July 2018

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions	Cost ($'000)
Macquarie Group	105,902
CSL	48,838
Sydney Airport	47,044
Boral	41,944
Unibail-Rodamco-Westfield* (as a result of the takeover of Westfield Corporation)	36,078
Sonic Healthcare	35,347
James Hardie Industries	29,605
NEXTDC*	28,558
Reliance Worldwide (includes $10.91 million in 1 for 1.98 issue at $4.15 per share)	27,188
Alumina	24,308
Carsales.com	22,962
Reece (includes $10.56 million in 1 for 11 issue and placement at $9.30 per share)	20,903
Qantas Airways*	20,637

*New holding in the portfolio.

Disposals	Proceeds ($'000)
Incitec Pivot#	79,970
Westfield Corporation# (taken over by Unibail-Rodamco)	70,902
Healthscope	57,338
Coca-Cola Amatil#	43,656
QBE Insurance	34,096
Tox Free Solutions# (taken over by Cleanaway Waste Management, includes special dividend)	30,592
Vicinity Centres	29,826
AMP	28,171
Japara Healthcare#	26,928
Telstra	24,288
Treasury Wine Estates	23,782

#Complete disposal from the portfolio

New Companies Added to the Investment Portfolio

Unibail-Rodamco-Westfield
NEXTDC
Qantas Airways
Cleanaway Waste Management
Adelaide Brighton
AUB Group
Goodman Group

TOP 25 INVESTMENTS AS AT 30 JUNE 2018

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 29 June 2018

			Total Value $ million	% of Portfolio
1		Commonwealth Bank of Australia	575.7	7.9%
2	*	BHP	477.7	6.6%
3		Westpac Banking Corporation	455.5	6.3%
4	*	CSL	372.6	5.1%
5		Wesfarmers	331.8	4.6%
6		Rio Tinto	288.4	4.0%
7		National Australia Bank	256.1	3.5%
8		Australia and New Zealand Banking Group	239.7	3.3%
9		Transurban Group	237.3	3.3%
10	*	Macquarie Group	206.4	2.8%
11		Amcor	180.5	2.5%
12	*	Woolworths Group	174.6	2.4%
13		Oil Search	146.7	2.0%
14		Woodside Petroleum	129.3	1.8%
15		Telstra Corporation	115.3	1.6%
16		Brambles	107.8	1.5%
17	*	Sydney Airport	107.3	1.5%
18		AGL Energy	96.8	1.3%
19		Treasury Wine Estates	94.9	1.3%
20		James Hardie Industries	91.9	1.3%
21		Computershare	85.9	1.2%
22		Qube Holdings	84.3	1.2%
23		Sonic Healthcare	82.0	1.1%
24	*	Seek	77.9	1.1%
25		Ramsay Health Care	76.4	1.1%
			5,092.6	
		As % of Total Portfolio Value (excludes Cash)	70.0%	

* Indicates that options were outstanding against part of the holding

Portfolio Performance to 30 June 2018

Performance Measures to 30 June 2018	1 Year	5 Years %PA	10 Years %PA
Portfolio Return – Net Asset Backing Return including dividends reinvested	***10.8%***	***8.2%***	***6.5%***
S&P/ASX 200 Accumulation Index	13.0%	10.0%	6.4%

Portfolio Return – Net Asset Backing Gross Return including dividends reinvested*	***12.7%***	***10.1%***	***8.5%***
S&P/ASX 200 gross Accumulation Index*	14.6%	11.6%	8.0%

*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 expenses, 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 (AFIC)

Consolidated Annual Financial Statements

30 June 2018

FINANCIAL STATEMENTS

Consolidated Income Statement for the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Dividends and distributions	A3	302,389	270,887
Revenue from deposits and bank bills	A3	1,409	1,659
Other revenue	A3	4,703	5,105
Total revenue		**308,501**	**277,651**
Net gains on trading portfolio and non-equity investments	A3	264	3,065
Income from operating activities		**308,765**	**280,716**
Finance costs		(848)	(8,969)
Administration expenses	B1	(14,533)	(14,483)
Profit before income tax expense		**293,384**	**257,264**
Income tax expense	B2, E2	(14,377)	(11,964)
Profit for the year		**279,007**	**245,300**
Profit is attributable to :			
Equity holders of Australian Foundation Investment Company		278,709	245,029
Minority interest		298	271
		279,007	245,300
		Cents	**Cents**
Basic earnings per share	A5	23.57	21.32

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

Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2018

	Year to 30 June 2018			Year to 30 June 2017		
	Revenue[1]	**Capital[1]**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Profit for the year	**279,007**	**-**	**279,007**	**245,300**	**-**	**245,300**
Other Comprehensive Income						
Items that will not be recycled through the Income Statement						
Gains for the period	-	454,180	**454,180**	-	500,389	**500,389**
Tax on above	-	(136,841)	**(136,841)**	-	(154,791)	**(154,791)**
Total Other Comprehensive Income	-	**317,339**	**317,339**	-	**345,598**	**345,598**
Total Comprehensive Income	**279,007**	**317,339**	**596,346**	**245,300**	**345,598**	**590,898**

[1] 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio, including non-equity investments held in the investment portfolio. Income in the form of distributions and dividends is recorded as 'Revenue'. All other items, including expenses, are included in Profit for the year, which is categorised under 'Revenue'.

