

Appendix 4D Statement  
for the Half-Year ending  
31 December 2019

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This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Company's 2019 Annual Report.

This announcement was authorised for release by the Board of Australian Foundation Investment Company Limited.

Australian Foundation Investment Company Limited  
ABN 56 004 147 120

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the half-year ended 31 December 2019 with the previous corresponding period being the half-year ended 31 December 2018. The results have been reviewed by the Company's auditors.

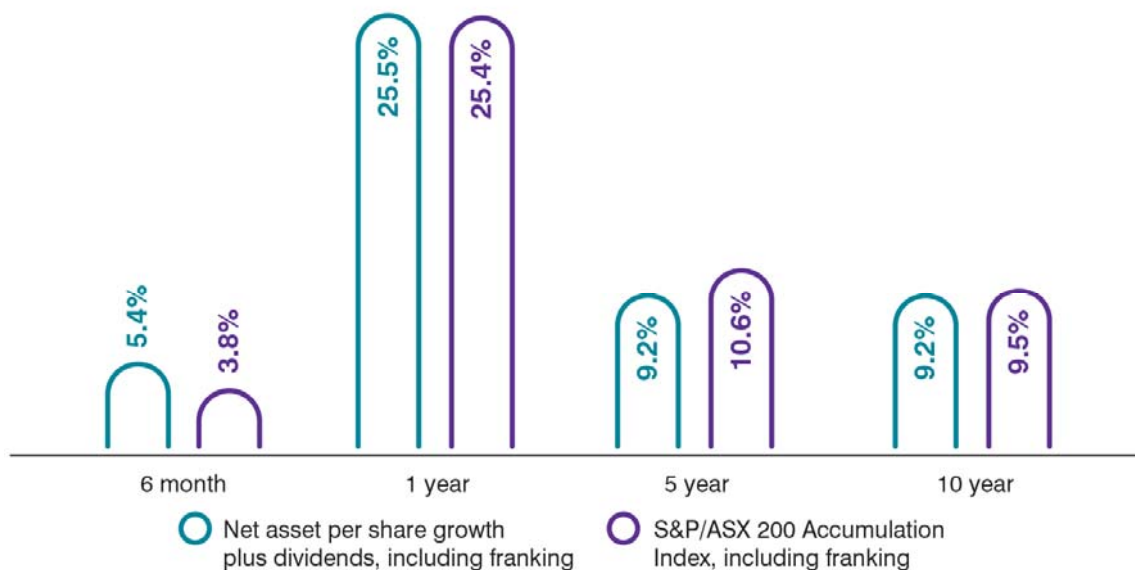
### Results for announcement to the market

- Revenue from operating activities was \$157.5 million, down \$92.8 million or 37.1% from the previous corresponding period. This excludes capital gains on investments. The decrease was predominantly due to a demerger dividend received as a consequence of the Coles demerger from Wesfarmers and participation in the Rio Tinto and BHP off-market buy-backs in the previous corresponding period, income that was not repeated in the current year.
- Profit after tax was \$146.1 million (down 39.1% on the previous corresponding period's \$239.8 million).
- Profit after tax attributable to members was \$145.7 million (down 39.1% on the previous corresponding period's \$239.4 million).
- The interim dividend is 10 cents per share, fully franked, the same as last year. Last year, a special dividend of 8 cents to distribute the proceeds of the Company's participation in the Rio Tinto and BHP off-market buy-backs was paid. As noted above, this income was not repeated in the current year, and consequently no special dividend has been declared. The dividend will be paid on 24 February 2020 to ordinary shareholders on the register on 10 February 2020 and the shares are expected to commence trading on an ex-dividend basis on 7 February 2020. 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 **2.5% 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 11 February 2020.
- The final dividend for the 2019 financial year was 14 cents per share (fully franked), and it was paid to shareholders on 29 August 2019.
- 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 2019 were \$6.63, up from \$5.69 at the end of the previous corresponding period (both before allowing for any announced dividends).

