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The Manager
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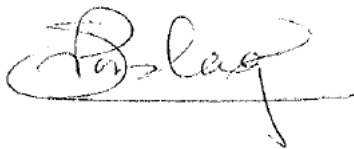
**Australian Foundation Investment Company Limited
Amendments to Dividend Reinvestment Plan (DRP) and Dividend Substitution
Share Plan (DSSP) Rules**

Dear Sir / Madam

The Company announces amendments to its DRP Rules, effective immediately. The amendments take into account recent changes to the ASX Listing Rules regarding DRP election dates. A number of other amendments have also been made including matters relating to the Board's powers to administer the DRP, the treatment of cash residuals on leaving the Plan and inclusion of any of the Company's shares traded on Chi-X when setting the price of shares to be issued under the DRP. The Rules of the Company's DSSP have also been amended, effective immediately, to include any of the Company's shares traded on Chi-X when setting the price of shares to be issued under the DSSP.

Copies of the rules of both the DRP and DSSP are attached.

Yours faithfully



Simon Pordage
Company Secretary

Australian Foundation Investment Company Limited

ABN 56 004 147 120

DIVIDEND REINVESTMENT PLAN ("THE PLAN")

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Important Notice: The offer to purchase Shares under this Dividend Reinvestment Plan ("the Plan") is not a recommendation to purchase Shares. If you are in any doubt about whether or not, or the extent to which, you should participate in the Plan, you should consider obtaining professional financial and/or taxation advice to assist you (taking into account your own financial situation, needs and objectives). Nothing in this booklet, the Application Form or any other accompanying documentation constitutes investment or financial product advice or is intended to influence your decision whether or not to participate in the Plan.

If you have any questions in relation to the Plan after reading this booklet, please contact the Share Registry:

Computershare Investor Services Pty Ltd
PO Box 2975
Melbourne
VIC 3000
Tel: 1300 662 270 (Australia)
0800 333 501 (New Zealand)
+613 9415 4373 (from overseas)
Fax: (03) 9473 2500
Internet: www.investorcentre.com/contact

Alternatively, you can email Australian Foundation Investment Company Limited at invest@afi.com.au

Summary

The principal features of the Dividend Reinvestment Plan (the Plan) are summarised below.

The Plan

The Plan provides shareholders with an optional and convenient way of reinvesting all or part of their dividends in additional Australian Foundation Investment Company Limited (AFIC or the Company) shares.

On dividend payment dates, the dividend attributable to shares participating in the Plan will be automatically reinvested in AFIC shares. The number of new shares is determined by reference to the market price.

The Cost

All administration costs will be met by AFIC. No brokerage, commission or other transaction costs will be payable by participants on shares allotted under the Plan and no stamp or other duties will, under present law, be payable by participants.

Eligibility

All AFIC shareholders are entitled to participate in the Plan, with some exceptions. Please see the Plan Rules in this booklet for further information about eligibility.

Flexibility

Participation is entirely optional. Shareholders may join the Plan, vary their participation or withdraw from it at any time. If part of a shareholder's holding is nominated for participation in the Plan, the balance of the shareholding will receive cash dividends in the normal way. Shares participating in the Plan or acquired under the Plan may be sold at any time. When such shares are sold, they are automatically withdrawn from the Plan.

Pricing

The issue price is based on the Average Market Price of AFIC shares calculated during a set pricing period. The Board may also determine that a discount is to be applied to the Average Market Price. The issue price will be rounded either up or down to the nearest cent (0.5 cent to be rounded down).

Shares

The number of AFIC shares received by participating shareholders under the Plan will be calculated by multiplying the number of participating shares they hold at the Dividend Record Date by the relevant dividend, deducting any withholding tax (if applicable) and adding any residual amount carried forward in your Plan account then dividing this amount by the Average Market Price (less any discount). Where this calculation results in a residual amount remaining, this amount will be carried forward in your Plan account.

Dividends and Other Rights

The new shares will rank equally in all respects with existing fully paid shares.

Statements

Participants will be sent a statement after each dividend payment detailing their participation in the Plan. Issuer sponsored statements for new shares will be issued for each allotment under the Plan unless the shareholder is CHESS sponsored in which case the new shares will be shown on the participant's next CHESS statement. This statement will include details to assist in completion of the shareholder's tax return.

General

The Plan may be modified, suspended or terminated by the Directors of AFIC in accordance with the Rules of the Plan.

How to Enter the Plan

If you wish to participate in the Plan, an Application Form can be obtained by contacting the Company's Share Registry or visiting its website. After obtaining an Application Form, please complete, sign and return it to the Share Registry or complete the online version.

Participation will commence with the first dividend payment after the receipt of the Application Form provided it is received before 5pm (Melbourne time) on the Closing Date for that dividend.

Rules

1. Participation in the Plan

Participation in the Dividend Reinvestment Plan (the Plan) is optional.

All persons who for the time being are registered as holders of Shares are eligible to participate in the Plan, except:

- a) a shareholder with a registered address outside Australia and New Zealand where, in the opinion of the Board, it would be unreasonable for that shareholder to participate in the Plan (including by having regard to the number of shareholders in the place where the offer would be made and, the number and value of shares the shareholders would be offered and the cost of complying with legal requirements, and requirements of a regulatory authority, in that place);
- b) a shareholder who is subject to the laws of a country or place other than Australia who may not be eligible to participate in the Plan because of legal requirements that apply in that country or place;
- c) a shareholder that is a person, or a person of a class, whom the Board in their discretion have determined not to be eligible to participate in the Plan; or
- d) as otherwise provided in these Rules.

