ABN 56 004 147 120

# APPENDIX 4E STATEMENT
# FOR THE YEAR ENDED 30 JUNE 2014

## CONTENTS

- Results for announcement to the market
- Media Release
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These documents comprise the preliminary final report given to ASX under Listing Rule 4.3A.

# RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 30 June 2014 with the corresponding period being the year ended 30 June 2013.

This report is based on audited financial statements. A copy of the audit report can be found on page 46.

**Results for announcement to the market**

- Net profit attributable to members (excluding minority interests) was $254.2 million, 4.8% up from the prior year.
- Net operating result after tax was $254.2 million, 8.5% up from the prior year.
- Revenue from operating activities was $284.9 million, 9.1% up from the prior year.
- The Management Expense Ratio ("MER") calculated as the net expenses of managing the Company as a percentage of the average value of its investments including cash over the year, was 0.17% for the year (2013 : 0.18%).
- Net tangible assets per share as at 30 June 2014, before allowing for the final dividend, were $5.85 per share before allowing for the provision of deferred tax on unrealised gains in the investment portfolio (2013: $5.18).
- A fully-franked final dividend of 14 cents per share, the same as last year's final dividend, will be paid on 29 August 2014 to shareholders on the register on 12 August 2014. The shares are expected to trade ex-dividend on 8 August 2014.
- There is no LIC gain attached to the final dividend this year.
- The interim dividend of 8 cents per share was paid to shareholders on 21 February 2014.
- The total dividend for the financial year is therefore 22 cents per share, fully-franked, the same as last year.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for both of which will be set at a **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 after the shares trade ex-dividend. Notices of participation in the DRP & the DSSP need to be received by the share registry by 5 pm (AEST) on 13 August 2014. All shares issued under the DRP and DSSP will rank equally with existing shares.
- The next interest payment on the 6.25% Convertible Notes issued in December 2011 will be $3.1507 per $100 Note, payable on 1 September 2014 to note holders on the register on 22 August 2014. The notes are expected to commence trading on an ex-interest basis on 20 August 2014.
- A Share Purchase Plan ("SPP") has also been announced. It is proposed that details of the SPP will be mailed to shareholders on 28 August 2014 with applications closing on 25 September 2014.
- The 2014 AGM will be held at the RACV City Club, Melbourne, at 10.00 AM on Wednesday 8 October.

**AUSTRALIAN FOUNDATION INVESTMENT COMPANY**

**MEDIA RELEASE – FULL YEAR RESULT TO 30 JUNE 2014**

# PROFIT UP AS INCOME FROM DIVIDENDS RISES

## Profit

Profit for the year increased 4.7% to $ 254.3 million from $242.8 million last year. The Net Operating Result which measures the underlying income generated by the portfolio, primarily from dividends, was $254.2 million, up 8.5% from the previous year's result of $234.3 million.

## Dividend

The Company has maintained its final dividend at 14 cents per share fully franked bringing total dividends for the year to 22 cents per share fully franked, the same as last year. The Board notes the increase in earnings provides scope to increase the dividend. It is the Board's current intention to apply a 1 cent increase to the interim dividend to be paid in February 2015 to adjust the disparity between the interim and final dividends.

## Portfolio

The market remained buoyant over the year building further on last year's strong performance. AFIC's portfolio return for the 12 months was 17.3% compared with the S&P/ASX 200 Accumulation Index of 17.4%. Consistent with its approach as a long term investor, the 10 year return for AFIC was 9.8% per annum versus the Index return of 9.0% per annum. AFIC's performance numbers are after expenses and tax paid.

New additions to the portfolio included Qube Holdings, Washington H. Soul Pattinson, James Hardie Industries, TPG Telecom, Twenty First Century Fox, Japara Healthcare and Resmed. Major additions to existing holdings were Transurban, CSL, Telstra and Equity Trustees. There were also a number of corporate actions through the year that resulted in changes to the portfolio.

Major sales were some BHP Billiton from the Company's buy and write portfolio and the complete disposal of GWA Group.

## Outlook

Recent strong returns and low volatility suggest investors have become somewhat complacent about the potential for set backs. However we believe risks are elevated. There is the ongoing reliance on low interest rates to support sentiment and growth and the potential for subdued earnings outcomes. At some point interest rates will rise, although the timing and impact still remains uncertain. There are also the risks of unanticipated geopolitical events.

Our expectation is that moving into the new financial year AFIC will continue to be provided with attractive opportunities to invest, which may include additional IPO's and through the privatisation of government assets.

## Share Purchase Plan

AFIC has initiated a share purchase plan for shareholders, which is due to close on 25 September 2014.

Please direct any enquiries to:


| | |
|---|---|
| Ross Barker | Geoff Driver |
| Managing Director | General Manager |
| (03) 9225 2101 | (03) 9225 2102 |


21 July 2014

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

| Acquisitions (above $10 million) | Cost ($'000) |
|---|---|
| Wesfarmers[(a)] | 57,675 |
| Transurban | 28,508 |
| Qube Holdings* | 26,056 |
| Washington H. Soul Pattinson & Company* | 23,317 |
| Perpetual[(b)] | 18,383 |
| James Hardie Industries* | 17,003 |
| TPG Telecom* | 16,781 |
| Twenty-First Century Fox* | 16,005 |
| CSL | 14,512 |
| Telstra Corporation | 12,622 |
| Japara Healthcare* | 12,440 |
| ResMed* | 12,072 |
| Equity Trustees | 11,016 |
| SAI Global* | 10,548 |

* New Stocks in the portfolio

| New Holdings as a result of demergers (above $10 million) | Cost ($'000) |
|---|---|
| Scentre Group[(c)] | 38,229 |
| Westfield Corporation[(c)] | 29,736 |
| Orora[(d)] | 15,697 |

| Disposals (above $10 million) | Proceeds ($'000) |
|---|---|
| Wesfarmers PPS[(a)] | 57,675 |
| Westfield Group[(c)] | 45,990 |
| BHP Billiton (from the buy and write portfolio) | 29,503 |
| Westfield Retail Trust[(c)] | 21,976 |
| Trust Company [(b)] | 18,383 |
| GWA Group[#] | 14,108 |

[#] Complete disposal from portfolio

(a) Conversion of WES Partially Protected Securities (WESN) to WES Ordinary Shares
(b) Takeover of Trust Company by Perpetual
(c) Westfield restructure
(d) Demerger from Amcor

## TOP 25 INVESTMENTS AS AT 30 JUNE 2014

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

**Valued at closing prices at 30 June 2014**

| | | | Total Value $ million | % of Portfolio |
|---|---|---|---|---|
| 1 | | Commonwealth Bank of Australia | 686.1 | 10.8% |
| 2 | | Westpac Banking Corporation | 617.8 | 9.8% |
| 3 | * | BHP Billiton | 510.5 | 8.1% |
| 4 | | Wesfarmers | 316.0 | 5.0% |
| 5 | * | National Australia Bank | 312.8 | 4.9% |
| 6 | * | Telstra Corporation | 286.8 | 4.5% |
| 7 | | Australia and New Zealand Banking Group | 283.0 | 4.5% |
| 8 | * | Woolworths | 222.4 | 3.5% |
| 9 | | Rio Tinto | 216.6 | 3.4% |
| 10 | | Oil Search | 159.4 | 2.5% |
| 11 | * | Transurban Group | 146.0 | 2.3% |
| 12 | | Woodside Petroleum | 134.8 | 2.1% |
| 13 | | Amcor | 134.2 | 2.1% |
| 14 | * | Santos | 116.5 | 1.8% |
| 15 | | AMP | 106.5 | 1.7% |
| 16 | * | Origin Energy | 105.0 | 1.7% |
| 17 | | Brambles | 102.7 | 1.6% |
| 18 | | Computershare | 101.8 | 1.6% |
| 19 | | QBE Insurance Group | 84.7 | 1.3% |
| 20 | | APA Group | 80.2 | 1.3% |
| 21 | | AGL Energy | 78.7 | 1.2% |
| 22 | * | CSL | 66.6 | 1.1% |
| 23 | | Milton Corporation | 65.4 | 1.0% |
| 24 | * | Incitec Pivot | 64.2 | 1.0% |
| 25 | | Ramsay Health Care | 61.9 | 1.0% |
| | | | 5,060.6 | |
| | | As % of Total Portfolio Value (excludes Cash) | 80.0% | |

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

## PORTFOLIO PERFORMANCE TO 30 JUNE 2014

| | ANNUALISED RETURNS | | | |
|---|---|---|---|---|
| **PERFORMANCE MEASURES** | **1 YEAR** | **3 YEARS** | **5 YEARS** | **10 YEARS** |
| ***AFIC PORTFOLIO RETURN - NET ASSET BACKING INCLUDING DIVIDENDS REINVESTED**** | ***17.3%*** | ***11.6%*** | ***12.4%*** | ***9.8%*** |
| **S&P/ASX 200 ACCUMULATION INDEX** | 17.4% | 10.4% | 11.2% | 9.0% |