Total Comprehensive Income is attributable to :

	Year to 30 June 2018			Year to 30 June 2017		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Equity holders of Australian Foundation Investment Company Ltd	278,709	317,339	596,048	245,029	345,598	590,627
Minority Interests	298	-	298	271	-	271
	279,007	317,339	596,346	245,300	345,598	590,898

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

Consolidated Balance Sheet as at 30 June 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash	D1	99,183	105,125
Receivables		77,234	52,011
Total current assets		**176,417**	**157,136**
Non-current assets			
Investment portfolio	A2	7,280,706	6,790,368
Deferred tax assets		1,257	349
Total non-current assets		**7,281,963**	**6,790,717**
Total assets		**7,458,380**	**6,947,853**
Current liabilities			
Payables		712	6,953
Tax payable		8,245	1,980
Borrowings – bank debt	D2	100	-
Trading portfolio		6,757	546
Provisions		4,385	4,448
Total current liabilities		**20,199**	**13,927**
Non-current liabilities			
Provisions		1,394	1,332
Deferred tax liabilities – investment portfolio	B2	1,097,527	967,091
Total non-current liabilities		**1,098,921**	**968,423**
Total liabilities		**1,119,120**	**982,350**
Net Assets		**6,339,260**	**5,965,503**
Shareholders' equity			
Share capital	A1, D6	2,811,721	2,756,256
Revaluation reserve	A1, D3	2,422,568	2,123,209
Realised capital gains reserve	A1, D4	448,892	430,912
General reserve	A1	23,637	23,637
Retained profits	A1, D5	631,725	631,070
Parent entity interest		**6,338,543**	**5,965,084**
Minority interest		**717**	**419**
Total equity		**6,339,260**	**5,965,503**

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

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2018

Year Ended 30 June 2018	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 year		**2,756,256**	**2,123,209**	**430,912**	**23,637**	**631,070**	**5,965,084**	**419**	**5,965,503**
Dividends paid to shareholders	A4	-	-	-	-	(278,054)	**(278,054)**	**-**	**(278,054)**
- Dividend Reinvestment Plan	D6	55,601	-	-	-	-	**55,601**	**-**	**55,601**
Other share capital adjustments		(136)	-	-	-	-	**(136)**	**-**	**(136)**
Total transactions with shareholders		**55,465**	**-**	**-**	**-**	**(278,054)**	**(222,589)**	**-**	**(222,589)**
Profit for the year		-	-	-	-	278,709	**278,709**	**298**	**279,007**
Other Comprehensive Income (net of tax)									
Net gains for the period		-	317,339	-	-	-	**317,339**	**-**	**317,339**
Other Comprehensive Income for the year		-	317,339	-	-	-	**317,339**	**-**	**317,339**
Transfer to Realised Capital Gains of cumulative gains on investments sold		-	(17,980)	17,980	-	-	**-**	**-**	
Total equity at the end of the year		**2,811,721**	**2,422,568**	**448,892**	**23,637**	**631,725**	**6,338,543**	**717**	**6,339,260**

This statement of changes in equity should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2018 (continued)

Year Ended 30 June 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 year		**2,521,441**	**1,767,628**	**457,593**	**23,637**	**637,094**	**5,407,393**	**1,148**	**5,408,541**
Dividends paid to shareholders	A4	-	-	(16,698)	-	(251,053)	**(267,751)**	**-**	**(267,751)**
- Dividend Reinvestment Plan	D6	55,242	-	-	-	-	**55,242**	**-**	**55,242**
- Conversion of Notes	D6	179,755	-	-	-	-	**179,755**	**-**	**179,755**
Other share capital adjustments		(182)	-	-	-	-	**(182)**	**-**	**(182)**
Total transactions with shareholders		**234,815**	**-**	**(16,698)**	**-**	**(251,053)**	**(32,936)**	**-**	**(32,936)**
Profit for the year		-	-	-	-	245,029	**245,029**	**271**	**245,300**
Other Comprehensive Income (net of tax)									
Net gains for the period		-	345,598	-	-	-	**345,598**	**-**	**345,598**
Other Comprehensive Income for the year		-	345,598	-	-	-	**345,598**	**-**	**345,598**
Transfer to Realised Capital Gains of cumulative losses on investments sold		-	9,983	(9,983)	-	-	**-**	**-**	**-**
Dividend paid to minority interests by AICS		-	-	-	-	-	**-**	**(1,000)**	**(1,000)**
Total equity at the end of the year		**2,756,256**	**2,123,209**	**430,912**	**23,637**	**631,070**	**5,965,084**	**419**	**5,965,503**

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

Consolidated Cash Flow Statement for the Year Ended 30 June 2018

	Note	2018 $'000 Inflows/ (Outflows)	2017 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		66,478	29,002
Purchases for trading portfolio		(4,770)	(18,305)
Interest received		1,347	1,668
Dividends and distributions received		243,605	259,553
		306,660	271,918
Other receipts		4,957	5,111
Administration expenses		(14,803)	(14,173)
Finance costs paid		(848)	(12,550)
Taxes paid		(14,808)	(23,645)
Net cash inflow/(outflow) from operating activities	E1	**281,158**	**226,661**
Cash flows from investing activities			
Sales from investment portfolio		689,030	216,497
Purchases for investment portfolio		(753,667)	(269,443)
Net cash inflow/(outflow) from investing activities		**(64,637)**	**(52,946)**
Cash flows from financing activities			
Redeeming of convertible notes		-	(10,722)
Net bank borrowings		100	-
Share issue transaction costs		(136)	(59)
Dividends paid		(222,427)	(213,712)
Net cash inflow/(outflow) from financing activities		**(222,463)**	**(224,493)**
Net increase/(decrease) in cash held		(5,942)	(50,778)
Cash at the beginning of the year		105,125	155,903
Cash at the end of the year	D1	**99,183**	**105,125**

For the purpose of the cash flow statement, 'cash' includes cash and deposits held at call.