2. Application to Participate

Application to participate in the Plan is to be made on the prescribed Application Form, including an online version of the Form, available from the Company's Share Registry. Correctly completed Application Forms must be received by the Share Registry by 5.00pm (Melbourne time) on the Closing Date in order to be effective for a relevant dividend.

3. Degree of Participation

Participation may be either full or partial.

- (1) Full participation applies to dividends payable on all the participant's shareholding being all:
 - (a) shares currently held;
 - (b) shares allotted under the Plan;
 - (c) bonus shares (if any), subsequently allotted;
 - (d) fully or partly paid shares allotted pursuant to a subsequent rights issue (if any); and
 - (e) additional shares purchased from time to time (less all shares sold from time to time).
- (2) Partial participation only applies to the number of shares specified in the Application Form by the shareholder. However, if at the relevant record date the number of shares held by the participant is less than the nominated number

of shares, then the provisions of the Plan in respect of that dividend payment will only apply to such lesser number of shares. If an Application Form does not indicate the level of participation in the Plan, it shall be deemed to be an application for full participation.

4. Minimum and Maximum Participation

The Board may from time to time determine that, whether in respect of a particular dividend or as a continuing term of participation in the Plan, a minimum or maximum number of shares are required to be participating. AFIC may vary this minimum or maximum number by noting such variation on AFIC's website and by notice to ASX.

To the extent that an Application Form specifies a number of participating shares in excess of a maximum limit set by the Board:

- a) that maximum limit will be deemed to be the number of AFIC shares participating in the Plan; and
- b) those AFIC shares in excess of that maximum limit will be deemed to not participate in the Plan, and any dividend payable in respect of those shares will be a cash dividend.

To the extent that an Application Form specifies a number of AFIC shares to participate in the Plan which is less than the minimum limit set by the Board, the shareholder will receive a cash dividend in respect of that shareholding.

Where a maximum limit is set under the above Rules, AFIC may waive the limit on the number of AFIC shares participating at any time for any eligible shareholder who holds shares as a trustee or nominee for a number of beneficial owners (who are also eligible shareholders), provided that:

- a) such trustee or nominee will not at any time participate in the Plan on behalf of any single beneficial owner in excess of the limit set under the above Rules; and
- b) the above Rules will apply as if each such beneficial owner is the registered shareholder.

5. Operation of the Plan

Each dividend which is payable to a participant for shares subject to the Plan and which is available for payment to the participant will, upon payment, be applied by the Company on the participant's behalf in subscribing for additional shares.

The Company will establish and maintain a Plan account for each participant. The Company will, for each dividend payable to a participant:

- (a) determine the amount of the dividend payable (less withholding tax if applicable) for that participant's shares subject to the Plan;
- (b) credit such amount to the participant's Plan account;
- (c) determine the maximum whole number of additional shares which may be subscribed for under the Plan taking into account the price at which the shares are to be allotted in accordance with these Rules;

- (d) on behalf and in the name of the participant, subscribe for that number of additional shares and debit the participant's Plan account with the total of the subscription price for those additional shares; and
- (e) allot that number of additional shares to the participant; and
- (f) retain in the participant's Plan account, without interest, any cash balance remaining.

The shares will be allotted under the Plan at the "Average Market Price", being the volume weighted average market price (rounded up or down to the nearest cent, 0.5 cent to be rounded down) of all of the Company's shares sold on the ASX Limited (ASX) and Chi-X Australia Pty Ltd (Chi-X) automated trading systems during the five trading days including and immediately following the shares being quoted ex dividend, less any discount determined by Directors. The Directors will announce the discount applicable (if any) from time to time.

The Average Market Price referred to above shall be calculated by the Directors or another suitable person nominated by the Directors. The determination by the Directors of the allotment price will be binding on all participants.

6. Shares to be Allotted Under the Plan

Shares allotted under the Plan will be allotted in accordance with the ASX Listing Rules and on the relevant dividend payment date. Shares allotted under the Plan will, from the date of allotment, rank equally in all respects with all other fully paid shares in the Company.

Shares allotted under the Plan will be registered on the register on which the participant's holding of shares is currently registered.

7. Costs of Participation

No brokerage, commissions, or other transaction costs will be payable by participants for the application for or allotment of shares under the Plan and no stamp or other duties will, under present law, be payable by participants.

8. Plan Statements

At or after each dividend payment date, the Company will send to each participant a Plan Statement detailing the following:

- (a) the number of shares participating in the Plan;
- (b) the dividend paid;
- (c) withholding tax deducted (if applicable);
- (d) the amount reinvested in new shares;
- (e) the number of new shares allotted and the price at which allotted; and
- (f) any cash balance carried forward.

9. Variation or Termination of Participation

A participant may at any time give notice to the Company's Share Registry:

- (a) increasing or decreasing the number of shares participating in the Plan; or
- (b) terminating participation in the Plan.

Such alteration or termination is to be in accordance with the prescribed election form, including an online version, (available from the Company's Share Registry). To be applicable for a dividend, they must be received by 5.00pm (Melbourne time) on the Closing Date for a relevant dividend.

If a participant dies, participation by the holder will be terminated upon receipt of notice of death. Death of one of two or more joint holders will not automatically terminate participation.

Upon termination of participation in the Plan by a participant for any reason (other than termination by AFIC), the participant will not be entitled to receive from AFIC payment of any cash balance remaining in the participant's Plan account at the time when participation by the participant in the Plan is terminated or the participant ceases to participate in the Plan.