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

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

| | Note | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|---|
| Dividends and distributions | | 275,793 | 250,290 |
| Revenue from deposits and bank bills | | 4,898 | 6,919 |
| Other revenue | | 4,208 | 4,000 |
| **Total revenue** | | **284,899** | **261,209** |
| Net gains on trading portfolio | | 9,841 | 10,303 |
| **Income from operating activities** | | **294,740** | **271,512** |
| Finance costs | | (20,525) | (20,998) |
| Administration expenses | | (14,122) | (12,940) |
| **Operating result before income tax expense** | **4** | **260,093** | **237,574** |
| Income tax expense* | **5** | (5,873) | (3,311) |
| **Net operating result** | | **254,220** | **234,263** |
| **Net gains on investments** | | | |
| Net gains on puttable instruments and non-equity investments | | 104 | 12,166 |
| Tax expense on net gains on puttable instruments and non-equity investments* | **5** | (31) | (3,650) |
| | | 73 | 8,516 |
| **Profit for the year** | | **254,293** | **242,779** |
| Profit is attributable to : | | | |
| Equity holders of Australian Foundation Investment Company Ltd | | 254,213 | 242,666 |
| Minority interest | | 80 | 113 |
| | | **254,293** | **242,779** |
| | | **Cents** | **Cents** |
| Basic earnings per share | | 24.35 | 23.47 |
| Diluted earnings per share | | 24.32 | 23.48 |

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

**Information on earnings per share, including net operating result per share, can be found in Note 26.**

| | Note | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|---|
| * Total tax expense for the year | **5** | 5,904 | 6,961 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

| | **Year to 30 June 2014** | | | Year to 30 June 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 |
| **Profit for the Year** | **254,220** | **73** | **254,293** | **234,263** | **8,516** | **242,779** |
| **Other Comprehensive Income** | | | | | | |
| *Items that will not be recycled through the Income Statement* | | | | | | |
| Unrealised gains for the period on securities in the portfolio at 30 June | - | 650,849 | **650,849** | - | 846,094 | **846,094** |
| Deferred tax expense on above | - | (195,882) | **(195,882)** | - | (257,127) | **(257,127)** |
| Plus gains for the period on securities realised | - | 15,045 | **15,045** | - | 20,822 | **20,822** |
| Tax expense on above | - | (4,529) | **(4,529)** | - | (6,328) | **(6,328)** |
| *Items that may be recycled through the Income Statement* | | | | | | |
| Gross movement in fair value for interest rate swaps[4] | - | 1,731 | **1,731** | - | 143 | **143** |
| Tax expense on above | - | (519) | **(519)** | - | (43) | **(43)** |
| **Total other comprehensive income [1,3]** | **-** | **466,695** | **466,695** | **-** | **603,561** | **603,561** |
| **Total comprehensive income [2]** | **254,220** | **466,768** | **720,988** | **234,263** | **612,077** | **846,340** |

1 Net capital gains not recorded through the Income Statement
2 This is the company's Net Return for the year, which includes the Net Operating Result plus the net realised and unrealised gains or losses on the Company's investment portfolio.
3 Total tax movement in other comprehensive income: 2014: $(200.9)m; 2013 : $(263.5)m
4 It is currently anticipated that the swaps will be held to maturity and consequently that they will not be recycled through the Income Statement.

| | **Year to 30 June 2014** | | | Year to 30 June 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| | **$'000** | **$'000** | **$000** | $'000 | $'000 | $000 |
| **Total Comprehensive Income is attributable to:** | | | | | | |
| Equity holders of Australian Foundation Investment Company Ltd | 254,140 | 466,768 | **720,908** | 234,150 | 612,077 | **846,227** |
| Minority Interest | 80 | - | **80** | 113 | - | **113** |
| | **254,220** | **466,768** | **720,988** | **234,263** | **612,077** | **846,340** |

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

# CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2014

| | Note | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Cash | 6 | 69,084 | 256,440 |
| Receivables | 7 | 65,758 | 52,271 |
| Trading portfolio | 8 | - | 50,019 |
| **Total current assets** | | **134,842** | **358,730** |
| **Non-current assets** | | | |
| Fixtures & fittings | 9 | 76 | 206 |
| Investment portfolio | 10 | 6,326,268 | 5,360,906 |
| Deferred tax assets | 16 | 864 | 1,332 |
| **Total non-current assets** | | **6,327,208** | **5,362,444** |
| **Total assets** | | **6,462,050** | **5,721,174** |
| **Current liabilities** | | | |
| Payables | 11 | 6,128 | 9,334 |
| Tax payable | | 13,419 | 8,487 |
| Borrowings | 6 | 100,000 | 100,000 |
| Trading portfolio | 8 | 1,980 | - |
| Provisions | 12 | 2,598 | 2,553 |
| Interest-rate Hedging Contracts | 22 | 281 | 1,493 |
| **Total current liabilities** | | **124,406** | **121,867** |
| **Non-current liabilities** | | | |
| Provisions | 13 | 1,704 | 1,310 |
| Convertible Notes | 14 | 203,779 | 219,544 |
| Deferred tax liabilities - investment portfolio | 15 | 948,009 | 751,761 |
| **Total non-current liabilities** | | **1,153,492** | **972,615** |
| **Total liabilities** | | **1,277,898** | **1,094,482** |
| **Net Assets** | | **5,184,152** | **4,626,692** |
| **Shareholders' equity** | | | |
| Share Capital | 17 | 2,064,936 | 2,002,128 |
| Revaluation Reserve | 19 | 2,253,053 | 1,801,692 |
| Realised Capital Gains Reserve | 20 | 317,624 | 334,243 |
| General Reserve | 21 | 23,637 | 23,637 |
| Interest-rate Hedging Reserve | 22 | (281) | (1,493) |
| Retained Profits | 23 | 524,319 | 465,701 |
| **Parent Entity Interest** | | **5,183,288** | **4,625,908** |
| Minority Interest | | 864 | 784 |
| **Total Equity** | | **5,184,152** | **4,626,692** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014

| Year Ended 30 June 2014 | Note | Share Capital $'000 | Revaluation Reserve $'000 | Realised Capital Gains $'000 | General Reserve $'000 | Interest-Rate Hedging $'000 | Retained Profits $'000 | Total Parent Entity $'000 | Minority Interest $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of Australian Foundation Investment Company Ltd | | | | | | | | |
| **Total equity at the beginning of the year** | | **2,002,128** | **1,801,692** | **334,243** | **23,637** | **(1,493)** | **465,701** | **4,625,908** | **784** | **4,626,692** |
| Dividends paid | **25** | - | - | (30,814) | - | - | (195,522) | **(226,336)** | - | **(226,336)** |
| Shares issued- Dividend Reinvestment Plan | **17** | 46,064 | - | - | - | - | - | **46,064** | - | **46,064** |
| Shares issued – conversion of Convertible Notes | **17** | 16,660 | - | - | - | - | - | **16,660** | - | **16,660** |
| Other Share Capital Adjustments | **17** | 84 | - | - | - | - | - | **84** | - | **84** |
| **Total transactions with share-holders** | | **62,808** | **-** | **(30,814)** | **-** | **-** | **(195,522)** | **(163,528)** | **-** | **(163,528)** |
| Profit for the year | | - | 73 | - | - | - | 254,140 | **254,213** | 80 | **254,293** |
| *Other Comprehensive Income for the year (net of tax)* | | | | | | | | | | |
| Net unrealised gains for the period for stocks held at 30 June | | - | 454,967 | - | - | - | - | **454,967** | - | **454,967** |
| Net gains for the period on investments realised | | - | 10,516 | - | - | - | - | **10,516** | - | **10,516** |
| Transfer of cumulative gains on investments realised | | - | (14,195) | 14,195 | - | - | - | **-** | - | **-** |
| Net movement in fair value of swap contracts | | - | - | - | - | 1,212 | - | **1,212** | - | **1,212** |
| Other Comprehensive Income for the year | | - | 451,288 | 14,195 | - | 1,212 | - | **466,695** | - | **466,695** |
| **Total equity at the end of the year** | | **2,064,936** | **2,253,053** | **317,624** | **23,637** | **(281)** | **524,319** | **5,183,288** | **864** | **5,184,152** |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2014 (2013 COMPARATIVES)

| | | Attributable to equity holders of Australian Foundation Investment Company Ltd | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year Ended 30 June 2013** | **Note** | **Share Capital $'000** | **Revaluation Reserve $'000** | **Realised Capital Gains $'000** | **General Reserve $'000** | **Interest-Rate Hedging $'000** | **Retained Profits $'000** | **Total Parent Entity $'000** | **Minority Interest $'000** | **Total $'000** |
| **Total equity at the beginning of the year** | | **1,956,931** | **1,231,372** | **292,586** | **23,637** | **(1,593)** | **447,886** | **3,950,819** | **671** | **3,951,490** |
| Dividends paid | **25** | - | - | - | - | - | (216,335) | **(216,335)** | - | **(216,335)** |
| Shares issued- Dividend Reinvestment Plan | **17** | 45,068 | - | - | - | - | - | **45,068** | - | **45,068** |
| Other Share Capital Adjustments | **17** | 129 | - | - | - | - | - | **129** | - | **129** |
| **Total transactions with share-holders** | | **45,197** | **-** | **-** | **-** | **-** | **(216,335)** | **(171,138)** | **-** | **(171,138)** |
| Profit for the year | | - | 8,516 | - | - | - | 234,150 | **242,666** | 113 | **242,779** |
| *Other Comprehensive Income for the year (net of tax)* | | | | | | | | | | |
| Net unrealised gains for the period for stocks held at 30 June | | - | 588,967 | - | - | - | - | **588,967** | - | **588,967** |
| Net gains for the period on investments realised | | - | 14,494 | - | - | - | - | **14,494** | - | **14,494** |
| Transfer of cumulative gains on investments realised | | - | (41,657) | 41,657 | - | - | - | **-** | - | **-** |
| Net movement in fair value of swap contracts | | - | - | - | - | 100 | - | **100** | - | **100** |
| Other Comprehensive Income for the year | | - | 561,804 | 41,657 | - | 100 | - | **603,561** | - | **603,561** |
| **Total equity at the end of the year** | | **2,002,128** | **1,801,692** | **334,243** | **23,637** | **(1,493)** | **465,701** | **4,625,908** | **784** | **4,626,692** |