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

Notes to the financial statements

A. Understanding AFIC's financial performance

A1. How AFIC manages its capital

AFIC's objective is to provide shareholders with attractive investment returns through access to a growing stream of fully-franked dividends and enhancement of capital invested.

AFIC recognises that its capital will fluctuate with market conditions. In order to manage those fluctuations, the Board may adjust the amount of dividends paid, issue new shares, buy back the Company's shares or sell assets.

AFIC's capital consists of its shareholders' equity plus any net borrowings. A summary of the balances in equity is provided below:

	2018 $'000	2017 $'000
Share capital	2,811,721	2,756,256
Revaluation reserve	2,422,568	2,123,209
Realised capital gains reserve	448,892	430,912
General reserve	23,637	23,637
Retained profits	631,725	631,070
	6,338,543	5,965,084

Refer to notes D3-D6 for a reconciliation of movement from period to period for each equity account (except the General Reserve, which is historical, relates to past profits which can be distributed and has had no movement).

A2. Investments held and how they are measured

AFIC has two portfolios of securities: the investment portfolio and the trading portfolio.

The investment portfolio holds securities which the company intends to retain on a long-term basis, and includes a small sub-component over which options may be written. The trading portfolio consist of securities that are held for short-term trading only, including call option contracts written over securities that are held in the specific sub-component of the investment portfolio and on occasion put options and is relatively small in size. The Board has therefore focused the information in this section on the investment portfolio. Details of all holdings (except for the specific option holdings) as at the end of the reporting period can be found at the end of the Annual Report.

The balance and composition of the investment portfolio was:

	2018 $'000	2017 $'000
Equity instruments (excluding below) at market value	6,940,638	6,495,320
Equity instruments (over which options may be written)	327,764	282,754
Hybrids	12,304	12,294
	7,280,706	6,790,368

How investments are shown in the financial statements

The accounting standards set out the following hierarchy for fair value measurement:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liabilities that are not based on observable market data

All financial instruments held by AFIC are classified as Level 1 (other than the options sold by the Company which are Level 2). Their fair values are initially measured at the costs of acquisition and then remeasured based on quoted market prices at the end of the reporting period.

Net tangible asset backing per share

The Board regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains in AFIC's long-term investment portfolio. Deferred tax is calculated as set out in note B2. The relevant amounts as at 30 June 2018 and 30 June 2017 were as follows:

	30 June 2018	**30 June 2017**
Net tangible asset backing per share	**$**	**$**
Before tax	**6.27**	**5.89**
After tax	5.34	5.07

Equity investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' ("OCI"), because they are equity instruments held for long-term capital growth and dividend income, rather than to make a profit from their sale. This means that changes in the value of these shares during the reporting period are included in OCI in the Consolidated statement of comprehensive income. The cumulative change in value of the shares over time is then recorded in the Revaluation Reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realisation reserve.

Puttable instruments & convertible notes

Puttable instruments and convertible notes are classified as financial assets at fair value through profit and loss under the accounting standards and therefore need to be treated differently in the financial statements, even though they are managed in the same way as the rest of the investment portfolio. Changes in the value of these investments are reflected in the consolidated income statement and not in the consolidated statement of comprehensive income with the other investments. Any gains or losses on these securities are transferred from retained profits to the revaluation reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realisation reserve.

Securities sold and how they are measured

Where securities are sold, any difference between the sale price and the cost is transferred from the revaluation reserve to the realisation reserve and the amounts noted in the consolidated statement of changes in equity. This means the Company is able to identify the realised gains out of which it can pay a 'Listed Investment Company' (LIC) gain as part of the dividend, which conveys certain taxation benefits to many of AFIC's shareholders.

During the period $712.6 million (2017: $217.2 million) of equity securities were sold. The cumulative gain on the sale of securities was $18.0 million for the period after tax (2017: $10.0 million loss). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated statement of changes in equity). These sales were accounted for at the date of trade.

A3. Operating income

The total income received from AFIC's investments in 2018 is set out below.

Dividends and Distributions	2018 $'000	2017 $'000
Income from securities held in investment portfolio at 30 June	272,362	264,658
Income from investment securities sold during the year	29,918	6,120
Income from securities held in trading portfolio at 30 June	-	109
Income from trading securities sold during the year	109	-
	302,389	270,887

Interest income		
Income from cash investments	1,409	1,659
Other income		
Administration fees	4,681	5,022
Other income	22	83
	4,703	5,105

Dividend income

Distributions from listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Capital returns on ordinary shares are treated as an adjustment to the carrying value of the shares.

Trading income

Net gains on the trading and options portfolio are set out below.

Net gains		2018 $'000	2017 $'000
Net realised gains from trading portfolio	– shares	672	470
	- options	3,559	1,912
Unrealised gains/(losses) from trading portfolio	- shares	-	496
	- options	(3,967)	187
		264	3,065

$115.7 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2017: $112.9 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Group's Investment Portfolio. If all call options were exercised, this would lead to the sale of $61.7 million worth of securities at an agreed price – the 'exposure' (2017: $82.4 million). If all put options were exercised, this would lead to the purchase of $19.7 million of securities at an agreed price (2017 : $18.4 million)

A4. Dividends paid

The dividends paid and payable for the year ended 30 June 2018 are shown below:

	2018 $'000	2017 $'000
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2017 of 14 cents fully franked at 30% paid 30 August 2017 (2017: 14 cents fully franked at 30% paid on 30 August 2016).	161,955	155,852
Interim dividend for the year ended 30 June 2018 of 10 cents per share fully franked at 30%, paid 23 February 2018 (2017: 10 cents fully franked at 30% paid 24 February 2017)	116,099	111,899
	278,054	267,751
Dividends paid in cash	222,453	212,509
Dividends reinvested in shares	55,601	55,242
	278,054	267,751
Dividends forgone via DSSP	4,788	4,241
(b) Franking credits		
Opening balance of franking account at 1 July	158,730	159,869
Franking credits on dividends received	104,609	92,267
Tax paid during the year	14,069	23,164
Franking credits paid on ordinary dividends paid	(119,166)	(114,750)
Franking credits deducted on DSSP shares issued	(2,055)	(1,820)
Closing Balance of Franking Account	**156,187**	**158,730**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	22,534	16,008
Adjusted Closing Balance	**178,721**	**174,738**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(71,169)	(70,565)
Net available	**107,552**	**104,173**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	250,955	243,070

AFIC's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and on AFIC paying tax.

(c) New Zealand imputation account

	2018 $'000	2017 $'000
(Figures in A$ at year-end exchange rate : 2018 : $NZ1.093:$A1; 2017 : $NZ1.047:$A1)		
Opening balance	13,357	7,660
Imputation credits on dividends received	5,987	6,284
Imputation credits on dividends paid	(12,348)	-
Closing balance	6,996	13,944

(d) Dividends declared after balance date

Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2018 to be paid on 31 August 2018, but not recognised as a liability at the end of the financial year is:

166,061

(e) Listed Investment Company capital gain account

	2018 $'000	2017 $'000
Balance of the Listed Investment Company (LIC) capital gain account:	32,686	9,883
This equates to an attributable amount of:	46,694	14,118

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains, or the receipt of LIC distributions from LIC securities held in the portfolios. $33.9 million attributable gain is attached to the final dividend to be paid on 31 August 2018.

A5. Earnings per share

The table below shows the earnings per share based on the profit for the year:	2018	2017
Basic Earnings per share	**Number**	**Number**
Weighted average number of ordinary shares used as the denominator	1,182,444,510	1,149,255,591
	$'000	**$'000**
Profit for the year	278,709	245,029
	Cents	**Cents**
Basic earnings per share	23.57	21.32

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2018 $'000	2017 $'000
Rental expense relating to non-cancellable leases	(621)	(636)
Employee benefit expenses	(8,911)	(9,138)
Depreciation charge	-	-
Other administration expenses	(5,001)	(4,709)
	(14,533)	(14,483)

Employee benefit expenses

A major component of employee benefit expenses is Directors' and Executives' remuneration. This has been summarised below:

	Short-term $	Other Long Term $	Post-employment $	Share-based $	Total $
2018					
Non-executive Directors	719,179	-	68,321	-	787,500
Executives	3,118,300	(16,625)	107,888	53,514	3,263,077
Total	3,837,479	(16,625)	176,209	53,514	4,050,577
2017					
Non-executive Directors	657,536	-	62,464	-	720,000
Executives	3,404,083	64,161	127,136	83,187	3,678,567
Total	4,061,619	64,161	189,600	83,187	4,398,567

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services ("AICS") – see Note F8) does not make loans to Directors or Executives.

B2. Tax

AFIC's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments and convertible notes that are classified as debt.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where AFIC disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

Tax expense

The income tax expense for the period is shown below:

(a) Reconciliation of income tax expense to prima facie tax payable

	2018 $'000	**2017 $'000**
Profit before income tax expense	**293,384**	**257,264**
Tax at the Australian tax rate of 30% (2017: 30%)	88,015	77,179
Tax offset for franked dividends received	(70,989)	(63,495)
Tax effect of sundry items taxable in current year but not included in income	(15)	322
	17,011	**14,006**
Over provision in prior years	(2,634)	(2,042)
Total tax expense	**14,377**	**11,964**

Deferred tax liabilities – investment portfolio

The accounting standards require us to recognise a deferred tax liability for the potential capital gains tax on the unrealised gain in the investment portfolio. This amount is shown in the Balance Sheet. However, the Board does not intend to sell the investment portfolio, so this tax liability is unlikely to arise at this amount. Any sale of securities would also be affected by any changes in capital gains tax legislation or tax rate applicable to such gains when they are sold.

	2018 $'000	**2017 $'000**
Deferred tax liabilities on unrealised gains in the investment portfolio	1,097,527	967,091
Opening balance at 1 July	967,091	812,947
Tax on realised gains	(6,405)	(647)
Charged to OCI for ordinary securities on gains or losses for the period	136,841	154,791
	1,097,527	967,091

B3. Risk

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

As a Listed Investment Company that invests in tradeable securities, AFIC can never be free of market risk as it invests its capital in securities which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio, would have led to a reduction in AFIC's comprehensive income of $254.8 million and $509.6 million respectively, at a tax rate of 30% (2017: $237.7 million & $475.3 million).

AFIC seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one company or one particular sector of the market. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Investment Committee and risk can be managed by reducing exposure where necessary. AFIC does not have a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

AFIC's total investment exposure by sector is as below:

	2018	2017
	%	%
Energy	5.44	4.37
Materials	18.61	16.73
Industrials	12.08	10.96
Consumer Discretionary	2.01	1.80
Consumer Staples	8.99	8.64
Banks	21.31	24.52
Other Financials	10.86	10.69
Property Trusts	1.72	2.18
Telecommunications	2.02	3.79
Health Care	9.90	9.80
Info Technology	3.86	2.67
Utilities	1.85	2.33
Cash	1.35	1.52
Securities representing over 5% of the investment portfolio at 30 June were		
Commonwealth Bank	7.9	9.6
BHP	6.6	4.8
Westpac	6.3	7.0
CSL	5.1	3.5

AFIC is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars.

The writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading or the specific sub-section of the investment portfolio.

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short term for a fixed interest rate.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. AFIC is exposed to credit risk from cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue. The risk in relation to each of these items is set out below.

Cash

All cash investments not held in a transactional account are invested in short-term deposits with Australia's "Big 4" commercial banks or in cash management trusts which invest predominantly in securities with an A1+ rating. In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. Receivables are non-interest bearing and unsecured. In the event of a payment default, there is a risk of losing any difference between the price of the securities sold and the price of the recovered securities from the discontinued sale.

Trading and investment portfolios

Converting and convertible notes or other interest-bearing securities that are not equity securities carry credit risk to the extent of their carrying value. This risk will be realised in the event of a shortfall on winding-up of the issuing companies.

Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial liabilities.

AFIC monitors its cash-flow requirements daily. The Investment Committee also monitors the level of contingent payments on a regular basis by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require AFIC to purchase securities, and facilities that need to be repaid. AFIC ensures that it has either cash or access to short-term borrowing facilities sufficient to meet these contingent payments.

AFIC's inward cash flows depend upon the dividends received. Should these drop by a material amount, AFIC would amend its outward cash-flows accordingly. AFIC's major cash outflows are the purchase of securities and dividends paid to shareholders, and both of these can be adjusted by the Board and management. Furthermore, the assets of AFIC are largely in the form of readily tradeable securities which can be sold on-market if necessary.

The table below analyses AFIC's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

30 June 2018	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount
	$'000	$'000	$'000	$'000	$'000
Non-derivatives					
Payables	712	-	-	712	712
Borrowings – bank debt	100	-	-	100	100
	812	-	-	812	812
Derivatives					
Options in trading portfolio*	19,726	-	-	19,726	6,757
	19,726	-	-	19,726	6,757

30 June 2017	Less than 6 months	6-12 months	Greater than 1 year	Total contractual cash flows	Carrying Amount
	$'000	$'000	$'000	$'000	$'000
Non-derivatives					
Payables	6,953	-	-	6,953	6,953
	6,953	-	-	6,953	6,953
Derivatives					
Options in trading portfolio*	18,352	-	-	18,352	3,839
	18,352	-	-	18,352	3,839

* In the case of call options, there are no contractual cash flows as if the option is exercised the contract will be settled in the securities over which the option is written. The contractual cash flows for put options written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow).

C. Unrecognised items

Unrecognised items, such as contingencies, do not appear in the financial statements, usually because they don't meet the requirements for recognition. However, they have the potential to have a significant impact on the group's financial position and performance.

C1. Contingencies

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

Additional information

Additional information that shareholder may find useful is included here. It is grouped into three sections:

D Balance sheet reconciliations

E Income statement reconciliations

F Other information

D. Balance sheet reconciliations

This section provides further information about the basis of calculation of line items in the financial statements.

D1. Current assets – cash

	2018 $'000	2017 $'000
Cash at bank and in hand (including on-call)	95,183	103,125
Fixed term deposits	4,000	2,000
	99,183	105,125

Cash holdings yielded an average floating interest rate of 1.80% (2017: 1.93%). All cash investments are held in a transactional account or an over-night 'at call' account invested in cash management trusts which invest predominantly in securities with an A1+ rating.

D2. Credit Facilities

	2018 $'000	2017 $'000
Commonwealth Bank of Australia – cash advance facilities	140,000	140,000
Amount drawn down	100	0
Undrawn facilities	139,900	140,000
Westpac Bank – cash advance facilities	-	10,000
Amount drawn down	-	0
Undrawn facilities	-	10,000
Total short-term loan facilities	140,000	150,000
Amount drawn down	100	0
Undrawn facilities	139,900	150,000

The above borrowings are unsecured. Repayment of facilities is done either through the use of cash received from distributions or the sale of securities, or by rolling existing facilities into new ones. Facilities are usually drawn down for no more than three months.

D3. Revaluation reserve

	2018 $'000	2017 $'000
Opening balance at 1 July	2,123,209	1,767,628
Gains on investment portfolio		
- Equity Instruments	454,180	500,389
Provision for tax on above	(136,841)	(154,791)
Cumulative taxable realised (gains)/losses (net of tax)	(17,980)	9,983
	2,422,568	2,123,209

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note A2.

D4. Realised capital gains reserve

Opening balance at 1 July	430,912	457,593
Dividends paid	-	(16,698)
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	17,980	(9,983)
	448,892	430,912

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in A2.

D5. Retained profits

Opening balance at 1 July	631,070	637,094
Dividends paid	(278,054)	(251,053)
Profit for the year	278,709	245,029
	631,725	631,070

This reserve relates to past profits.