10. Reduction or Termination of Participation where no Notice is given

In the case of partial participation, when a participant disposes of part of its holding of shares, then, unless the participating shareholder advises AFIC otherwise, the shares disposed of will be deemed to be shares not participating in the Plan or the Company's Dividend Substitution Share Plan (DSSP). If the number of shares disposed of is greater than the number of the participant's shares not participating in the Plan or DSSP, the shares disposed of will be deducted from the participant's holding of shares in the following order:

- a) Shares not participating in either the Plan or DSSP;
- b) Shares participating in the Plan; and
- c) Shares participating in the DSSP.

Where a participant disposes of all shares without giving the Company's Share Registry notice of termination of participation, the participant will be deemed to have terminated participation in the Plan for the shareholding on the date the Company registers a transfer or instrument of disposal of the participant's holding.

11. Modification and Termination of the Plan

The Plan may be modified, suspended or terminated by the Directors at any time by giving notice to the ASX. Any suspension of the Plan will continue until such time as the Directors either resolve to recommence or to terminate the Plan.

Any variation, suspension, recommencement or termination of the Plan will not give rise to any liability on the part of, or right of action against, AFIC nor its Board, employees, or agents.

If the Plan is suspended, participants' elections with respect to the Plan will cease to be effective until such time as the Plan is recommenced and all shares will be deemed to not participate for the purpose of any dividend declared while the Plan is suspended. If the Plan is recommenced, then elections as to participation for the previously suspended Plan will be valid and have full force and effect in accordance with these Rules for the purpose of the recommenced Plan.

If the Plan is suspended or terminated by AFIC, a participant will not be entitled to receive from AFIC payment of any cash balance remaining in the participant's Plan account at the time when participation in the Plan is suspended or terminated.

12. Listing

The Company will promptly make application for shares allotted under the Plan to be listed for quotation on the official list of the ASX.

13. Application and Notices

Applications and notices to the Company's Share Registry shall be in accordance with the Application Form (including an online version) prescribed by the Company from time to time.

Such applications and notices will be effective upon receipt by the Company's Share Registry subject to:

- (a) these Rules;
- (b) in the case of applications, acceptance by the Company; and
- (c) receipt by the Company's Share Registry before 5.00pm (Melbourne time) on the Closing Date for a relevant dividend.

Applications or notices received after such closure will not be effective for that dividend payment but will be effective for the next dividend payment.

14. Closing Date

The Closing Date for a relevant dividend is the date and time, as determined by the Board and announced to ASX, by which a person must have lodged an Application Form to apply for, vary or terminate participation in the Plan for that dividend.

15. Significance of Application

By applying to participate in the Plan, a shareholder:

- a) warrants to AFIC that they are eligible to participate in the Plan;
- b) authorises AFIC (and its Board, employees or agents) to correct any error in, or omission from, its Application Form;
- c) acknowledges that AFIC may at any time irrevocably determine that the Applicant's Application Form is valid, in accordance with these Rules, even if the Application Form is incomplete, contains errors or is otherwise defective;
- d) acknowledges that AFIC may refuse any Application Form;
- e) consents to the establishment of a Plan Account on its behalf;

- f) acknowledges that neither AFIC nor the Share Registry has provided the Applicant with investment, taxation or other advice and that neither has any obligation to provide any such advice, concerning participation in the Plan; and
- g) unconditionally agrees to the Rules and agrees not to do any act which would be contrary to the intention of the Plan, in each case, at all times until termination of the Plan or of the Applicant's participation in the Plan.

16. Governing Law

The Plan, its operation and these Rules are governed by and shall be construed in accordance with the laws of the State of Victoria, Australia. Each participant submits to the exclusive jurisdiction of the courts of that State.

17. Limitation of Liability

Neither AFIC, nor any of its subsidiaries, shall be liable or responsible to any participant in the Plan for any loss or alleged loss or disadvantage suffered or incurred by such participants arising, directly or indirectly, from the establishment or operation of the Plan or their participation in the Plan or in relation to any advice given with respect to participation in the Plan.

18. Board's Powers

The Plan will be administered by the Board who is authorised under these Rules, and has the discretion to:

- a) determine any procedures for administration of the Plan that are consistent with the Rules;
- b) resolve conclusively all questions of fact or interpretation in connection with the Plan;
- c) resolve in such manner as it thinks expedient any difficulties, anomalies or disputes which may arise in connection with, or by reason of, the operation of the Plan, whether generally or in relation to any participating shareholder or any AFIC ordinary shares;
- d) enter into any underwriting arrangements regarding the Plan that they deem appropriate;
- e) exercise discretions or powers (including any power to make a choice, decision, determination or resolution) of AFIC under these Rules;
- f) delegate to any one or more persons, for such period and on such conditions as they may determine, the exercise of any of its discretions, authorities or powers arising under the Plan including, without limitation, the power to delegate such discretions, authorities or powers; or
- g) waive strict compliance with any of the provisions of these Rules.

Any discretion, authority or power (including any power to make a choice, decision, determination or resolution) exercisable by AFIC or the Board under these Rules or by a delegate under 18 (f) above:

- a) is final and binding on the participating shareholders and any other relevant persons;
- b) is exercisable in the absolute discretion of AFIC, the Board or the delegate, as the case may be; and
- c) may be exercised at any time and from time to time.

Dated: June 2014

Australian Foundation Investment Company Limited
ABN 56 004 147 120

DIVIDEND SUBSTITUTION SHARE PLAN ("DSSP")

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Important Notice: The offer to purchase Shares under this Dividend Substitution Share Plan ("DSSP") is not a recommendation to purchase Shares. If you are in any doubt about whether or not, or the extent to which, you should participate in the DSSP, you should consider obtaining professional financial and/or taxation advice to assist you (taking into account your own financial situation, needs and objectives). Nothing in this booklet, the DSSP Form or any other accompanying documentation constitutes investment or financial product advice or is intended to influence your decision whether or not to participate in the DSSP.