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

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

| | Note | Consolidated 2014 $'000 INFLOWS/ (OUTFLOWS) | 2013 $'000 INFLOWS/ (OUTFLOWS) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Sales from trading portfolio | | 77,672 | 170,662 |
| Purchases for trading portfolio | | - | (87,448) |
| Interest received | | 5,886 | 7,089 |
| Dividends and distributions received | | 244,715 | 213,882 |
| | | 328,273 | 304,185 |
| Other receipts/(payments) | | 4,213 | 4,000 |
| Administration expenses | | (13,669) | (11,473) |
| Finance costs paid | | (19,830) | (19,990) |
| Taxes paid | | (4,616) | (5,297) |
| **Net cash inflow/(outflow) from operating activities** | **31** | **294,371** | **271,425** |
| **Cash flows from investing activities** | | | |
| Sales from investment portfolio | | 175,794 | 251,234 |
| Purchases for investment portfolio | | (477,264) | (247,868) |
| **Net cash inflow/(outflow) from investing activities** | | **(301,470)** | **3,366** |
| **Cash flows from financing activities** | | | |
| Share issues transaction costs | | (57) | (56) |
| Dividends paid | | (180,200) | (171,188) |
| **Net cash inflow/(outflow) from financing activities** | | **(180,257)** | **(171,244)** |
| Net increase/(decrease) in cash held | | (187,356) | 103,547 |
| Cash at the beginning of year | | 256,440 | 152,893 |
| **Cash at the end of year** | **6** | **69,084** | **256,440** |

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

## 1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. This financial report has been authorised for issue as per the Directors Declaration and is presented in the Australian currency. The Company has the power to amend and reissue the financial report.

In this report, "Group" refers to the consolidated entity and "Company" refers to the parent entity, Australian Foundation Investment Company Ltd ("AFIC"). This financial report consists of financial statements for the consolidated entity consisting of AFIC and its subsidiary. The financial information for the parent entity, disclosed in Note 38 below, has been prepared on the same basis as the consolidated financial statements. The Group has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

| **Phrase** | **AASB Terminology** |
|---|---|
| Market Value | Fair Value for Actively Traded Securities |
| Cash | Cash & Cash Equivalents |
| Share Capital | Contributed Equity |
| Hybrids | Equity instruments that are not ordinary securities |

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (IFRS). The Group is a 'for profit' entity.

The Group has not applied any Australian Accounting Standards or AASB interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2014 ("the inoperative standards"), except for AASB 9 which was adopted on 7 December 2009. The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Group only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

### a) Basis of accounting

The financial statements are prepared using the valuation methods described below for holdings of securities, including options. All other items have been treated in accordance with the historical cost convention.

### b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company's subsidiary, Australian Investment Company Services Ltd ("AICS") as at 30 June 2014, and its results for the year then ended. AICS is a 75% owned subsidiary of the Company. No other subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

### c) Holdings of securities

*(i) Balance sheet classification*

The Group has two discrete portfolios of securities, the investment portfolio and the trading portfolio. The purchase and the sale of securities are accounted for at the date of trade.

The investment portfolio relates to holdings of securities which the Directors intend to retain on a long-term basis and includes a small sub-component over which options may be written.

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts over securities that are held in the specific sub-component of the investment portfolio noted above, and that are entered into as described in Note 8.

Securities within the investment portfolio (with the exception of puttable instruments and convertible instruments classified as debt) are classified as 'financial assets measured at fair value through other comprehensive income', and are designated as such upon initial recognition, whereas puttable instruments, convertible instruments classified as debt and securities held within the trading portfolio are classified as 'mandatorily measured at fair value through profit or loss in accordance with AASB 9'.

The designation of securities within the investment portfolio as 'financial assets measured at fair value through other comprehensive income' is consistent with the Directors' view of these assets as being held for the long-term for both capital growth and for the provision to the Group of dividends and distribution income rather than to make a profit from the sale of such securities, which is the purpose of securities held within the trading portfolio. Puttable instruments and convertible instruments classified as debt are required to be classified at "fair value through profit or loss" although the Directors also view these assets as being held for the long-term for both capital growth and for the provision to the Group of distribution income and their being managed as part of the investment portfolio.

*(ii) Valuation of investment portfolio*

Securities, including listed and unlisted shares and notes, are initially brought to account at market value, which is the cost of acquisition, and are revalued to market values continuously or fair value using a variety of methodologies if there is no active market. Increments and decrements on equity instruments are recognised as Other Comprehensive Income and taken to the Revaluation Reserve.

Gains and losses on puttable instruments and convertible instruments classified as debt are recognised in profit or loss. However, they are subsequently transferred from Retained Earnings to the Revaluation Reserve.

Where disposal of an investment occurs, any revaluation increment or decrement relating to it is transferred from the Revaluation Reserve to the Realisation Reserve. The amounts of such transfers are noted in the Statement of Changes in Equity, and are done primarily to isolate the realised gains out of which the Company can pay a 'Listed Investment Company' or 'LIC' gain as part of its dividend, which conveys certain taxation benefits to many of the Company's shareholders.

*(iii) Valuation of trading portfolio*

Securities, including listed and unlisted shares and options, are initially brought to account at market value, which is the cost of acquisition, or proceeds in the case of options written, and are revalued to market values continuously.

Increments and decrements on the value of securities, which includes the realised and unrealised gains or losses from securities in the trading portfolio are taken to Profit or Loss through the Income Statement. These securities include options written over certain equities in the investment portfolio.

*(iv) Income from holdings of securities*

Distributions relating to listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis unless the dividend clearly represents a recovery of part of the cost of the investment, in which case the relevant portion is treated as proceeds from a sale. If the distributions are capital returns on ordinary shares the amount of the distribution is treated as an adjustment to the carrying value of the shares.

The realised gain or loss on options written in the trading portfolio is not recognised until the option expires, is exercised or is closed out. All unrealised gains or losses which represent movements in the Market Value of the options are recognised through the Income Statement.

**d) Taxation**

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

Deferred tax assets or liabilities are recognised for the unrealised gain or loss on securities valued at fair value through the Income Statement – e.g. the trading portfolio.

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

**e) Cash flows**

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

**f) Fair value of financial assets and liabilities**

The fair value of cash, borrowings and non-interest bearing monetary financial assets and liabilities of the Group approximates their carrying value.

The fair value for assets that are actively traded on market is defined by IFRS as 'last bid price'.

**g) Convertible Notes**

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

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

**h) Employee benefits**

*(i) Wages, salaries and annual leave*

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

*(ii) Long service leave*

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

*(iii)* *Cash incentives*

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

*(iv)* *Share incentives*

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

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

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

Under the Senior Executive Long Term Incentive Plan which was introduced for the year ended 30 June 2013, the amount awarded is represented by Performance Shares. The 30 day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30-day VWAP price to determine the number of Performance Shares that may vest at the vesting point in 4 years' time. The value of each Performance Shares will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June.

The expense will be charged directly through the Group's Profit & Loss account in the following manner – 25% of the total estimated cost in Year 1, 50% of the total estimated cost in Year 2 less the expense charged in Year 1, 75% of the total estimated cost in Year 3 less the expense charged in Years 1 & 2 and 100% of the total estimated cost in Year 4 less the expense charged in Years 1, 2 & 3.

Shares are no longer awarded under the previous Senior Executive Long Term Incentive Plan but expenses will continue to be incurred under it until the conclusion of the vesting period in August 2015. Shares acquired to satisfy obligations under the old Senior Executive Long Term Incentive plans are recognised as an adjustment against share capital (referred to as "ELTIP shares adjustment") as at the date of acquisition by the Group. Between the award date and the vesting date, the fair value of the ELTIP shares is expensed over the relevant period of service for each executive, and recognised in equity in the ELTIP shares adjustment account. In the event that the executive does not complete the period of service, the cumulative expense is reversed. The fair value of the shares is determined at the award date and is based on:

- the market price of the shares at award date;
- allowance for the impact of the holding restriction between award date and vesting date; and

- the expected performance of the Group in meeting the market hurdles which determine vesting.

Any shares that do not ultimately vest are cancelled by offsetting the relevant component of the ELTIP shares adjustment account against share capital. The reduction in share capital is based on that proportion of the original acquisition cost of share compensation that did not vest. Any residual element in the ELTIP shares adjustment account for the relevant award year is transferred to retained earnings.

**i) Directors' retirement allowances**

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

**j) Administration fees**

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

**k) Operating leases**

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

**l) Interest-rate swaps**

The Company has hedged a proportion of its short term borrowings against changes in interest rates by entering into interest rate swap agreements. Interest-rate swaps are shown at 'fair value' on the Balance Sheet representing the cost of unwinding the swap. For that portion of the Company's swap agreements that are effective hedges (which is 100%), the fair value of the unused portion of the swap agreement is recognised in equity. Otherwise the fair value is recognised in Net Profit. A portion of the accumulated amounts in equity are recycled in the income statement as the interest on the borrowings becomes due and payable and the hedge is used. The amount recognised is accounted for as finance costs during the period along with the interest on the borrowings. The net amount receivable or payable under interest rate swap agreements is also recognised at this time and is included in 'other receivables' or 'other payables' at each balance date.