## Half Year Report to 31 December 2019

- AFIC invests in a diversified portfolio of Australian equities, seeking to provide attractive income and capital growth to shareholders over the medium to long term at a low cost.
- Half Year Profit was \$146.1 million, down from \$239.8 million in the corresponding period last year. Excluding one-off items set out below, the Half Year Profit of \$146.1 million was down only 1.6% from the underlying profit of \$148.5 million last half year.
- Investment income for the half year was \$153.9 million, down from \$246.7 million in the last half year. In the previous corresponding period, a number of one-off items increased investment income that were not repeated this half year. This included participation in the Rio Tinto and BHP off-market share buy-backs and the receipt of a dividend because of the Coles demerger from Wesfarmers.
- Total interim dividend for the half year is 10 cents per share, fully franked, versus 18 cents last half year. The previous corresponding period included a special dividend of 8 cents per share, fully franked, which distributed the proceeds from the Company's participation in the Rio Tinto and BHP off-market share buy-backs. There is no special interim dividend this half year.
- The six-month portfolio return, including franking, was 5.4% compared with the S&P/ASX 200 Index, including franking, which was up 3.8% over the same period.
- For the 12 months to 31 December 2019, the portfolio return, including franking, was 25.5%. The return from the S&P/ASX 200 Accumulation Index over this period, including franking, was 25.4%.
- We believe the portfolio is well positioned, including having sufficient funds available should good buying opportunities arise in the second half of the financial year from any increased market volatility.

### Portfolio Performance (including the full benefit of franking) – to 31 December 2019



Per annum returns other than for 6 months. AFIC's performance numbers are after costs.

## **Portfolio Performance**

The Australian equity market, while slowing, continued to rise over the six months to 31 December 2019, despite concerns about trade tariffs, and low growth in many developed markets other than the US. AFIC has continued to adjust the portfolio, reducing the number of companies held to focus further on quality businesses with a competitive advantage, strong returns on invested capital and resilient balance sheets. This has delivered a very satisfactory portfolio performance despite not being in some of the more speculative sectors of the market.

AFIC's portfolio was up 5.4% for the six months to 31 December 2019 compared with the S&P/ASX 200 Accumulation Index, which was up 3.8% over the same period. These figures include the benefit of franking credits, although AFIC's performance numbers are after costs.

The portfolio approach has seen a lower proportion of the portfolio devoted to the major banks, given the competitive and regulatory issues this sector is facing. Significantly over the last four years, major bank exposure has fallen from approximately 28% to 19% of the portfolio. AFIC has also reduced the relative exposure of the portfolio to resource companies (primarily from participation in their share buy-backs), which more recently, had benefited from strong commodity prices, particularly iron ore. In addition, holdings have been disposed of where the sustainable competitive advantage of the business has come into question. Over a four-year period, the number of stocks in the portfolio has been reduced from 95 to 70. This has led to a reallocation of funds to preferred companies, generally into larger companies in the ASX 200 Index which have better growth prospects. The more recent effect of this repositioning when combined with a general upward move in the market has meant that the top 24 largest holdings in the portfolio (excluding the major banks and resources) have risen from 47.2% to 51.4% over the six-month period, and their value has gone from \$3.5 billion to \$4.1 billion.

It is also worth making some observations on the effect of the change in profile of the portfolio on AFIC's more immediate income streams. The dividend cuts from three of the four major banks, combined with a reduction in the proportion of our portfolio in financials, has put a short term drag on our dividend income streams as many of our new investments have lower yields. We believe the move to stocks with a better growth profile should enhance the potential for dividend growth in the medium to long term, particularly as bank dividends are expected to remain stagnant.

## **Portfolio Adjustments**

As part of the move to build larger positions in quality companies with a strong competitive advantage, further shares were purchased in Goodman Group, Macquarie Group and CSL.

Major sales to fund these acquisitions included a small proportion of the holding in National Australia Bank (due to the exercise of call options through the six-month period at higher than current prices) and the complete sale of Perpetual, Boral, Orora, Link Administration, AMP and Iluka Resources. Dulux Group was sold because of a takeover.

## **Going Forward**

The US and Australian equity markets are either at or close to all-time highs. With the price for many other asset classes also at or near extremes, we remain alert to the potential for increased volatility that is a reflection of the inherent risks in the market. These risks include equity market valuations that are pricing in very low interest rates, strong earnings growth and the apparent disregard of geopolitical events, such as trade disputes and potential conflict in the Middle East. We believe the portfolio is well positioned, including having sufficient funds available should good buying opportunities arise in the second half of the financial year from any increased market volatility.