If you have any questions in relation to the DSSP after reading this booklet, please contact the Share Registry:

Computershare Investor Services Pty Ltd
PO Box 2975
Melbourne
VIC 3000
Tel: 1300 662 270 (Australia)
0800 333 501 (New Zealand)
+613 9415 4373 (from overseas)
Fax: (03) 9473 2500
Internet: www.investorcentre.com/contact

Alternatively, you can email Australian Foundation Investment Company Limited at invest@afi.com.au

Features

- A simple and convenient way of automatically receiving additional Australian Foundation Investment Company Limited ("AFIC") shares as an alternative to receiving dividends.
- In most circumstances, shares received under the DSSP should not be subject to Australian income tax at the time the shares are allotted, as under Australian legislation these shares are deemed not to be a dividend. For Australian income tax purposes the shares issued under the DSSP should impact the tax gain or loss which may arise on a subsequent disposal of the Bonus Shares and the Participating Shares. The taxation rules are different in New Zealand and other jurisdictions. All shareholders should seek their own advice before determining whether they should participate in the DSSP.
- Shares allocated under the DSSP rank equally with all of AFIC's other fully paid ordinary shares.
- You do not have to appoint a stockbroker or pay fees, brokerage, goods and services tax or other transaction costs for shares allocated under the DSSP.
- Participation is voluntary. You can choose to elect all, part or none of your dividend entitlement to participate in the DSSP. If you choose partial participation, you will receive a dividend cheque or direct credit or Dividend Reinvestment Plan ("DRP") statement for the portion of your shares not participating in the DSSP.
- Eligible shareholders can continue to participate in the DRP if they wish. This will mean that they may obtain the benefit of any tax offset (or franking credit) arising from any franked dividend received. Similarly, those shareholders who continue to participate in the DRP may, depending on their circumstances, continue to obtain a tax deduction relating to any LIC Gain associated with the dividend that they have been paid. With respect to shares that participate in the DSSP, as the allotment of the shares under the DSSP should not be considered a dividend, shareholders should not benefit from any tax offset arising from the dividend forgone which would otherwise be franked nor will shareholders obtain relief in the form of a tax deduction in relation to LIC Gains which may have been included in the dividends forgone.
- You can join, withdraw or vary your participation in the DSSP at any time. However, if you are making or changing your decision close to the announcement of AFIC's annual or half-yearly results, make sure you have returned your completed and signed DSSP Form to the Share Registry before 5pm (Melbourne time) on the Closing Date. If your DSSP Form is not received in time, it will not be applicable for processing until after the dividend has been paid. Your instruction will then only apply to the next and subsequent dividends.
- DSSP statements are sent to shareholders shortly after the payment date of each dividend. Details of the calculation and your participation are provided. You should retain this statement for tax purposes.

Frequently Asked Questions and Answers

1. How do I participate in the DSSP?

Participation in the DSSP is entirely voluntary. Contact the Share Registry to request a DSSP Form, or obtain one from, or apply online on, their website (www.investorcentre.com).

2. Who is eligible to participate in the DSSP?

All AFIC shareholders are entitled to participate in the DSSP, with some exceptions. Please see the DSSP Rules in this booklet for further information about eligibility.

3. How is the issue price calculated?

The issue price is based on a weighted average market price of shares calculated during a set pricing period. The Board may also determine that a discount is to be applied to the weighted average market price. The issue price will be rounded either up or down to the nearest cent (0.5 cent to be rounded down).

4. Do all my shares have to participate in the DSSP?

You can choose to have less than your full shareholding participating in the DSSP, provided you specify the number of shares per registered holding for participation.

5. Is there a minimum or maximum participation level?

To participate in the DSSP, you must specify a number of shares per registered holding prior to the Closing Date. AFIC has the discretion to introduce a minimum and maximum participation level.

6. How many shares will I receive?

The number of DSSP Shares you receive will be calculated by multiplying the number of Participating Shares you hold at the Dividend Record Date by the relevant dividend, deducting any withholding tax (if applicable) and adding any residual amount carried forward in your DSSP account then dividing this amount by the Average Market Price (less any discount). Where this calculation results in a residual amount remaining, this amount will be carried forward in your DSSP account.

7. How will I know how many shares I receive under the DSSP?

All participants in the DSSP will be sent a statement shortly after the Dividend Payment Date. This statement will include:

- the number of participating shares you held in your registered holding at the Dividend Record Date;
- any residual amount in your DSSP account to be applied;
- the total amount applied to the purchase of shares under the DSSP;
- the number of DSSP Shares issued to your registered holding and their date of issue; and
- any residual amount to be carried forward in your DSSP account.

8. How will my DSSP Shares be treated for the subsequent dividend payments?

If you choose to participate fully in the DSSP, all shares held by you in the relevant registered holding at each Dividend Record Date will be treated as participating in the DSSP, including any previously acquired DSSP Shares or other shares.

If you choose partial participation, only the number of shares you have specified in the relevant registered holding will participate in the DSSP. Any requested change to your DSSP participation share numbers must be received by 5pm (Melbourne time) on the Closing Date to be effective in respect of the relevant dividend entitlement.

9. What if I have more than one AFIC shareholding?

You will need to complete a separate DSSP Form for each of your shareholdings. To make it easier to manage your shareholdings, you may want to combine your shareholdings. Please contact the Share Registry for more information.