**m) Rounding of amounts**

The Group is of the kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## n) Split between Revenue and Capital in Other Comprehensive Income

'Capital' relates to realised or unrealised gains (and the tax thereon) on securities within the Investment Portfolio and excludes income in the form of distributions and dividends which are recorded as 'Revenue'. 'Capital' also includes movements in the fair value of the Group's swap contracts. All other items, including expenses, are recorded as Net Operating Result, which is categorised under 'Revenue'.

## o) Segment reporting

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

## 2. Critical Accounting Estimates and Judgements

The preparation of financial reports in conformity with AIFRS requires the use of certain critical accounting estimates. This requires the Board and management to exercise their judgement in the process of applying the Group's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB112 *Income Taxes* deferred tax liabilities have been recognised for Capital Gains Tax (CGT) or income tax on the unrealised gain in the Investment Portfolio at current tax rates. As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 15. In addition, the tax liability that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

## 3. Segment Reporting

### (a) Description of segments

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

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

The Group invests in equity securities and other instruments to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

### (b) 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 Board considers the Group's net operating result after tax to be a key measure of the Group's performance. This amount excludes the impact of unrealised gains/losses on options and any gains or losses on the Group's investment portfolio and reconciles to the Group's profit before tax as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Net Operating Result after income tax** | **254,220** | **234,263** |
| Add back income tax expense | 5,873 | 3,311 |
| Net gains on Puttable Instruments and non-equity investments | 104 | 12,166 |
| **Profit before tax** | **260,197** | **249,740** |

In addition, the Investment Committee regularly reviews the net asset value per share both before and after provision for deferred tax on the unrealised gains in the Group's long-term investment portfolio. Deferred tax is calculated as set out in notes 1(d) and 2. The relevant amounts as at 30 June 2014 and 30 June 2013 were as follows:

| | 2014 $ | 2013 $ |
|---|---|---|
| **Net tangible asset backing per share** | | |
| Before Tax | 5.85 | 5.18 |
| After Tax | 4.94 | 4.46 |

**(c) 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 all of the Group's dividend and distribution income is from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group's investment in Westpac (11.6%) and Commonwealth Bank (11.0%) comprising more than 10% of the Group's income (including trading portfolio) in 2014 (2013 : Westpac : 12.3% and Commonwealth Bank : 11.4%).

## 4. Operating result before income tax expense

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Dividends and distributions | | |
| • securities in investment portfolio | 274,925 | 246,399 |
| • securities held in trading portfolio | 622 | 3,645 |
| | 275,547 | 250,044 |
| Interest income | | |
| • income from cash investments | 4,898 | 6,919 |
| • interest on securities in investment portfolio | 246 | 246 |
| | 5,144 | 7,165 |
| Net gains on trading portfolio | | |
| • net realised gains from trading portfolio – shares | 4,321 | 5,285 |
| - options | 5,190 | 3,758 |
| • unrealised gains from trading portfolio - shares | - | 1,189 |
| - options | 330 | 71 |
| | 9,841 | 10,303 |
| Administration fees | 4,204 | 3,974 |
| Other income | 4 | 26 |
| | 4,208 | 4,000 |
| **Income from operating activities** | **294,740** | **271,512** |
| Finance costs | (20,525) | (20,998) |
| Rental expense (excl. GST) relating to non-cancellable operating leases | (512) | (512) |
| Employee benefits expense | (8,323) | (7,671) |
| Depreciation charge | (130) | (130) |
| Other administration expenses | (5,157) | (4,627) |
| **Operating result before income tax expense** | **260,093** | **237,574** |

Further information relating to remuneration of auditors is set out in Note 30, Directors and Executives in Note 27.

## 5. Tax expense

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

| | 2014 | 2013 |
|---|---|---|
| **Operating result before income tax expense** | **260,093** | **237,574** |
| Tax at the Australian tax rate of 30% (2013 – 30%) | 78,028 | 71,272 |
| Tax offset for franked dividends | (66,473) | (63,485) |
| Demerger dividends not taxable | (3,294) | - |
| Tax effect of other sundry items not taxable in calculating taxable income | 76 | (729) |
| | **8,337** | **7,058** |
| Over provision in prior years | (2,464) | (3,747) |
| **Income tax expense on operating result** | **5,873** | **3,311** |
| **Net gains on investments** | **104** | **12,166** |
| Tax at the Australian tax rate of 30% (2013 – 30%) | 31 | 3,650 |
| Tax expense on net gains on investments | **31** | **3,650** |
| **Total tax expense** | **5,904** | **6,961** |

**(b) Tax expense composition**

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Charge for tax payable relating to the current year | 7,869 | 1,368 |
| Over provision in prior years | (2,464) | (3,747) |
| Increase in deferred tax liabilities – puttable instruments | 31 | 3,650 |
| Decrease in deferred tax assets - other | 468 | 5,690 |
| | **5,904** | **6,961** |

**(c) Amounts recognised directly through Other Comprehensive Income**

| | | |
|---|---|---|
| Increase in tax liabilities relating to capital gains tax on the fair value movement in the investment portfolio | 200,411 | 263,455 |
| | **200,411** | **263,455** |

## 6. Current assets & liabilities – cash

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash at bank and in hand | 1,967 | 97 |
| Fixed Term Deposits | 67,117 | 256,343 |
| | 69,084 | 256,440 |

Cash holdings yielded an average floating interest rate of 3.5% (2013: 4.3%).

**(a) Credit risk exposure**

All cash investments not held in a transactional account are invested in short-term deposits with Australia's "Big 4" commercial banks or their wholly-owned subsidiaries, all rated 'AA-' by S&P.

**(b) Standby arrangements and credit facilities**

The Group was party to agreements under which Commonwealth Bank of Australia and Westpac Bank will extend a cash advance facility. $50 million is a twelve month facility that expires on 31 December 2014. Another $50 million is a one year facility that expires on 30 June 2015. A further $50 million is a three year facility that expires on 6 October 2014. The remaining $100 million are three year facilities expiring 30 June 2016.

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Commonwealth Bank of Australia –cash advance facility | 165,000 | 165,000 |
| Amount drawn down | 100,000 | 95,000 |
| Undrawn facilities | 65,000 | 70,000 |
| Westpac Bank- cash advance facility | 85,000 | 85,000 |
| Amount drawn down | 0 | 5,000 |
| Undrawn facilities | 85,000 | 80,000 |
| Total short-term loan facilities | 250,000 | 250,000 |
| Total drawn down | 100,000 | 100,000 |
| Total undrawn facilities | 150,000 | 150,000 |

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

## 7. Current assets – receivables

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Dividends and distributions receivable | 46,172 | 42,363 |
| Interest receivable/pre-paid | 259 | 1,064 |
| Outstanding settlements – Investment portfolio | 19,262 | 6,555 |
| Outstanding settlements – Trading portfolio | 42 | 2,112 |
| Other receivables/pre-payments | 23 | 177 |
| | 65,758 | 52,271 |

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction. There are no receivables that are past due.

## 8. Current liabilities – trading portfolio

| | 2014 | 2013 |
|---|---|---|
| Listed securities at market value | | |
| - shares and trust units | - | 51,338 |
| - Options sold by the Group | | |
| • Calls | (1,943) | (1,294) |
| • Puts | (37) | (25) |
| | (1,980) | 50,019 |

**Options sold**

The Group enters into option contracts in the trading portfolio as part of its trading activities to generate profits on premium income. Options are written over stock in a specific sub-component of the investment portfolio. Where the Group sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Group sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option. Exchange Traded Options are valued using observable market data which is obtained from an independent third-party data provider.

As at balance date there were call options outstanding which potentially required the Group if they were exercised to deliver securities to the value of $79.9 million (2013: $42.7 million) held by the Group in its trading portfolio. There were also put options outstanding which potentially required the Company if they were exercised to purchase $1.95 million of securities (2013 : $2.4 million). As at balance date the majority of these contracts were exchange-traded options and are entered into within the constraints and controls imposed by the Australian Securities Exchange. Dealing and administrative (including settlement) functions are separated. The total exposure position is determined daily. The Investment Committee meets regularly to consider, review and approve the transactions of the Group and related matters. $126.5 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2013: $108.3 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Group's Investment Portfolio.

## 9. Non-current assets – fixtures & fittings

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Opening Balance | 206 | 336 |
| Additions | - | - |
| Depreciation charge | (130) | (130) |
| Book cost of furniture and fittings, plus leasehold expenses | 76 | 206 |

## 10. Non-current assets – investment portfolio

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Equity investments | | |
| - equity instruments (excl. below) at market value | 6,179,489 | 5,308,105 |
| - securities over which options may be written | 131,824 | 38,042 |
| - hybrids | 12,225 | 12,133 |
| - convertible notes classified as debt | 2,730 | 2,626 |
| - puttable instruments | - | - |
| | 6,326,268 | 5,360,906 |

For a detailed list of the fair value of the Company's investments valued at fair value through Other Comprehensive Income see Note 37.