### **Please direct any enquiries to:**

Mark Freeman  
Managing Director  
(03) 9225 2122

Geoff Driver  
General Manager  
(03) 9225 2102

**20 January 2020**

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions	Cost (\$'000)
Goodman Group	45,608
Macquarie Group	26,588
Cleanaway Waste Management	25,885
Lendlease Group*	21,624
CSL	17,737

\*New holding

Disposals	Proceeds (\$'000)
National Australia Bank (due to the exercise of call options)	52,680
Dulux Group (taken over by Nippon Paint) <sup>#</sup>	29,683
Perpetual <sup>#</sup>	23,212
Boral <sup>#</sup>	21,989
Orora <sup>#</sup>	19,322
Link Administration <sup>#</sup>	17,958
Lifestyle Communities	17,028
AMP <sup>#</sup>	15,913
Iluka Resources <sup>#</sup>	15,788

<sup>#</sup> Complete disposal from the portfolio.

### New Companies Added to the Investment Portfolio

Lendlease Group  
Ryman Healthcare

## TOP 25 INVESTMENTS AS AT 31 DECEMBER 2019

*Includes investments held in both the Investment and Trading Portfolios.*

Valued at closing prices at 31 December 2019

		Total Value \$ million	% of the portfolio
1	Commonwealth Bank of Australia	631.2	8.0%
2	CSL	584.7	7.5%
3	* BHP Group	524.7	6.7%
4	* Westpac Banking Corporation	387.3	4.9%
5	Transurban Group	341.2	4.3%
6	Macquarie Group	299.1	3.8%
7	Wesfarmers	285.6	3.6%
8	* National Australia Bank	267.9	3.4%
9	Australia and New Zealand Banking Group	226.3	2.9%
10	Woolworths Group	204.9	2.6%
11	Rio Tinto	195.3	2.5%
12	Amcor	195.0	2.5%
13	James Hardie Industries	169.0	2.2%
14	Sydney Airport	167.7	2.1%
15	* Telstra Corporation	156.0	2.0%
16	* Woodside Petroleum	153.0	1.9%
17	Brambles	142.3	1.8%
18	Mainfreight	133.3	1.7%
19	* Oil Search	132.9	1.7%
20	Ramsay Health Care	129.1	1.6%
21	Sonic Healthcare	116.6	1.5%
22	Qube Holdings	115.0	1.5%
23	* Coles Group	105.6	1.3%
24	Seek	99.7	1.3%
25	Treasury Wine Estates	88.5	1.1%
		<b>5,851.9</b>	

As % of Total Portfolio Value  
(excludes Cash)

**74.6%**

\*Indicates that options were outstanding against part of the holding

## PORTFOLIO PERFORMANCE TO 31 DECEMBER 2019

PERFORMANCE MEASURES TO 31 DECEMBER 2019	6 MONTHS	1 YEAR	5 YEARS %PA	10 YEARS %PA
<b>PORTFOLIO RETURN – NET ASSET BACKING RETURN INCLUDING DIVIDENDS REINVESTED</b>	<b>4.5%</b>	<b>22.8%</b>	<b>7.2%</b>	<b>7.3%</b>
S&P/ASX 200 ACCUMULATION INDEX	3.1%	23.4%	9.0%	7.9%

<b>PORTFOLIO RETURN – NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</b>	<b>5.4%</b>	<b>25.5%</b>	<b>9.2%</b>	<b>9.2%</b>
<b>S&amp;P/ASX 200 GROSS ACCUMULATION INDEX*</b>	3.8%	25.4%	10.6%	9.5%

\* 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**

ABN 56 004 147 120

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**HALF-YEAR REPORT  
31 DECEMBER 2019**

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## COMPANY PARTICULARS

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### 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:** John Paterson, Chairman  
Ross E. Barker  
Rebecca P. Dee-Bradbury  
Graeme R. Liebelt  
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](mailto:invest@afi.com.au)  
Internet address: [www.afi.com.au](http://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](http://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)

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## DIRECTORS' REPORT

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The Directors present their report in relation to the half-year to 31 December 2019 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:

J. Paterson (appointed June 2005)  
R.E. Barker (appointed September 2001)  
R.P. Dee-Bradbury (appointed May 2019)  
G.R. Liebelt (appointed June 2012)  
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 \$146.1 million, down 39.1% from the previous corresponding period. The decrease was predominantly due to the inclusion last year of the demerger dividend received as a consequence of the Coles demerger from Wesfarmers and participation in the Rio Tinto and BHP off-market buy-backs.

The net profit per share for the six months to 31 December 2019 was 12.1 cents per share with an interim dividend declared of 10 cents per share fully-franked, the same as last year. In the previous year an additional 8 cents per share fully-franked special dividend was also declared, as a consequence of the participation in the aforementioned buy-backs. As these were not repeated in the current period, no special dividend has been declared.