10. What will happen if I combine my separate shareholdings?

If you decide to combine your holdings for instance, by converting your issuer sponsored holding to your CHESS holding (or vice versa), your participation in the DSSP may be affected by the conversion of your holdings. You should contact the Share Registry to ensure the appropriate DSSP election continues to be applied to the resultant holding.

11. Can the DSSP be changed or terminated?

The Board may vary the Rules or suspend, recommence or terminate the DSSP at any time. If this occurs, AFIC will make a public announcement via ASX and information will be available at www.afic.com.au.

12. How do I change my DSSP participation?

You can change your participation or withdraw from the DSSP by contacting the Share Registry to request a DSSP Form, or obtaining one from, or applying online on their website (www.computershare.com).

Your DSSP Form must be received, by the Share Registry, by 5pm (Melbourne time) on the Closing Date, to be active for the relevant dividend.

13. Can I sell my DSSP Shares?

Shares acquired through the DSSP can be sold at any time after allocation by AFIC and quotation on ASX. If you sell all of your shares participating in the DSSP between an Ex Dividend Date and the Dividend Payment Date, your dividend entitlement in respect of those Participating Shares will still be used to acquire shares through the DSSP. However, if you sell all of those shares before the Ex Dividend Date, you will not receive shares under the DSSP or any other payment on the Dividend Payment Date.

14. What is the taxation treatment?

AFIC cannot advise on the taxation implications of participating in the DSSP. If you have any questions regarding the taxation implications, please consult your accountant or other professional adviser.

We note that AFIC has sought a class ruling from the Australian Tax Office in respect of certain tax outcomes for Australian resident AFIC shareholders who hold their Participating Shares on capital account. A copy of the Australian Tax Office class ruling is available on the AFIC website (www.afic.com.au). In considering your tax outcomes associated with participating in the DSSP you or your advisor should have regard to the class ruling. Note that in the Class Ruling the DSSP is referred to as a Bonus Share Plan ("BSP").

The DSSP provides for shareholders to elect not to receive a dividend in respect of all or some of their AFIC shares but to receive instead additional fully paid shares issued as bonus shares to the equivalent value of the dividend forgone. AFIC understands for Australian residents, who hold their shares on capital account, that shares issued under the DSSP should not be considered or deemed to be a dividend for Australian income tax purposes. Therefore in these circumstances such shares should not, in general, be subject to Australian income tax on allotment.

Furthermore, where a shareholder forgoes a dividend which would otherwise be franked, the shareholder should not be entitled to a "franking offset" (or associated "franking credit") as the shareholder is not taken to have received a franked dividend. Similarly, as the bonus share allotted should not be considered a dividend, no tax relief in the form of a tax deduction should be available relating to the LIC gain which would otherwise be included in the dividend forgone.

For Australian income tax purposes, where a shareholder ultimately disposes of a Bonus share issued under the DSSP, a taxable gain or loss may arise. Broadly, the tax cost base of the Participating Shares should be allocated across both the Participating and Bonus shares issued in proportion to the market value of those shares when calculating the gain or loss. Furthermore, where a Shareholder's Participating Shares are pre-CGT, the Bonus shares issued should also be considered to be Pre-CGT and any gain or loss arising on such a disposal should therefore be disregarded. We note that certain anti-avoidance rules should be considered in relation to the treatment of any gain or loss arising on the realisation of bonus shares.

The Explanatory Memorandum introducing the anti-avoidance rules provides that the participants in a Dividend Substitution Share Plan of a listed public company should not be subject to the anti-avoidance rules, “unless the shareholder receiving the bonus shares engages in a course of conduct which provided an equivalent to a cash dividend in a more tax effective form (e.g. if a pre-CGT shareholder consistently sold the bonus shares tax-free after receiving them).” Therefore, should you have pre-CGT shares in considering your tax outcomes you or your advisor should have regard to the potential application of these anti-avoidance rules as noted above.

Rules of the Dividend Substitution Share Plan (DSSP)

1. Eligibility

All persons who for the time being are registered as holders of Shares are eligible to participate in the DSSP, except:

- a) a shareholder with a registered address outside Australia and New Zealand where, in the opinion of the Board, it would be unreasonable for that shareholder to participate in the DSSP (including by having regard to the number of shareholders in the place where the offer would be made and, the number and value of shares the shareholders would be offered and the cost of complying with legal requirements, and requirements of a regulatory authority, in that place);
- b) a shareholder who is subject to the laws of a country or place other than Australia who may not be eligible to participate in the DSSP because of legal requirements that apply in that country or place;
- c) a shareholder that is a person, or a person of a class, whom the Board in their discretion have determined not to be eligible to participate in the DSSP; or
- d) as otherwise provided in these Rules.

2. Participation

2.1 Participation in the DSSP:

- a) is optional and voluntary;
- b) is not transferable; and
- c) may be varied or terminated at any time as set out in Rule 9.

2.2 The Board may admit to participation in the DSSP an Applicant who, by completing and lodging the DSSP Form with the Share Registry, requests that:

- a) such number of Shares as is specified in the application be participating shares in the DSSP ("Participating Shares");
- b) such Participating Shares not be entitled to participate in any dividend declared by AFIC; and
- c) the Applicant be issued such number of shares as may be determined in accordance with Rule 7.1.

2.3 If a shareholder wishes to participate in the DSSP with respect to one or more of its shareholdings, a DSSP Form must be lodged with respect to each separate shareholding.

- 2.4 Where an application does not specify the number of shares to be Participating Shares, the application shall be deemed to apply to all of the shares then held by the Applicant and all of the shares of which the Applicant subsequently becomes the holder whether or not acquired under the DSSP.
- 2.5 If shares are held jointly or severally by Eligible Shareholders, then a DSSP Form signed by at least one of those Eligible Shareholders is deemed to be signed by all of them. If one or more joint or several holders of shares is not an Eligible Shareholder, then none of those joint or several holders can apply to participate in the DSSP with respect to those shares.