## 11. Current liabilities – payables

| | 2014 | 2013 |
|---|---|---|
| Dividends payable | 547 | 474 |
| Outstanding settlements – Investment portfolio | - | 2,554 |
| Outstanding settlements – Trading portfolio | 38 | - |
| Directors' retirement benefits | 223 | 567 |
| Interest accrued/payable | 5,083 | 5,594 |
| Other payables | 237 | 145 |
| | 6,128 | 9,334 |

Payables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

**Movement on amount payable for Directors retirement benefits during the year :**

| | 2014 | 2013 |
|---|---|---|
| Opening balance | 567 | 567 |
| Amount paid during year | (344) | - |
| | 223 | 567 |

## 12. Current liabilities – provisions

| | 2014 | 2013 |
|---|---|---|
| Employee entitlements | 2,598 | 2,553 |

## 13. Non-current liabilities – provisions

| | 2014 | 2013 |
|---|---|---|
| Employee entitlements | 1,704 | 1,310 |

## 14. Convertible Notes

| | 2014 | 2013 |
|---|---|---|
| Non-current unsecured – convertible notes at amortised cost | 203,779 | 219,544 |

There were 2,059,906 convertible notes outstanding at 30 June 2014 each with a face value of $100 which were issued on 19 December 2011. These notes carry an interest entitlement of 6.25 per cent per annum. They may be converted at the option of the holder into ordinary shares based on a conversion price of $5.0864 per share on 28 February or 31 August each year until 28 February 2017. Notes not converted will be redeemed at their face value on 28 February 2017. At 30 June 2014, the face value of the convertible notes was $206.0 million (2013 : $222.7 million). Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd.

As per Note 1g), at issuance the residual value of the equity component of the convertible notes was calculated as nil.

## 15. Deferred tax liabilities – investment portfolio

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Deferred tax liabilities on unrealised gains in the investment portfolio | 948,009 | 751,761 |

Refer Note 2 for further detail on the nature of the deferred tax liabilities on the investment portfolio.

| | 2014 | 2013 |
|---|---|---|
| Opening balance at 1 July | 751,761 | 519,671 |
| Charged to Income Statement for puttable instruments | 31 | 3,650 |
| Tax movement on realised gains or losses | (4,194) | (35,015) |
| Charged to OCI for equity instruments | 200,411 | 263,455 |
| | 948,009 | 751,761 |

## 16. Deferred tax assets

The Group's net deferred tax assets ("DTA") arise from temporary differences in the recognition of items for taxation and accounting purposes, as described in Note 1 d). The key components are:

| | 2014 | 2013 |
|---|---|---|
| (a) The difference in the value of the trading portfolio for tax and accounting purposes /unrealised loss | (99) | 256 |
| (b) Provisions and expenses charged to the accounting profit which are not yet tax deductible | 1,375 | 1,532 |
| (c) Interest and dividend income receivable which is not assessable for tax until receipt | (412) | (456) |
| | 864 | 1,332 |
| **Movements:** | | |
| Opening balance at 1 July | 1,332 | 27,666 |
| Credited/(charged) to Income statement | (468) | (5,690) |
| Credited/(charged) through OCI | - | (20,644) |
| | 864 | 1,332 |

Any deferred tax asset arising from provisions and expenses charged but not yet tax deductible will be obtained when the relevant items become tax deductible, provided that the Group derives sufficient assessable income to enable the benefit from the deductions to be taken in that year and there are no intervening changes in tax legislation adversely affecting the Group's ability to claim the tax deduction.

The portion of deferred tax liability likely to be reversed within the next 12 months is $0.5 million (2013: $0.2 million). This relates primarily to items described in items (a) and (c) above.

## 17. Shareholders' equity – share capital

### (a) Share capital

| | Consolidated and Parent Entity 2014 Shares '000 | Consolidated and Parent Entity 2014 $'000 | Consolidated and Parent Entity 2013 Shares '000 | Consolidated and Parent Entity 2013 $'000 |
|---|---|---|---|---|
| Ordinary shares – fully paid | 1,049,055 | 2,065,017 | 1,037,326 | 2,002,350 |
| Less ELTIP shares adjustment | - | (81) | - | (222) |
| | 1,049,055 | 2,064,936 | 1,037,326 | 2,002,128 |

There are no shares that have not been fully paid, all shares rank *pari passu* and have no par value.

**(b) Movements in share capital of the Group during the past two years were as follows:**

| Date | Details | Notes | Number of shares '000 | Issue price $ | Paid-up Capital $'000 |
|---|---|---|---|---|---|
| 1/07/2012 | Balance | | 1,027,733 | | 1,957,338 |
| 31/08/2012 | Dividend Reinvestment Plan | i | 6,386 | 4.36 | 27,844 |
| 22/02/2013 | Dividend Reinvestment Plan | i | 3,207 | 5.37 | 17,224 |
| Various | Share Issue Costs | | - | | (56) |
| 30/06/2013 | Balance | | 1,037,326 | | 2,002,350 |
| 30/08/2013 | Dividend Reinvestment Plan | i | 5,182 | 5.64 | 29,224 |
| 30/08/2013 | Dividend Substitution Share Plan | ii | 252 | n/a | - |
| 31/08/2013 | Convertible Note conversion | iv | 2 | 5.09 | 12 |
| 4/10/2013 | Cancellation of forfeited shares under ELTIP | | (5) | n/a | (27) |
| 21/02/2014 | Dividend Reinvestment Plan | i | 2,874 | 5.86 | 16,840 |
| 21/02/2014 | Dividend Substitution Share Plan | ii | 151 | n/a | - |
| 28/02/2014 | Convertible Note conversion | iv | 3,273 | 5.09 | 16,648 |
| Various | Share Issue Costs | | - | | (30) |
| | | | 1,049,055 | | 2,065,017 |

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

(ii) For the final dividend for the year ended 30 June 2013, and for future dividends, the Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forego a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

(iii) The Group introduced an on-market Buy-Back Program in December 2000. During the 2014 financial year the Group bought back no shares (2013: Nil).

(iv) See Note 14. 166,605 Feb 2017 Convertible Notes were converted into shares during the year. (2013 : Nil)

**(c) Movements in ELTIP shares adjustment during the past two years were as follows ($) :**

| | Award Date | Opening balance | Acquired on market | Expense recognised | Cancelled | Residual transferred | Closing balance |
|---|---|---|---|---|---|---|---|
| ***2012/13*** | *Aug 2008* | 4,428 | - | 4,428 | - | - | 0 |
| | *Oct 2009* | 64,295 | - | 51,434 | - | - | 12,861 |
| | *Aug 2010* | 122,435 | - | 58,769 | - | - | 63,666 |
| | *Aug 2011* | 215,857 | - | 70,008 | - | - | 145,849 |
| *Total for 2012/2013* | | 407,015 | - | 184,639 | - | - | 222,376 |
| ***2013/14*** | *Oct 2009* | 12,861 | - | 12,861 | - | - | 0 |
| | *Aug 2010* | 63,666 | - | 58,768 | - | - | 4,898 |
| | *Aug 2011* | 145,849 | - | 70,008 | - | - | 75,841 |
| *Total for 2013/2014* | | 222,376 | - | 141,637 | - | - | 80,739 |

## 18. Capital Management

The Group's objectives in managing capital is to continue to provide shareholders with attractive investment returns through access to a steady stream of fully-franked dividends and enhancement of capital invested, with goals of paying dividends which over time grow faster than the rate of inflation and providing attractive total returns over the medium to long term.

The Group recognises that its capital will fluctuate in accordance with market conditions, and may adjust the amount of dividends paid, issue new shares from time to time or buy-back its own shares or sell assets to reduce debt.

The Group's capital consists of its shareholders equity less the fair value of the interest-rate swaps, plus any net borrowings. The change in this capital is as noted in notes 6, 14, 17, 19, 20, 21, and 23.

## 19. Revaluation Reserve

| | Consolidated 2014 $'000 | Consolidated 2013 $'000 |
|---|---|---|
| Opening balance at 1 July | 1,801,692 | 1,231,372 |
| Revaluation of investment portfolio – equity instruments | 665,894 | 866,916 |
| Revaluation of investment portfolio – puttable instruments | 104 | 12,166 |
| Transfer to Realised Capital Gains Reserve | (14,195) | (41,657) |
| Provision for tax on unrealised gains | (200,442) | (267,105) |
| | 2,253,053 | 1,801,692 |

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy note 1 c) (ii).

## 20. Realised Capital Gains Reserve

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at 1 July | 334,243 | 292,586 |
| Dividends paid | (30,814) | - |
| Cumulative taxable realised gains for period (net of tax) | 14,195 | 41,657 |
| | 317,624 | 334,243 |

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in accounting policy note 1 c)(ii).

## 21. General Reserve

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at 1 July | 23,637 | 23,637 |
| | 23,637 | 23,637 |

This reserve relates to past profits or gains set aside by Directors. It reflects realised surpluses.

## 22. Interest-rate swaps

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance on 1 July | (1,493) | (1,593) |
| Movement for the year (net of tax) | 1,212 | 100 |
| Fair value of Interest-rate swap agreements | (281) | (1,493) |

The Company has entered into interest-rate hedging contracts at a rate of 4.415% and 4.1775% with the Commonwealth Bank of Australia and Westpac Bank, under which the Company will pay a fixed interest rate on $100 million worth of short-term borrowings, which have a floating interest-rate. They have been designated as an effective hedge and any movements in their fair value will be shown as an adjustment against equity. These swaps commenced in August and September 2011 and have a three-year effective life. The reserve and the corresponding asset or liability are measured as the fair value of the interest-rate swaps net of associated tax. They cover 100% of the loan principal outstanding. During the year, a net amount of $1.6 million was paid to the counter-parties under these interest-rate swaps (2013: $0.95 million paid). Expense paid or income earned under the current and previous swaps appear as part of 'Finance costs' in the Income Statement.

It is currently anticipated that the swaps will be held to maturity and consequently that they will have no impact, under current Accounting Standards, on the Income Statement.

## 23. Retained Profits

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| Opening balance at 1 July | 465,701 | 447,886 |
| Dividends paid | (195,522) | (216,335) |
| Statutory Profit for the year | 254,213 | 242,666 |
| Transfer to Revaluation Reserve – puttable instruments (net of tax) | (73) | (8,516) |
| | 524,319 | 465,701 |

This reserve relates to past profits.