The portfolio return for the 6 months (measured by change in net asset backing per share plus dividends reinvested) was 4.5% compared to the return of the S&P/ASX 200 Accumulation Index for the same period which was 3.1%. 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 6.2 million shares were issued under the DRP and the DSSP resulting in an additional \$34.3 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.



J. Paterson  
Chairman  
Melbourne  
20 January 2020



### *Auditor's Independence Declaration*

As lead auditor for the review of Australian Foundation Investment Company Limited for the half-year ended 31 December 2019, 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 dark ink, appearing to read 'Nadia Carlin', with a horizontal line extending to the right.

Nadia Carlin  
Partner  
PricewaterhouseCoopers

Melbourne  
20 January 2020

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

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## CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Half-year 2019 \$'000	Half-year 2018 \$'000
Dividends and distributions		153,929	246,708
Revenue from deposits and bank bills		1,109	1,136
Other revenue		2,423	2,430
<b>Total revenue</b>		<b>157,461</b>	<b>250,274</b>
Net gains on trading portfolio and non-equity investments		6,628	4,187
<b>Income from operating activities</b>	<b>3</b>	<b>164,089</b>	<b>254,461</b>
Finance & related costs		(462)	(400)
Administration expenses		(6,276)	(6,280)
<b>Profit before income tax expense</b>		<b>157,351</b>	<b>247,781</b>
Income tax expense		(11,250)	(7,977)
<b>Profit for the half-year</b>		<b>146,101</b>	<b>239,804</b>
<b>Profit is attributable to :</b>			
Equity holders (members) of Australian Foundation Investment Company Ltd		145,709	239,430
Minority Interest		392	374
		<b>146,101</b>	<b>239,804</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	<b>8</b>	12.10	20.11

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Half-Year to 31 December 2019			Half-Year to 31 December 2018		
	Revenue	Capital	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Profit for the half-year</b>	<b>146,101</b>	<b>-</b>	<b>146,101</b>	<b>239,804</b>	<b>-</b>	<b>239,804</b>
<b>Other Comprehensive Income</b>						
<i>Items that will not be recycled through the Income Statement</i>						
Gains/(losses) for the period on equity securities in the investment portfolio	-	219,411	<b>219,411</b>	-	(745,125)	<b>(745,125)</b>
Deferred tax on above	-	(68,366)	<b>(68,366)</b>	-	215,197	<b>215,197</b>
<b>Total other comprehensive income <sup>1</sup></b>	<b>-</b>	<b>151,045</b>	<b>151,045</b>	<b>-</b>	<b>(529,928)</b>	<b>(529,928)</b>
<b>Total comprehensive income <sup>2</sup></b>	<b>146,101</b>	<b>151,045</b>	<b>297,146</b>	<b>239,804</b>	<b>(529,928)</b>	<b>(290,124)</b>

<sup>1</sup> Net capital income not accounted for through the Income Statement

<sup>2</sup> 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 2019			Half-Year to 31 December 2018		
	Revenue	Capital	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Total Comprehensive Income is attributable to:</b>						
Equity holders of Australian Foundation Investment Company Ltd	145,709	151,045	<b>296,754</b>	239,430	(529,928)	<b>(290,498)</b>
Minority Interest	392	-	<b>392</b>	374	-	<b>374</b>
	<b>146,101</b>	<b>151,045</b>	<b>297,146</b>	<b>239,804</b>	<b>(529,928)</b>	<b>(290,124)</b>

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

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2019

		31 Dec 2019 \$'000	30 June 2019 \$'000
	Note		
<b>Current assets</b>			
Cash		179,024	206,429
Receivables		13,276	40,128
<b>Total current assets</b>		<b>192,300</b>	<b>246,557</b>
<b>Non-current assets</b>			
Investment portfolio		7,847,853	7,572,640
Deferred tax assets		1,076	-
<b>Total non-current assets</b>		<b>7,848,929</b>	<b>7,572,640</b>
<b>Total assets</b>		<b>8,041,229</b>	<b>7,819,197</b>
<b>Current liabilities</b>			
Payables		4,777	932
Tax payable		27,024	17,052
Borrowings – bank debt		-	-
Trading portfolio	4	2,810	7,033
Provisions		3,412	4,114
<b>Total current liabilities</b>		<b>38,023</b>	<b>29,131</b>
<b>Non-current liabilities</b>			
Provisions		1,064	1,471
Deferred tax liabilities		-	100
Deferred tax liabilities - investment portfolio	5	1,210,069	1,163,749
<b>Total non-current liabilities</b>		<b>1,211,133</b>	<b>1,165,320</b>
<b>Total liabilities</b>		<b>1,249,156</b>	<b>1,194,451</b>
<b>Net Assets</b>		<b>6,792,073</b>	<b>6,624,746</b>
<b>Shareholders' equity</b>			
Share Capital	6	2,922,467	2,888,136
Revaluation Reserve		2,717,547	2,561,314
Realised Capital Gains Reserve		398,444	462,257
General Reserve		23,637	23,637
Retained Profits		728,428	688,244
<b>Parent Entity Interest</b>		<b>6,790,523</b>	<b>6,623,588</b>
Minority Interest		1,550	1,158
<b>Total equity</b>		<b>6,792,073</b>	<b>6,624,746</b>