3. Level of Participation

- 3.1 A Participating Shareholder may elect one of the following two levels of participation in the DSSP:
- a) a shareholder may participate in the DSSP in respect of all shares registered in its name as at each Dividend Record Date for a dividend, other than shares in respect of which a full dividend is not then payable ("Full Participation"); or
 - b) a shareholder may nominate a specific number of Participating Shares less than the total holding of that shareholder, other than shares in respect of which a full dividend is not then payable ("Partial Participation").
- 3.2 Where a Participating Shareholder has elected Partial Participation, then subject to Rules 3.3 and 4, only that number of Participating Shares specified in the DSSP Form completed by the Participating Shareholder shall participate in the DSSP. Subject to Rules 3.3 and 4, all shares subsequently acquired by the Participating Shareholder, whether under the DSSP or otherwise, shall only participate in the DSSP to the extent that the Participating Shareholder alters the participation level in accordance with these Rules.
- 3.3 Where the number of shares held by a Participating Shareholder becomes less than the number nominated as participating in the DSSP, that shareholder will be deemed to have elected Full Participation until the number of shares held by that shareholder (including those issued under the DSSP) again exceeds the number of shares nominated as Participating Shares.

4. Minimum and Maximum Participation

- 4.1 The Board may from time to time determine that, whether in respect of a particular dividend or as a continuing term of participation in the DSSP, a minimum or maximum number of shares are required to be participating. AFIC may vary this minimum or maximum number by noting such variation on AFIC's website and by notice to ASX.

- 4.2 To the extent that a DSSP Form specifies a number of participating shares in excess of a maximum limit set by the Board:
- a) that maximum limit will be deemed to be the number of Participating Shares; and
 - b) those shares in excess of that maximum limit will be deemed to be Non-Participating Shares, and any dividend payable in respect of those shares will be a cash dividend.
- 4.3 To the extent that a DSSP Form specifies a number of Participating Shares which is less than the minimum limit set by the Board, the shareholder will receive a cash dividend in respect of that shareholding.
- 4.4 Where a maximum limit is set under Rule 4.1, AFIC may waive the limit on the number of Participating Shares at any time for any Eligible Shareholder who holds shares as a trustee or nominee for a number of beneficial owners (who are also Eligible Shareholders), provided that:
- a) such trustee or nominee will not at any time participate in the DSSP on behalf of any single beneficial owner in excess of the limit set under Rule 4.1; and
 - b) Rule 4.2 will apply as if each such beneficial owner is the registered shareholder.

5. Acceptance of DSSP Forms

A DSSP Form is effective:

- a) from the date the DSSP Form is received by the Share Registry;
- b) in respect of a dividend, only if it is received at the Share Registry's office by 5pm (Melbourne time) on the relevant Closing Date.

6. Significance of Application

By applying to participate in the DSSP, an Applicant:

- a) warrants to AFIC that they are an Eligible Shareholder;
- b) authorises AFIC (and its Board, employees or agents) to correct any error in, or omission from, its DSSP Form;
- c) acknowledges that AFIC may at any time irrevocably determine that the Applicant's DSSP Form is valid, in accordance with these Rules, even if the DSSP Form is incomplete, contains errors or is otherwise defective;
- d) acknowledges that AFIC may refuse any DSSP Form;
- e) consents to the establishment of a DSSP account on its behalf;

- f) acknowledges that neither AFIC nor the Share Registry has provided the Applicant with investment, taxation or other advice and that neither has any obligation to provide any such advice, concerning participation in the DSSP; and
- g) unconditionally agrees to the Rules and agrees not to do any act which would be contrary to the intention of the DSSP,

in each case, at all times until termination of the DSSP or of the Applicant's participation in the DSSP.

7. Share Issue

- 7.1 Whenever AFIC declares a dividend on its shares, each shareholder that is a Participating Shareholder at the Dividend Record Date for that dividend shall be entitled to have issued to them as fully paid the number of ordinary shares in AFIC that is determined by the application of the following formula:

$$\frac{A + (B \times C)}{D}$$

D

where:

"A" is the amount, in cents, of any residual amount residing in the DSSP account of a Participating Shareholder;

"B" is the number of shares that are Participating Shares;

"C" is the amount of that dividend in cents per share less any withholding tax (if applicable); and

"D" is the Average Market Price, with any applicable discount of such amount as the Board may from time to time determine.

- 7.2 The determination of value under Rule 7.1 by the Board will be binding on all Participating Shareholders.
- 7.3 Where the application of the formula in Rule 7.1 results in a fractional entitlement, the fractional entitlement shall be expressed as an amount rounded to the nearest cent and carried forward as a residual non-interest bearing amount in a Participating Shareholder's DSSP account.
- 7.4 AFIC will announce any discount applicable to the DSSP for any dividends payable on a particular Dividend Payment Date as soon as reasonably practicable after it announces the dividend.