## 24. Financial Instruments

### (a) Financial Risk Management

Accounting Standards identify three types of risk associated with financial instruments (i.e. the Group's investments, receivables, payables and borrowings):

<u>Credit risk</u>

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is managed as set out below with respect to cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are over-due.

*Cash*

All cash investments not held in a transactional account are invested in short-term deposits with Australia's "Big 4" commercial banks or their wholly-owned subsidiaries. The credit risk exposure of the Group in relation to cash and deposits is the carrying amount and any accrued unpaid interest.

*Receivables*

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

The credit risk exposure of the Group in relation to receivables is the carrying amount.

*Trading & Investment Portfolios*

Credit risk exposures of the Group arise in relation to converting and convertible notes and other interest-bearing securities that are not equity securities to the extent of their carrying values, in the event of a shortfall on winding-up of the issuing companies.

Liquidity risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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

The relatively low level of gearing that the Group has ensures that covenant levels associated with facilities are very unlikely to be breached. In the unlikely event that a fall in the value of the stock market is such that a breach would appear possible, the Group would amend its cash-flows through the sale of securities and the cessation of purchases to ensure that any short-term debt is extinguished.

The Group's inward operating cash-flows depend upon the level of dividends and distributions received. Should these drop by a material amount, the Group would amend its outward cash-flows accordingly. As the Group's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is manageable by the Board and management. Furthermore, the assets of the Group are largely in the form of readily tradeable securities which can be sold on-market if necessary. The current financial liabilities are shown in Notes 6 & 11. The table below analyses the group's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

| **30 June 2014** | Less than 6 months | 6-12 months | Greater than 1 year | Total contractual cash flows | Carrying Amount |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Non-derivatives** | | | | | |
| Payables | 6,128 | - | - | 6,128 | 6,128 |
| Borrowings | 100,000 | - | - | 100,000 | 100,000 |
| Convertible Notes | - | - | 205,991 | 205,991 | 203,779 |
| | 106,128 | - | 205,991 | 312,119 | 309,907 |
| **Derivatives** | | | | | |
| Trading portfolio* | 1,950 | - | - | 1,950 | 1,980 |
| Interest rate swaps | 264 | - | - | 264 | 281 |
| | 2,214 | - | - | 2,214 | 2,261 |

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

| 30 June 2013 | Less than 6 months $'000 | 6-12 months $'000 | Greater than 1 year $'000 | Total contractual cash flows $'000 | Carrying Amount $'000 |
|---|---|---|---|---|---|
| **Non-derivatives** | | | | | |
| Payables | 9,334 | - | - | 9,334 | 9,334 |
| Borrowings | 100,000 | - | - | 100,000 | 100,000 |
| Convertible Notes | - | - | 222,651 | 222,651 | 219,544 |
| | 109,334 | - | 222,651 | 331,985 | 328,878 |
| **Derivatives** | | | | | |
| Interest rate swaps | 743 | 743 | 263 | 1,749 | 1,493 |
| | 743 | 743 | 263 | 1,749 | 1,493 |

Market risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

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

A general fall in market prices of 5% and 10%, if spread equally over all assets in the investment portfolio would lead to a reduction in the Group's other comprehensive income of $221.3 million and $442.6 million respectively, at a tax rate of 30% (2013 : $187.5 million & $375.1 million) and a reduction in profit after tax of $96,000 and $191,000 million respectively, at a tax rate of 30% (2013 : $92,000 and $184,000). A fall of 5% and 10% in the Trading Portfolio would lead to an increase in profit after-tax of $69,000 and $139,000 respectively (2013 : $1.8 million and $3.5 million fall). The Revaluation Reserve at 30 June 2014 was $2.3 billion (2013 : $1.8 billion). It would require a fall in the value of the Investment Portfolio of 51% after tax to fully deplete this (2013 : 48%).

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

The Group's investment by sector is as below:

| | **2014** | **2013** |
|---|---|---|
| Energy | 9.34% | 8.41% |
| Materials | 17.46% | 17.75% |
| Industrials | 8.31% | 7.44% |
| Consumer Discretionary | 1.10% | 0.68% |
| Consumer Staples | 9.61% | 10.40% |
| Banks | 29.71% | 28.97% |
| Other Financials (incl. Property Trusts) | 10.52% | 10.29% |
| Telecommunications | 4.83% | 4.56% |
| Other - Health Care, Info Technology, Utilities | 8.04% | 6.98% |
| Cash | 1.08% | 4.52% |

Securities representing over 5% of the combined investment and trading portfolio at 30 June were:

| | 2014 | 2013 |
|---|---|---|
| Commonwealth Bank | 10.8% | 10.8% |
| Westpac | 9.8% | 9.7% |
| BHP Billiton | 8.1% | 8.7% |

No other security represents over 5% of the Group's investment and trading portfolios.

In the trading portfolio, the writing of call options provides some protection against a fall in market prices of securities in the specific sub-category of the investment portfolio over which options have been written as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in this sub-category (or in the trading portfolio).

The Group is also not directly exposed to currency risk as all its investments are quoted in Australian dollars.

Interest rate risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short-term for a fixed interest rate but it has entered into interest-rate hedging contracts with the Commonwealth Bank of Australia and Westpac Bank, under which the Group will pay a fixed interest rate on $100 million worth of short-term borrowings, $50 million of which commenced in August 2011 & and $50 million which commenced in September 2011. This locked in a longer-term fixed rate for a substantial proportion of the Group's debt and will expire respectively in August and September 2014. Should interest-rates move to the extent that the Board feel that the swaps are uneconomical, they would be unwound and the cost of unwinding them would be reflected through the Income Statement. Interest rate risk on hybrid securities held by the Group is reflected in their market value. The hedge was fully effective for the year.

**(b) Fair Value measurements**

Accounting standards require the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liabilities that are not based on observable market data (unobservable inputs) (level 3).

| **30 June 2014** | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Financial assets at fair value through other comprehensive income | | | | |
| Investment Portfolio (Equities) | 6,323,538 | - | - | 6,323,538 |
| Financial assets/(liabilities) at fair value through profit or loss | | | | |
| Trading Portfolio | - | (1,980) | - | (1,980) |
| Investment Portfolio (Puttables & Convertible Notes classified as debt) | 2,730 | - | - | 2,730 |
| Derivatives used for hedging | - | (281) | - | (281) |
| Total | 6,326,268 | (2,261) | - | 6,324,007 |

| **30 June 2013** | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| Financial assets at fair value through other comprehensive income | | | | |
| Investment Portfolio (Equities) | 5,358,280 | - | - | 5,358,280 |
| Financial assets/(liabilities) at fair value through profit or loss | | | | |
| Trading Portfolio | 50,019 | - | - | 50,019 |
| Investment Portfolio (Puttables & Convertible Notes classified as debt) | 2,626 | - | - | 2,626 |
| Derivatives used for hedging | - | (1,493) | - | (1,493) |
| Total | 5,410,925 | (1,493) | - | 5,409,432 |

The fair value of financial instruments traded in active markets (including publicly traded derivatives) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over the counter derivatives) is determined using valuation techniques. The group uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. These instruments are included in level 2 and comprise cash-flow hedges. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

**(c) Numerical disclosures – Investment Portfolio**

The fair value of each investment held at fair value through other comprehensive income (investment portfolio) is disclosed in note 37. Dividend income for the period on those investments held at period end was $273.2 million (2013 : $245.1 million). Dividend income on those investments sold during the period was $2.6 million (2013 : $4.3 million).

Certain securities within the investment portfolio were disposed of during the period, either during the normal course of the Company's activities as a Listed Investment Company or as the result of take-overs or acquisitions. The fair value of the investments sold during this period was $163.6 million (2013 : $172.7 million). No puttable instruments were also sold during the period (2013 : $83.6 million). The cumulative gain on these disposals was $18.4 million for the period before tax (2013 : $36.8 million), which has been transferred from the revaluation reserve to the realisation reserve (refer to statement of changes in equity).

The Group has two classes of investments in the investment portfolio - i) assets that are able to be defined under AASB 9 as 'equity instruments', the fair value of which is valued through other comprehensive income and at 30 June 2014 was $6,324 million (30 June 2013 : $5,358 million) and ii) puttable instruments and convertible notes that cannot be classified as equity instruments under AASB 9 and are consequently accounted for at fair value through profit or loss. The fair value of these at 30 June 2014 was $2.7 million (30 June 2013 : $2.6 million).

## 25. Dividends

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **(a) Dividends paid during the year** | | |
| Final dividend for the year ended 30 June 2013 of 14 cents fully franked at 30% paid on 30 August 2013 (2013: 13 cents fully franked at 30% paid on 31 August 2012). | 143,800 | 133,605 |
| Interim dividend for the year ended 30 June 2014 of 8 cents per share fully franked at 30%, paid 21 February 2014 (2013: 8 cents fully franked at 30% paid 22 February 2013) | 82,536 | 82,730 |
| | 226,336 | 216,335 |
| Dividends paid in cash or reinvested in shares under the dividend reinvestment plan: | | |
| Paid in cash | 180,272 | 171,267 |
| Reinvested in shares | 46,064 | 45,068 |
| | 226,336 | 216,335 |
| **(b) Franking credits** | | |
| Opening Balance of Franking Account at 1 July | 126,024 | 123,168 |
| Franking Credits on Dividends Received | 95,833 | 91,408 |
| Tax Paid during the year | 4,277 | 4,163 |
| Franking Credits paid on Ordinary Dividends paid | (97,001) | (92,715) |
| Franking Credits deducted on DSSP Shares issued | (990) | - |
| **Closing Balance of Franking Account** | **128,143** | **126,024** |
| Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables | 28,167 | 25,216 |
| **Adjusted Closing Balance** | **156,310** | **151,240** |
| Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year: | (62,943) | (62,240) |
| **Net available** | **93,367** | **89,000** |
| These franking account balances would allow the Group to frank additional dividend payments up to an amount of: | 217,856 | 207,667 |

The Group's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the investment portfolio and the Group paying tax.