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 2019

Attributable to members of Australian Foundation Investment Company  
Ltd

Half-Year to 31 December 2019	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		2,888,136	2,561,314	462,257	23,637	688,244	6,623,588	1,158	6,624,746
Dividends paid	7	-	-	(58,625)	-	(105,525)	(164,150)	-	(164,150)
Shares issued - Dividend Reinvestment Plan	6	34,407	-	-	-	-	34,407	-	34,407
Other Share Capital Adjustments	6	(76)	-	-	-	-	(76)	-	(76)
<b>Total transactions with shareholders</b>		<b>34,331</b>	<b>-</b>	<b>(58,625)</b>	<b>-</b>	<b>(105,525)</b>	<b>(129,819)</b>	<b>-</b>	<b>(129,819)</b>
Profit for the half-year		-	-	-	-	145,709	145,709	392	146,101
Net gains for the period on equity securities in the investment portfolio		-	151,045	-	-	-	151,045	-	151,045
<b>Other Comprehensive Income for the half-year</b>			<b>151,045</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>151,045</b>	<b>-</b>	<b>151,045</b>
Transfer to Realised Capital Gains Reserve of net cumulative losses on investments sold		-	5,188	(5,188)	-	-	-	-	-
<b>Total equity at the end of the half-year</b>		<b>2,922,467</b>	<b>2,717,547</b>	<b>398,444</b>	<b>23,637</b>	<b>728,428</b>	<b>6,790,523</b>	<b>1,550</b>	<b>6,792,073</b>

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. 2018 (CONT)

Attributable to members of Australian Foundation Investment Company Ltd									
Half-Year to 31 December 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 half-year		2,811,721	2,422,568	448,892	23,637	631,725	6,338,543	717	6,339,260
Dividends paid	7	-	-	(23,257)	-	(139,543)	(162,800)	-	(162,800)
Shares issued - Dividend Reinvestment Plan		33,099	-	-	-	-	33,099	-	33,099
Other Share Capital Adjustments		(65)	-	-	-	-	(65)	-	(65)
<b>Total transactions with shareholders</b>		<b>33,034</b>	<b>-</b>	<b>(23,257)</b>	<b>-</b>	<b>(139,543)</b>	<b>(129,766)</b>	<b>-</b>	<b>(129,766)</b>
Profit for the half-year		-	-	-	-	239,430	239,430	374	239,804
<i>Other Comprehensive Income for the half-year</i>									
Net losses for the period on equity securities in the investment portfolio		-	(529,928)	-	-	-	(529,928)	-	(529,928)
<b>Other Comprehensive Income for the half-year</b>		<b>-</b>	<b>(529,928)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(529,928)</b>	<b>-</b>	<b>(529,928)</b>
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(46,659)	46,659	-	-	-	-	-
<b>Total equity at the end of the half-year</b>		<b>2,844,755</b>	<b>1,845,981</b>	<b>472,294</b>	<b>23,637</b>	<b>731,612</b>	<b>5,918,279</b>	<b>1,091</b>	<b>5,919,370</b>