8. Issue of Shares

- 8.1 In the case of Shares to be Allocated pursuant to the DSSP:

- a) such Shares will be allotted within the time specified in the listing requirements of ASX; and
 - b) the relevant certificates and Despatch Statements will be issued to each relevant Participating Shareholder following each allotment.
- 8.2 All DSSP Shares will, from the date of Allocation, rank equally in all respects with all of AFIC's other fully paid ordinary shares then on issue and will be eligible to participate in all dividends subsequently declared by AFIC, subject to Rule 3.2.
- 8.3 DSSP Shares will be registered on the share register on which the Participating Shareholder already holds shares or, if the Participating Shareholder holds shares on more than one share register, on the share register which AFIC determines.
- 8.4 After any Allocation, AFIC will promptly apply for the shares so issued to be admitted to quotation by ASX.
- 8.5 AFIC will not charge any brokerage, commission, or other transaction costs in respect of an application for, or the issue of, shares pursuant to the DSSP.
- 8.6 The issue of shares under the DSSP is subject to AFIC's Constitution.

9. Participating Shareholders' Variation or Termination of Participation

- 9.1 A Participating Shareholder may increase or reduce the number of Participating Shares held by that Participating Shareholder by completing and lodging a DSSP Form, specifying the variation, with the Share Registry.
- 9.2 A Participating Share shall cease to be a Participating Share:
- a) upon receipt by the Share Registry of a DSSP Form stating that the holder of the Participating Share desires that such share should cease to be a Participating Share;
 - b) upon registration of a transfer or transmission of that share;
 - c) upon termination of the DSSP by AFIC;
 - d) upon receipt by AFIC of notice of the death, bankruptcy or liquidation of the holder of that Participating Share; or
 - e) upon the holder of that Participating Share ceasing to be an Eligible Shareholder.
- 9.3 A share which has ceased to be a Participating Share may again become a Participating Share on the acceptance by AFIC of a DSSP Form by the same or subsequent holder of that share.

- 9.4 In the case of Partial Participation, when a Participating Shareholder disposes of part of its holding of shares, then, unless the Participating Shareholder advises AFIC otherwise, the shares disposed of will be deemed to be shares not participating in the DSSP. If the number of shares disposed of is greater than the number of the Participating Shareholder's shares not participating in the DSSP, the shares disposed of will be deducted from the Participating Shareholder's holding of shares in the following order:
- a) Shares not participating in either the DRP or DSSP;
 - b) Shares participating in the DRP; and
 - c) Shares participating in the DSSP.
- 9.5 Upon termination of participation in the DSSP by a Participating Shareholder for any reason (other than termination by AFIC), the Participating Shareholder will not be entitled to receive from AFIC payment of any cash balance remaining in the Participating Shareholder's DSSP account at the time when participation by the Participating Shareholder in the DSSP is terminated or the Participating Shareholder ceases to participate in the DSSP.
- 10. Board Variation, Suspension, Recommencement and Termination of the DSSP**
- 10.1 The DSSP may be:
- a) varied (including by variation of the Rules);
 - b) suspended;
 - c) recommenced; or
 - d) terminated, by the Board at any time.
- 10.2 A variation, suspension, recommencement or termination of the DSSP will take effect:
- a) on such date as the Board determines; and
 - b) in the case of a suspension, until such time as the Board resolve either to recommence or terminate the DSSP.
- 10.3 Any variation, suspension, recommencement or termination of the DSSP will not give rise to any liability on the part of, or right of action against, AFIC nor its Board, employees, or agents.
- 10.4 If the DSSP is suspended, Participating Shareholders' elections with respect to the DSSP will cease to be effective until such time as the DSSP is recommenced and all shares will be deemed to be Non-Participating Shares for the purpose of any dividend declared while the DSSP is suspended.

- 10.5 If the DSSP is recommenced following a suspension, the Participating Shareholder's previously suspended DSSP Form will be reinstated and be valid and effective in accordance with these Rules for the purposes of the recommenced DSSP, unless determined otherwise by AFIC and notified to Participating Shareholders in accordance with Rule 10.6.
- 10.6 Any notice to shareholders or announcement to be made by AFIC or the Board in relation to the DSSP (including in relation to any modification, suspension or termination, any discount or any other matter provided for in these Rules) may be made:
- a) by notice to ASX for release to the market and on AFIC's website; or
 - b) by notice to shareholders in accordance with the provisions of the Constitution which provide for notices to shareholders.
- Any such notice or announcement will be effective from the date given, or any other date provided for in these Rules or referred to in the notice or announcement.
- 10.7 The accidental omission to give notice of termination, variation, suspension or recommencement to any Participating Shareholder or the non-receipt of any notice by any Participating Shareholder will not invalidate the termination, variation, suspension or recommencement of the DSSP or any Allocation of shares under the DSSP.
- 10.8 If the DSSP is suspended or terminated by AFIC, a Participating Shareholder will not be entitled to receive from AFIC payment of any cash balance remaining in the Participating Shareholder's DSSP account at the time when participation in the DSSP is suspended or terminated.

11. Board's Powers

- 11.1 This DSSP will be administered by the Board who is authorised under these Rules, and has the discretion to:
- a) determine any procedures for administration of the DSSP that are consistent with the Rules;
 - b) resolve conclusively all questions of fact or interpretation in connection with the DSSP;
 - c) resolve in such manner as it thinks expedient any difficulties, anomalies or disputes which may arise in connection with, or by reason of, the operation of the DSSP, whether generally or in relation to any Participating Shareholder or any Shares;
 - d) enter into any underwriting arrangements regarding the DSSP that they deem appropriate;
 - e) exercise discretions or powers (including any power to make a choice, decision, determination or resolution) of AFIC under these Rules;

- f) delegate to any one or more persons, for such period and on such conditions as they may determine, the exercise of any of its discretions, authorities or powers arising under the DSSP including , without limitation, the power to delegate such discretions, authorities or powers; or

- g) waive strict compliance with any of the provisions of these Rules.