**(c) New Zealand Imputation Account**

(NB : All figures in A$ at the year-end exchange rate of NZ$1.077:A$1)

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening Balance | 630 | - |
| Imputation Credits on Dividends Received | 6,131 | 630 |
| Imputation Credits on Dividends Paid | - | - |
| Closing Balance | **6,761** | **630** |

**(d) Dividends declared after balance date**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Since the end of the year Directors have declared a final dividend of 14 cents per share, fully franked at 30%. The aggregate amount of the final dividend for the year to 30 June 2014 to be paid on 29 August 2014, but not recognised as a liability at the end of the financial year | 146,868 | |

**(e) Listed Investment Company capital gain account**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Balance of the Listed Investment Company (LIC) capital gain account | 10,254 | 38,164 |
| This would equate to an attributable amount of | 14,649 | 54,520 |

Distributed LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the dividend statement. LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains or the receipt of LIC distributions from LIC securities held in the portfolios.

## 26. Earnings per share

| **Basic Earnings per Share** | **2014** | **2013** |
|---|---|---|
| | **Number** | **Number** |
| Weighted average number of ordinary shares | 1,044,013,116 | 1,034,158,957 |
| | **$'000** | **$'000** |
| Profit for the year attributable to members | 254,213 | 242,666 |
| | **Cents** | **Cents** |
| Basic earnings per share | 24.35 | 23.47 |
| **Basic net operating result per Share** | **$'000** | **$'000** |
| Net operating result before net gains on investment portfolio | 254,220 | 234,263 |
| | **Cents** | **Cents** |
| Basic net operating result per share | 24.35 | 22.65 |

| **Diluted** | **2014** | **2013** |
|---|---|---|
| | **Number** | **Number** |
| Weighted average number of ordinary shares attributable to members of the company | 1,044,013,116 | 1,034,158,957 |
| Weighted maximum number of potential shares as a result of possible conversion | 42,677,765 | 43,773,809 |
| | 1,086,690,881 | 1,077,932,766 |
| | **$'000** | **$'000** |
| Profit after tax for the year attributable to members of the company | 254,213 | 242,666 |
| Interest and costs on convertible notes (after tax) | 10,027 | 10,392 |
| Adjusted profit after tax attributable to members of the company | 264,240 | 253,058 |
| | **Cents** | **Cents** |
| Diluted earnings per share | 24.32 | 23.48 |
| | **$'000** | **$'000** |
| Net operating result after tax for the year | 254,220 | 234,263 |
| Interest and costs on convertible notes (after tax) | 10,027 | 10,392 |
| Adjusted net operating result after tax | 264,247 | 244,655 |
| | **Cents** | **Cents** |
| Diluted net operating result per share | 24.32 | 22.70 |

## 27. Directors and Executives

The sub-totals of Remuneration for the Directors and Executives of the Group are as follows:

| | Short-term benefits $ | Other Long Term benefits $ | Post-employment benefits $ | Share-based payments $ | Total $ |
|---|---|---|---|---|---|
| *2014* | | | | | |
| *Non-executive Directors* | 665,509 | - | 84,984 | - | 750,493 |
| *Executives* | 3,708,215 | 160,734 | 125,692 | 698,336 | 4,692,977 |
| ***Total*** | **4,373,724** | **160,734** | **210,676** | **698,336** | **5,443,470** |
| *2013* | | | | | |
| *Non-executive Directors* | 676,975 | - | 43,025 | - | 720,000 |
| *Executives* | 3,573,202 | 190,110 | 116,470 | 545,153 | 4,424,935 |
| ***Total*** | **4,250,177** | **190,110** | **159,495** | **545,153** | **5,144,935** |

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group does not make loans to Directors or Executives.

During the current financial year the following numbers of AFIC shares were purchased by executives as part of the Short Term Incentive Plan based on an assessment of performance:

| | 2014 Number | 2013 Number |
|---|---|---|
| RE Barker | 10,306 | 10,922 |
| GN Driver | 4,312 | 4,685 |
| AJB Porter | 5,312 | 5,855 |
| SM Pordage | 2,929 | 3,144 |
| Shares purchased during the year | 22,859 | 24,606 |

Set out below is a summary of AFIC shares awarded but not yet vested under the Executive Long Term Incentive Plan:

| Award date<br>**2014** | Assessment period | Balance at start of the year Number | Awarded during the year Number | Vested during the year Number | Lapsed during the year Number | Balance at end of the year Number |
|---|---|---|---|---|---|---|
| **Aug 2008** | Aug 12 – Aug 13 | 5,112 | - | - | 5,112 | - |
| **Oct 2009** | Oct 13 – Oct 14 | 39,502 | - | 39,502 | - | - |
| **Aug 2010** | Aug 14 – Aug 15 | 48,700 | - | - | - | 48,700 |
| **Aug 2011** | Aug 15 – Aug 16 | 66,845 | - | - | - | 66,845 |
| **Total** | | 160,159 | - | 39,502 | 5,112 | 115,545 |

| Award date<br>**2013** | Assessment period | Balance at start of the year Number | Awarded during the year Number | Vested during the year Number | Lapsed during the year Number | Balance at end of the year Number |
|---|---|---|---|---|---|---|
| **Aug 2008** | Aug 12 – Aug 13 | 40,887 | - | 35,775 | - | 5,112 |
| **Oct 2009** | Oct 13 – Oct 14 | 39,502 | - | - | - | 39,502 |
| **Aug 2010** | Aug 14 – Aug 15 | 48,700 | - | - | - | 48,700 |
| **Aug 2011** | Aug 15 – Aug 16 | 66,845 | - | - | - | 66,845 |
| **Total** | | 195,934 | - | 35,775 | - | 160,159 |

- The maximum number of shares that may vest is as above. The minimum is nil.

**Shareholdings**

At balance date, shares issued by the Group and held directly, indirectly or beneficially by non-executive directors and executives of the Group, or by entities to which they were related were:

| 2014 | Opening balance | Changes during year | Closing balance | Subject to vesting |
|---|---|---|---|---|
| TA Campbell | 353,537 | 10,027 | 363,564 | - |
| RE Barker | 858,395 | 9,600 | 867,995 | 52,535 |
| DR Argus | 521,369 | n/a | n/a | - |
| BB Teele | 2,536,269 | n/a | n/a | - |
| JC Hey | n/a | 5,405 | 5,405 | - |
| GR Liebelt | 59,250 | - | 59,250 | - |
| J Paterson | 408,410 | - | 408,410 | - |
| DA Peever | n/a | 1,730 | 1,730 | - |
| FD Ryan | 86,767 | - | 86,767 | - |
| CM Walter | 150,738 | 5,851 | 156,589 | - |
| PJ Williams | 14,422 | - | 14,422 | - |
| GN Driver | 115,707 | 3,253 | 118,960 | 22,485 |
| RM Freeman | 127,157 | 620 | 127,777 | - |
| SM Pordage | 23,372 | 2,967 | 26,339 | 11,610 |
| AJB Porter | 132,342 | 3,949 | 136,291 | 28,915 |

| 2013 | Opening balance | Changes during year | Closing balance | Subject to vesting |
|---|---|---|---|---|
| BB Teele | 2,444,439 | 91,830 | 2,536,269 | - |
| DR Argus | 521,369 | - | 521,369 | - |
| RE Barker | 847,473 | 10,922 | 858,395 | 74,224 |
| TA Campbell | 342,374 | 11,163 | 353,537 | - |
| GR Liebelt | 25,000 | 34,250 | 59,250 | - |
| J Paterson | 383,410 | 25,000 | 408,410 | - |
| FD Ryan | 86,767 | - | 86,767 | - |
| CM Walter | 144,226 | 6,512 | 150,738 | - |
| PJ Williams | 14,422 | - | 14,422 | - |
| GN Driver | 193,259 | (77,552) | 115,707 | 31,617 |
| RM Freeman | 121,665 | 5,492 | 127,157 | - |
| SM Pordage | 20,228 | 3,144 | 23,372 | 12,998 |
| AJB Porter | 126,485 | 5,857 | 132,342 | 41,320 |

**Holdings of 6.25% 2017 Convertible Notes**

| 2014 | Opening balance | Changes during year | Closing balance |
|---|---|---|---|
| RE Barker | 250 | - | 250 |
| BB Teele | 2,000 | n/a | n/a |
| CM Walter | 6,262 | - | 6,262 |
| J Paterson | 4,500 | - | 4,500 |
| GN Driver | 250 | - | 250 |
| **2013** | | | |
| BB Teele | 2,000 | - | 2,000 |
| RE Barker | 250 | - | 250 |
| CM Walter | 4,262 | 2,000 | 6,262 |
| J Paterson | - | 4,500 | 4,500 |
| GN Driver | 250 | - | 250 |

**Other arrangements with non-executive directors**

Non-Executive Directors John Paterson, Fergus Ryan and Catherine Walter have rented office space and, in some cases, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group during the year was :

| | 2014 $ | 2013 $ |
|---|---|---|
| FD Ryan | 3,832 | 15,320 |
| CM Walter | 26,069 | 25,569 |
| J Paterson | 32,241 | 31,706 |
| | 62,142 | 72,595 |

## 28. Employee information

| | 2014 | 2013 |
|---|---|---|
| **Employee numbers** | **Number** | **Number** |
| Number of employees at balance date | 18 | 17 |

## 29. Related parties

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

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| (a) Administration expenses charged for the year | 2,234 | 2,221 |

## 30. Remuneration of auditors

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| During the year the auditor earned the following remuneration: | | |
| **PricewaterhouseCoopers** | | |
| Audit or review of financial reports | 177,770 | 174,284 |
| Non-Audit Services | | |
| Taxation compliance services | 66,670 | 60,995 |
| Other assurance services # | 9,683 | 9,493 |
| Total Non-Audit Services | 76,353 | 70,488 |
| Total remuneration | 254,123 | 244,772 |

# The other assurance service relates to work regarding the Group's compliance with its Australian Financial Services Licence obligations.