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 2019**

	Half-year 2019 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2018 \$'000 INFLOWS/ (OUTFLOWS)
<b>Cash flows from operating activities</b>		
Sales from trading portfolio	34,371	11,511
Purchases for trading portfolio	(19,572)	(9,485)
Interest received	1,117	1,184
Dividends and distributions received	159,880	222,626
	<u>175,796</u>	<u>225,836</u>
Other receipts	2,419	2,434
Administration expenses	(7,230)	(7,792)
Finance costs paid	(462)	(400)
Taxes paid	(3,723)	(9,272)
<b>Net cash inflow/(outflow) from operating activities</b>	<u><b>166,800</b></u>	<u><b>210,806</b></u>
<b>Cash flows from investing activities</b>		
Sales from investment portfolio	249,671	434,560
Purchases for investment portfolio	(294,272)	(430,281)
Taxes paid on capital gains	(20,101)	(6,653)
<b>Net cash inflow/(outflow) from investing activities</b>	<u><b>(64,702)</b></u>	<u><b>(2,374)</b></u>
<b>Cash flows from financing activities</b>		
Share issue costs	(76)	(65)
Repayment of borrowings	-	(100)
Dividends paid	(129,427)	(129,184)
<b>Net cash inflow/(outflow) from financing activities</b>	<u><b>(129,503)</b></u>	<u><b>(129,349)</b></u>
Net increase/(decrease) in cash held	(27,405)	79,083
Cash at the beginning of the half-year	206,429	99,183
<b>Cash at the end of the half-year</b>	<u><b>179,024</b></u>	<u><b>178,266</b></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 2019

## 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 2019 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.” The Company’s investments in listed securities are valued at the closing price on the ASX on the last trading day before the period end.

## 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 2019 and 31 December 2018 were as follows:

	2019	2018
	\$	\$
<b>Net tangible asset backing per share</b>		
Before Tax	6.63	5.69
After Tax	5.63	4.97

### (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 comprising more than 10% of the Group’s income (including trading portfolio) for the half-year ending 31 December 2019 – 11.1% (2018 : investment in Wesfarmers (as a consequence of the demerger of Coles Group) : 20.3% and Rio Tinto (as a consequence of the off-market buy-back) : 17.9%).

### 3. Income from operating activities

Half-year 2019 \$'000	Half-year 2018 \$'000
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Income from operating activities is comprised of the following:

#### Dividends & distributions

• securities held in investment portfolio	153,929	155,314
• demerger dividend from Wesfarmers/Coles	-	43,629
• off-market buy-back dividends	-	47,654
• securities held in trading portfolio	-	111
	<u>153,929</u>	<u>246,708</u>

#### Interest income

• deposits and income from bank bills	1,109	1,136
	<u>1,109</u>	<u>1,136</u>

#### Net gains/(losses) and write downs

• net gains from trading portfolio sales	4,827	4,166
• unrealised gains/(losses) in trading portfolio	1,801	21
	<u>6,628</u>	<u>4,187</u>

#### Administration fees received from other Listed Investment Companies

2,201	2,179
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#### Expenses recovered from other Listed Investment Companies

136	189
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#### Other expenses recovered

65	62
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#### Sundry Income

21	-
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<u>164,089</u>	<u>254,461</u>
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### 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 \$185.9 million (30 June 2019: \$218.4 million).

As at balance date the Company had no outstanding put options which at the option of the purchaser may have required the Company to buy securities prior to the respective expiry dates if they were all exercised (30 June 2019 :\$4.0 million potential exposure ).

## 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 \$1,210.1 million (30 June 2019 : \$1,163.7 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
01/07/2019	Opening Balance		1,200,148		2,888,136
29/08/2019	Dividend Reinvestment Plan	i	5,541	6.21	34,407
29/08/2019	Dividend Substitution Share Plan	ii	622	6.21	n/a
Various	Other Share Capital adjustments		-		(76)
31/12/2019	Balance		<u>1,206,311</u>		<u>2,922,467</u>

- 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 2019 \$'000	Half-year 2018 \$'000
Dividends (fully franked) paid during the period (excluding DSSP shares)	164,150 (14 cents per share)	162,800 (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 24 February 2020, but not recognised as a liability at the end of the half-year is

120,631

<b>8. Earnings per Share</b>	<b>Half-year 2019</b>	<b>Half-year 2018</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator	1,204,301,645	1,190,047,001
	<b>\$'000</b>	<b>\$'000</b>
Profit after tax for the half-year attributable to members of the Company	145,709	239,430
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	12.10	20.11

There are no dilutive instruments on issue and consequently diluted earnings per share are the same as basic earnings per share..

#### **9. Events subsequent to balance date**

Since 31 December 2019 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.

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## DIRECTORS' DECLARATION

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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 2019 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.



J. Paterson  
Chairman  
Melbourne  
20 January 2020



## **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) and the entity it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, the notes to the financial statements and the directors' declaration.

### ***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 gives a true and fair view and 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 Group's financial position as at 31 December 2019 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 Group's financial position as at 31 December 2019 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*.

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PricewaterhouseCoopers

A stylized signature in dark ink, consisting of a series of connected loops and lines.

Nadia Carlin  
Partner

Melbourne  
20 January 2020