D6. Share capital

Movements in Share Capital

Date	Details	Notes	Number of shares '000	Issue price $	Paid-up Capital $'000
1/07/2016	Balance		1,130,305		2,521,441
30/08/2016	Dividend Reinvestment Plan	**i**	5,823	5.58	32,493
30/08/2016	Dividend Substitution Share Plan	**ii**	428	5.58	n/a
31/08/2016	Convertible Note conversion	**iv**	1,009	5.09	5,133
24/02/2017	Dividend Reinvestment Plan	**i**	3,895	5.84	22,749
24/02/2017	Dividend Substitution Share Plan	**ii**	317	5.84	n/a
28/02/2017	Convertible Note conversion	**iv**	34,331	5.09	174,622
Various	Cancellation of ELTIP shares not vested		(29)	n/a	(123)
Various	Costs of issue		-	-	(59)
30/06/2017	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
23/02/2018	Dividend Reinvestment Plan	**i**	3,822	6.11	23,352
23/02/2018	Dividend Substitution Share Plan	**ii**	343	6.11	n/a
Various	Costs of issue		-	-	(136)
30/06/2018	Balance		1,186,147		2,811,721

i. Shareholders elect to have all or part of their dividend payment reinvested in new ordinary shares under the Dividend Reinvestment Plan (DRP). The price of the new DRP shares is based on the average selling price of shares traded on the Australian Securities Exchange & Chi-X in the five days after the shares begin trading on an ex-dividend basis.

ii. The Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forgo a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

iii. The Group has an on-market share buy-back programme. During the financial year, no shares were bought back (2017: Nil).

iv. 1,797,547 Feb 2017 convertible notes were converted into shares during the year ending 30 June 2017. All remaining convertible notes were redeemed at their face value.

All shares have been fully paid, rank pari passu and have no par value.

E. Income statement reconciliations

E1. Reconciliation of net cash flows from operating activities to profit

	2018 $'000	2017 $'000
Profit for the year	**279,007**	**245,300**
Net decrease/(increase) in trading portfolio	6,211	320
Dividends received as securities under DRP investments	-	(1,870)
Decrease/(increase) in current receivables	(25,223)	(6,653)
- Less increase/(decrease) in receivables for investment portfolio	22,366	5,129
Increase in deferred tax liabilities	129,528	154,829
- Less (increase)/decrease in deferred tax liability on investment portfolio	(130,436)	(154,144)
Increase/(decrease) in current payables	(6,241)	(13,979)
- Less decrease/(increase) in payables for investment portfolio	6,113	9,943
- Less increase/(decrease) in dividends payable	(27)	80
Increase/(decrease) in provision for tax payable	6,265	(12,413)
Capital gains tax charge taken through equity	(6,405)	(647)
Increase/(decrease) in other provisions/non-cash items (incl. convertible note expenses)	-	766
Net cash flows from operating activities	**281,158**	**226,661**

E2. Tax reconciliations

Tax expense composition

Charge for tax payable relating to the current year	17,919	13,321
Over provision in prior years	(2,634)	(2,042)
(Increase)/Decrease in deferred tax assets	(908)	685
	14,377	**11,964**

Amounts recognised directly through Other Comprehensive Income

Net increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	136,841	154,791
	136,841	**154,791**

Deferred tax assets & liabilities

The deferred tax balances are attributable to:

		2018 $'000	2017 $'000
(a)	Tax on unrealised gains or losses in the trading portfolio	1,190	(100)
(b)	Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,738	1,740
(c)	Interest and dividend income receivable which is not assessable for tax until receipt	(1,671)	(1,291)
		1,257	349

Movements:

	2018 $'000	2017 $'000
Opening asset balance at 1 July	349	1,034
Credited/(charged) to Income statement	908	(685)
	1,257	349

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect AFIC's ability to claim the deduction.

F. Other information

This section covers other information that is not directly related to specific line items in the financial statements, including information about related party transactions, share-based payments, assets pledged as security and other statutory information.

F1. Related parties

All transactions with deemed related parties were made on normal commercial terms and conditions and approved by independent Directors.

(a) Arrangements with non-executive directors

Non-Executive Directors R Barker, J Paterson and C Walter have rented office space and, for R Barker and J Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group, excluding GST, during the year was $50,314 (2017: $39,945).

(b) AICS transactions with minority interests

The below transactions were with Djerriwarrh Investments Ltd as a minority interest holder in the Company's subsidiary.

	2018 $'000	2017 $'000
Administration expenses charged for the year	2,450	2,437

(c) AICS transactions with other Listed Investment Companies

AICS had the following transactions with other Listed Investment Companies to which it provides services :

	2018 $'000	2017 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,400	1,481
Administration expenses charged for the year to AMCIL Ltd	899	918

F2. Remuneration of auditors

For the year the auditor earned or will earn the following remuneration:

	2018 $	2017 $
PricewaterhouseCoopers		
Audit or review of financial reports	190,820	248,256
AFSL compliance audit and review	7,796	9,925
Non-Audit Services		
Taxation compliance services	38,819	81,444
Total remuneration	237,435	339,625

F3. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board, through its sub-committees, has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

Description of segments

The Board makes the strategic resource allocations for AFIC. AFIC has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for AFIC's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and AFIC's performance is evaluated on an overall basis.

Segment information provided to the Board

The internal reporting provided to the Board for AFIC'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 AFIC's Net Tangible Asset announcements to the ASX).

Other segment information

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

AFIC is domiciled in Australia and most of AFIC's income is derived from Australian entities or entities that maintain a listing in Australia. AFIC has a diversified portfolio of investments, with only 1 investment comprising more than 10% of AFIC's income, including realised income from the trading and options written portfolios – Commonwealth Bank (11.0%) ((2017 2 investments : Commonwealth Bank (11.8%) and Westpac Bank (10.4%)).

F4. Summary of other accounting policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. This financial report has been authorised for issue and is presented in the Australian currency. AFIC has the power to amend and reissue the financial report.

AFIC has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities
Cash	Cash & Cash Equivalents
Share Capital	Contributed Equity
Options	Derivatives written over equity instruments that are valued at fair value through Profit or Loss
Hybrids	Equity instruments that have some of the characteristics of debt

AFIC complies with International Financial Reporting Standards (IFRS). AFIC is a 'for profit' entity.