11.2 Any discretion, authority or power (including any power to make a choice, decision, determination or resolution) exercisable by AFIC or the Board under these Rules or by a delegate under Rule 11.1(f):

- a) is final and binding on the Participating Shareholders and any other relevant persons;
- b) is exercisable in the absolute discretion of AFIC, the Board or the delegate, as the case may be; and
- c) may be exercised at any time and from time to time.

12. Costs to Participating Shareholders

No fees, brokerage, goods and services tax, stamp duty or other transaction costs will be charged by AFIC in respect of the Allocation of DSSP Shares pursuant to these Rules unless required by law.

13. Taxation

Neither AFIC nor its Board, employees or agents:

- a) take any responsibility or assume any liability for, or as a consequence of, any taxes or other imposts assessed against or imposed upon a Participating Shareholder; or
- b) represent or warrant that a Participating Shareholder will gain any taxation advantage or will not incur a taxation liability or disadvantage as a result of participation in the DSSP.

14. Limitation of Liability

Neither AFIC, nor any of its subsidiaries, shall be liable or responsible to any participant in the DSSP for any loss or alleged loss or disadvantage suffered or incurred by such participants arising, directly or indirectly, from the establishment or operation of the DSSP or their participation in the DSSP or in relation to any advice given with respect to participation in the DSSP.

15. Stock Exchange Listing

AFIC will ensure that an application is made following the issue of shares pursuant to the DSSP to list those shares on ASX.

16. Exception to dividend payment

The DSSP will not apply to cases where in accordance with these Rules, AFIC's Constitution or otherwise by law, the Board is entitled to retain all or part of a dividend payment in respect of a Participating Shareholder and over which Shares or dividend AFIC holds, or is entitled to hold, a charge or lien.

17. Governing Law

These Rules are governed by and shall be construed in accordance with the laws of the State of Victoria, Australia. Each Participating Shareholder submits to the exclusive jurisdiction of the courts of that State.

18. Interpretation

In these Rules, unless the contrary intention appears:

- a) a reference to a Rule is a reference to a Rule in these Rules;
- b) a reference to the DSSP or these Rules includes any variation or replacement of them;
- c) the singular includes the plural and vice versa;
- d) the word person includes a firm, a body corporate, an unincorporated association or an authority;
- e) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including but not limited to, persons taking by novation) and assigns;
- f) headings are inserted for convenience and do not affect the interpretation of these Rules; and
- g) if there is any inconsistency between the provisions of the Rules and the Frequently Asked Questions or otherwise, the provisions of the Rules will prevail to the extent of any inconsistency.

Definitions

In this booklet, the following words and expressions have the meanings indicated unless the contrary intention appears.

AFIC	Australian Foundation Investment Company Limited (ABN 56 004 147 120).
Allocation	The issue of new Shares to Participating Shareholders under the DSSP.
Applicant	A shareholder who applies to participate in the DSSP, or vary the extent of their participation in the DSSP (as the case may be).
ASX	ASX Limited.
Average Market Price	The average of the daily volume weighted average sale price per Share of Shares sold in the ordinary course of trading on the ASX and Chi-X automated trading systems during the five trading days including and immediately following the shares being quoted ex dividend on the ASX for that dividend, rounded to the nearest cent (0.5 cents to be rounded down).
Board	The board of directors of AFIC.
Chi-X	Chi-X Australia Pty Ltd
Closing Date	The date and time, as determined by the Board and announced to ASX, by which a person must have lodged a DSSP Form to apply for, vary or terminate participation in the DSSP.
DSSP	AFIC's Dividend Substitution Share Plan to which these Rules apply, as varied from time to time.
DSSP Form	The form relating to the DSSP used to apply for, vary or terminate participation in the DSSP, including the online version of the form. Participating Shareholders may obtain the DSSP Form by contacting the Share Registry.

DSSP Shares	Shares which a Participating Shareholder acquires by way of Allocation under the DSSP in lieu of receiving a dividend entitlement.
Despatch Statement	A statement prepared by and forwarded from the Share Registry in respect of each dividend payment and giving the following information with respect to each Participating Shareholder: (a) the number of Participating Shares in the DSSP at the relevant Dividend Record Date; (b) the amount of any residual amount in a Participating Shareholder's DSSP account; (c) the total amount applied to the purchase of shares under the DSSP; (d) the number of Shares allotted under the DSSP and their date of issue; and (e) the amount of any residual amount carried forward in a Participating Shareholder's DSSP account
Dividend Payment Date	The date on which a dividend is payable, as announced by AFIC.
DRP	AFIC's Dividend Reinvestment Plan.
Ex Dividend Date	The first date following the declaration of a dividend from which sellers (rather than purchasers) become entitled to receive the next dividend payment.
Eligible Shareholder	A shareholder eligible to participate in the DSSP in accordance with Rule 1.
Full Participation	A degree of participation in the DSSP as defined in Rule 3.1(a).
LIC Gain	A portion of the dividend that is sourced from certain realised capital gains upon which tax has been or is due to be paid. Certain shareholders can claim a tax deduction in respect of these capital gains.

Non-Participating Shares	Shares which a Participating Shareholder has not nominated for participation in the DSSP, or which have ceased to be Participating Shares.
Partial Participation	A degree of participation in the DSSP as defined in Rule 3.1(b).
Participating Shares	The Shares participating in the DSSP as defined in Rule 2.2(a).
Participating Shareholder	An Applicant admitted to participation in the DSSP.
Rules	These rules of the DSSP as varied from time to time.
Share	Fully paid ordinary share in AFIC, and any other share issued by AFIC that the Board decide are eligible for participation in the DSSP.
Share Registry	Computershare Registry, or any other share registry that maintains the share register of AFIC.

Dated: June 2014