AFIC has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2018 ("the inoperative standards") except for AASB 9 (2009) which was adopted on 7 December 2009. The impact of the inoperative standards has been assessed and the impact has been identified as not being material. AFIC only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

Basis of accounting

The financial statements are prepared using the valuation methods described in A2. All other items have been treated in accordance with the historical cost convention.

Fair value of financial assets and liabilities

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of AFIC approximates their carrying value.

Convertible Notes

On the issue of convertible notes, the Group estimates the fair value of the liability component of the convertible notes, being the obligation to make future payments of principal and interest to holders, using a market interest rate for a non-convertible note of similar terms and conditions. The residual amount is included in equity as other equity securities with no recognition of any change in the value of the option in subsequent periods. The liability component is then included in borrowings. Expenses incurred in connection with the issue of the notes are deducted from the total face value and the expense is then incurred over the life of the notes.

The total liability is subsequently carried on an amortised cost basis with interest on the notes recognised as finance costs on an effective yield basis until the liability is extinguished on conversion or maturity of the notes.

Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

In calculating the value of long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Cash incentives

Cash incentives are provided under the Senior Executive Annual Incentive Plan and are dependent upon the performance of the Group. A provision is made for the cost of unsettled cash incentives at balance date. The Investment Team Annual Incentive plans are also settled on a cash basis.

(iv) Share incentives

Share incentives are provided under the Senior Executive Annual Incentive Plan, Senior Executive Long Term Incentive Plan, Investment Team Long Term Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Senior Executive Annual Incentive Plan, the incentives are based on the performance of the individual, the Group and investment companies to which the group provides administration services, for the financial year. For the Employee Share Acquisition Scheme and a portion of the Senior Executive Annual Incentive, the recipient agrees to purchase (or have purchased for them) shares on-market, but receives a cash amount. A provision for the amount payable under the Annual Incentive Plans is recognised on the Balance Sheet.

For the Investment Team Long Term Incentive Plan, the incentives are based on the performance of the Group and investment companies to which the group provides administration services over a four year period. The incentives may be settled in shares (but based on a cash amount) or cash. Historically, all awards have been cash. Expenses are recognised over the four year assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the balance sheet over the assessment period.

Under the Senior Executive Long Term Incentive Plan which was introduced for the year ended 30 June 2013, the amount awarded is represented by Performance Shares. The 30 day Volume Weighted Average Price

(VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30-day VWAP price to determine the number of Performance Shares that may vest at the vesting point in 4 years' time. The value of each Performance Shares will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June. No shares vested during the year ended 30 June 2018.

The expense will be charged directly through the Income Statement in the following manner – 25% of the total estimated cost in Year 1, 50% of the total estimated cost in Year 2 less the expense charged in Year 1, 75% of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100% of the total estimated cost in Year 4 less the expense charged in Years 1, 2 and 3.

Directors' retirement allowances

The Group recognises as 'amounts payable' Directors' retirement allowances that have been crystallised. No further amounts will be expensed as retirement allowances.

Administration fees

The Group currently provides administrative services to other Listed Investment Companies. The associated fees are recognised on an accruals basis as income throughout the year. Any amounts outstanding at balance date are recognised as receivable, subject to the assessment of recoverability by the Directors.

Operating leases

The Group currently has an operating lease in respect of its premises. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Rounding of amounts

AFIC is a company of the kind referred to in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

F5. Performance Bond

The Group's subsidiary, AICS, has under the terms of its Australian Financial Services License in place a performance bond to the sum of $20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investments Commission ("ASIC"), payable on demand to ASIC.

F6. Share Based Payments

Share based payments

The Group has a number of share incentive arrangements. These are accounted for in accordance with note F4. Where shares are issued to employees of AICS, AICS compensates AFIC for the fair value of the shares.

(a) Executive Incentive Plans

The executives' remuneration arrangements incorporate an 'at risk' component as set out in the remuneration report. Part of this 'at risk' component is paid in shares in the Group.

(i) Senior Executive Annual Incentive Plan

Each financial year, the Remuneration Committee sets the target (cash) amount of remuneration that could be paid should all performance targets and measures be achieved. If all are achieved, 100% of the remuneration will be awarded. If stretch levels of performance are achieved above target, then higher amounts may be paid. On the other hand there is no set minimum that will be paid regardless of performance.

The performance measures are a combination of the performance of the Group, the investment companies to which the Group provides administration services, and personal objectives.

All of the incentive remuneration awarded is paid in cash, with 50% of the after-tax amount being used by the executive to purchase shares. All remuneration under the plan, is paid in the financial year following the year of assessment.

The executive agrees to the shares being subject to being held for two years (holding term), during which they cannot be sold. Dividends are paid to executives on these shares prior to the expiry of the holding term. Should an executive leave the Group before the holding term expires, the restriction will be lifted.

10,706 shares (2017: 14,331 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $64,277 (2017: $80,048).

(ii) Senior Executive Long Term Incentive Plan

Under the Senior Executive Long Term Incentive Plan, the amount awarded will be represented by Performance Rights. The 30 day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this 30-day VWAP price to determine the number of Performance Rights that may vest at the vesting point in four years' time. The value of each Performance Right will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June.

The estimated fair value of the award will be calculated in accordance with AASB 2 – *Share Based Payments* at the end of each year until the final year of vesting. The liability shown after the final year of vesting will represent the actual amount being paid to eligible employees as a cash-settled share-based payment.

68,098 rights were awarded under the plan during the year ended 30 June 2018 (2017: 69,704). An expense of $481,768 (2017: $437,634) was incurred for the 2014/15, 2015/16, 2016/17 and 2017/18 plans. 64,081 rights under the 2013/14 plan were forfeited during the year.

(iii) Investment Team Long Term Incentive Plan

Similar to the Annual Incentive Plans, a target cash amount of long term incentive is set each year in respect of that year, which will vest in four years' time. The percentage of this target that ultimately vests four years after the award depends on the gross return of the group and the investment companies it provides administration services to.

The amount that vests will be paid in cash or shares (purchased on market at that time, based on the cash amount that vests) at the discretion of the Group.

$52,563 vested in the period (2017 $140,114) and was paid in cash.

(b) Employee Share Acquisition Scheme

Under the current Employee Share Acquisition Scheme, each employee who is not a participant in the senior executive or investment team incentive plans is awarded $5,000 per annum. After PAYG is deducted, $2,500 is used to buy shares in the Company which need to be held for three years. After three years, or the departure of the employee from employment with the Group, the shares come out of the holding lock.

In addition, each employee is eligible for an additional award of up to $5,000. 50% of the amount awarded is used to buy shares in one of the other LICs that AICS provides services to. The amount that is awarded is dependent on the metrics used for the vesting of the Investment Team's Short Term Incentive (excluding personal measures). During the year, 48.4% of the possible maximum was awarded, and 50% of this was used to buy shares in AMCIL Limited.

(c) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of the employee benefit expense (excluding any reversals and the Investment Team Long Term Incentive Plan) were as follows:

	2018	**2017**
	$'000	**$'000**
Share-based payment expense	534	498

(d) Liability

The total liability arising from share based payment transactions is included in the current and non-current liabilities for 'provisions'.

F7. Lease Commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for 7 years. Current Commitment relating to leases at balance date, for the current lease (incl. GST), is:

	2018 $'000	2017 $'000
Due within one year	667	667
Later than one year but less than five	2,001	2,669
Greater than five years	-	-
	2,668	3,336

F8. Principles of consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent, and its subsidiary, Australian Investment Company Services Ltd ("AICS"). 25% of AICS is owned by Djerriwarrh Investments Ltd, another investment company for which AICS performs operational and investment administration services, and for which it is paid monthly.

No subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

The financial information for the parent entity, disclosed in F10 below, has been prepared on the same basis as the consolidated financial statements. All notes are for the consolidated group unless specifically noted otherwise.

F9. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name of entity	Country of Incorporation	Class of shares	Equity holding	
			2018	2017
Australian Investment Company Services Ltd	Australia	Ordinary	75%	75%

The investment in AICS is accounted for at cost in the individual financial statements of AFIC.

F10. Parent Entity Financial Information

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 $'000	2017 $'000
Balance sheet		
Current assets	162,696	150,696
Total assets	**7,450,206**	**6,941,111**
Current liabilities	15,607	8,612
Total liabilities	**1,113,655**	**977,124**
Shareholders' equity		
Issued capital	2,811,721	2,756,256
Reserves		
Revaluation reserve	2,422,568	2,123,209
Realised capital gains reserve	448,892	430,912
General reserve	23,637	23,637
Retained earnings	629,733	629,973
	3,524,830	**3,207,731**
Total shareholders' equity	**6,336,551**	**5,963,987**
Profit or loss for the year	**277,815**	**247,216**
Total comprehensive income	**595,154**	**592,814**

Independent auditor's report

To the members of Australian Foundation Investment Company Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Foundation Investment Company Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group's financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

- For the purpose of our audit we used overall group materiality of 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose net assets as the benchmark because, in our view, net assets is;
  - the metric against which the performance of the group is most commonly measured; and
  - the key driver of the business and determinant of the Group's value.
- We selected 1% based on our professional judgement, noting that it is within the range of commonly acceptable net asset related thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group operates entirely out of its Melbourne office and we perform our audit procedures predominantly at that office.
- The administration and investment operations for the Group are conducted by the Company's subsidiary, Australian Investment Company Services Limited. In addition to our audit procedures, we obtained a report from other auditors that the controls over administration and investment operations operating at Australia Investment Company Services Limited were suitably designed and operated effectively for the year. We assessed the report by considering the other auditor's independence, competency and results of procedures.

Key Audit Matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
  - Existence and valuation of Investment Portfolio
- These are further described in the key audit matters section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of Investment Portfolio *(Refer to note A2)* *$7,280.7m* The Investment Portfolio consists of listed Australian equities which are valued by multiplying the quantity held by market price. Whilst there is no significant judgement in determining the valuation of the Group's investments, investments represent a key measure of the Group's performance and comprise a significant proportion of total assets in the balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the statement of comprehensive income which also affects the deferred tax provisions. Given the pervasive nature investments have on the Group's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.	1) Performed an investment reconciliation of the investments balance from the opening investment balance, addition/subtraction of purchases, sales and other relevant transactions and agreeing back to the 30 June 2018 balance. 2) Obtained the 2018 purchases and sales listing and • agreed a sample of purchases and sales to original contracts; and • agreed a sample of original contracts to the purchases and sales listing. 3) Agreed all the investment quantity holdings at 30 June 2018 to independent third party sources. 4) Agreed all the listed equities investment prices to independent market pricing sources. 5) Obtained a report on whether the controls over investment purchase and sales transactions were suitably designed and operated effectively for the year and assessed the report.

Other information

The directors are responsible for the other information. The other information comprises the Director's Report, Additional Information section and Other Information section included in the Group's annual report for the year ended 30 June 2018 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Australian Foundation Investment Company limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Foundation Investment Company Limited for the year ended 30 June 2018 included on Australian Foundation Investment Company Limited's web site. The directors of the Company are responsible for the integrity of Australian Foundation Investment Company Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
23 July 2018