The Group's Audit Committee oversees the relationship with the Group's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit related tax compliance services provided by the audit firm to ensure they do not compromise independence. Other non-audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the Audit Committee would review the proposal to also ensure they did not affect the independence of the external audit function. The Group also conforms to legal requirements regarding audit partner rotation every 5 years.

## 31. Reconciliation of net cash flows from operating activities to profit

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| Profit for the year | 254,293 | 242,779 |
| - Fair value movement in puttable instruments | (73) | (8,516) |
| - Add back depreciation | 130 | 130 |
| - Net decrease in trading portfolio | 51,999 | 57,830 |
| - Dividends received as securities under DRP investments | (11,047) | (28,284) |
| - Decrease (increase) in current receivables | (13,487) | 2,213 |
| - Less increase in receivables for investment portfolio | 12,707 | 6,003 |
| - Increase in deferred tax liabilities | 196,716 | 258,424 |
| - Less increase in deferred tax liability on investment portfolio | (196,248) | (232,090) |
| - Increase (decrease) in current payables | (3,206) | 459 |
| - Less decrease (increase) in payables for investment portfolio | 2,554 | (1,127) |
| - Less increase in dividends payable | (73) | (77) |
| - Increase in provision for tax payable | 4,932 | 7,381 |
| - Movement in ELTIP account | 141 | 185 |
| - Capital gains tax charge taken through equity | (4,194) | (35,015) |
| - Increase (decrease) in other provisions/non-cash items | (773) | 1,130 |
| Net cash flows from operating activities | 294,371 | 271,425 |

## 32. Performance Bond

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

## 33. Contingencies

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

## 34. Lease commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for 4 years with a further option, which has been exercised, of 4 years. Current Commitment relating to leases at balance date, for the current lease (incl. GST), is:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| Due within one year | 563 | 563 |
| Later than one year but less than five | 563 | 1,187 |
| Greater than five years | - | - |
| | 1,126 | 1,750 |

## 35. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy noted in Note 1 b):

| Name of entity | Country of Incorporation | Class of shares | Equity holding | |
|---|---|---|---|---|
| | | | **2014** | **2013** |
| Australian Investment Company Services Ltd | Australia | Ordinary | 75% | 75% |

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

## 36. Share based payments

The Group has a number of share incentive arrangements, these are accounted for in accordance with note 1 h). Where shares are issued to employees of AICS, AICS compensates AFIC for the fair value of the shares.

### (a) Executive Incentive Plans

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

(i) Short Term Incentive Plan

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

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

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

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

22,859 shares (2013: 24,606 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $131,877 (2013 $108,577).

(ii) Executive Long Term Incentive Plan

Senior executives were awarded a number of shares equivalent to 50 per cent of the gross amount awarded under the old Annual Incentive Plan. These shares ("Performance Shares") were acquired on market. The award of shares to participants was made for no consideration. The shares are subject to a holding lock for a minimum of four years (the vesting period) during which time the executive will be entitled to receive dividends and hold voting rights.

The Performance Shares vest between four and five years after grant date, entirely dependent on the achievement of set quantitative measures, the Total Shareholder Return ("TSR") and the Total Portfolio Return ("TPR"), which reflect the movement in the share price of the company (TSR) and in the portfolio of investments in which the company has invested shareholders' funds (TPR). The number of shares that vest is based on the highest cumulative performance level achieved under each category. Shares that do not vest are transferred back to the group for no consideration and are cancelled.

Should an executive cease employment prior to the shares vesting, then all unvested shares may be cancelled.

Details of the number of shares awarded, vested and cancelled in the year are set out in note 27.

Under the new Senior Executive Long Term Incentive Plan, the amount awarded will be represented by Performance Rights. The 30 day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this 30-day VWAP price to determine the number of Performance Rights that may vest at the vesting point in 4 years' time. The value of each Performance Right will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June.

The expense will be charged in accordance with AASB 2 directly through the Group's Profit & Loss account in the following manner – 25% of the total estimated cost in Year 1, 50% of the total estimated cost in Year 2 less the expense charged in Year 1, 75% of the total estimated cost in Year 3 less the expense charged in Years 1 & 2 and 100% of the total estimated cost in Year 4 less the expense charged in Years 1, 2 & 3.

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

74,223 rights were awarded under the plan during the year ended 30 June 2014 (2013 : 93,463). An expense of $299,884 (2013 : $118,722) was incurred.

(iii) Investment Team Long Term Incentive Plan

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

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

$415,657 under this plan vested in the period (2013 $469,500) and was paid in cash.

**(b) Employee Share Scheme**

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

**(c) Expenses arising from share based payment transactions**

Total expenses arising from share based payment transactions recognised during the period as part of the employee benefit expense (including the expense for the ELTIP but excluding the Investment Team Long Term Incentive Plan) were as follows:-

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| Share-based payment expense | 723 | 563 |

**(d) Liability**

The total liability arising from share based payment transactions is disclosed in notes 12 & 13.

**37. Holdings of Securities at 30 June 2014**

The securities listed below are those held in the investment portfolio that are valued at fair value through Other Comprehensive Income. They do not include securities in the trading portfolio, puttable instruments or convertible notes classified as debt in the investment portfolio (which are held at 'fair value through profit or loss').

Individual holdings in the portfolio may change during the course of the year.

| | **2014 $'000** | **2013 $'000** |
|---|---|---|
| AGL Energy | 78,687 | 73,604 |
| Amalgamated Holdings | 7,231 | 6,409 |
| ALS | 42,762 | 41,372 |
| Alumina | 19,336 | 14,108 |
| Amcor | 134,173 | 128,004 |
| AMP | 106,532 | 87,552* |
| Australia and New Zealand Banking Group | 282,980 | 242,579 |
| Ansell | 25,459 | 19,543 |
| APA Group | 80,222 | 69,743 |
| AP Eagers | 1,854 | - |
| ARB Corporation | 7,139 | 6,649 |
| Asciano | 15,820* | 8,107 |
| ASX Limited | 19,587* | 15,169 |

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Auckland International Airport | 4,259 | - |
| Aurizon (formerly QR National) | 14,840* | 9,630 |
| Bega Cheese | 10,728 | 3,400 |
| BHP Billiton | 510,532* | 449,248* |
| Blackmores | 985 | 958 |
| Boral | 21,044 | 16,876 |
| Bradken | 22,800 | 25,860 |
| Brambles | 102,685 | 104,361 |
| Brickworks | 20,546 | 18,770 |
| Buru Energy | 4,433 | 3,507 |
| Caltex Australia | 14,128 | 6,408 |
| Cedar Woods Properties | 29,680 | 19,957 |
| CFS Retail Property Trust | 38,760 | 38,000 |
| Coca-Cola Amatil | 48,814 | 65,584 |
| Commonwealth Bank of Australia | 686,097 | 586,847 |
| Computershare | 101,791 | 83,766 |
| CSL | 66,707* | 48,578 |
| CSR | 8,698 | 5,454 |
| Diversified United Investment | 43,309 | 36,091 |
| Djerriwarrh Investments | 40,490 | 36,535 |
| DuluxGroup | 14,467 | 10,563 |
| Equity Trustees | 30,556 | 12,048 |
| Fisher & Paykel Healthcare | 3,544 | - |
| Fleetwood Corporation | - | 3,197 |
| Fletcher Building | 9,122 | 7,823 |
| Flight Centre Travel | 5,820 | - |
| GUD Holdings | - | 7,487 |
| GWA International | - | 12,528 |
| iCar Asia | 4,653 | - |
| Iluka Resources | 19,244 | 23,646 |
| Incitec Pivot | 64,407* | 60,659 |
| Insurance Australia Group | 24,850* | 18,225 |
| Invocare | 12,931 | 14,556 |
| iProperty Group | 13,733 | - |
| Iress Market Technology | 22,190 | 16,626 |
| James Hardie | 15,916 | - |

| | 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Japara Healthcare | 14,100 | - |
| Lifestyle Communities | 4,268 | - |
| Milton Corporation | 65,389 | 53,003 |
| Mirrabooka Investments | 23,391 | 20,510 |
| National Australia Bank | 312,826* | 277,272* |
| Oil Search | 159,386 | 123,616* |
| Orica | 52,822 | 55,995 |
| Origin Energy | 105,073* | 85,917 |
| Orora | 18,331 | - |
| Perpetual | 48,853 | 21,768 |
| Pulse Health Limited | 2,144 | - |
| QBE Insurance Group | 84,743 | 107,268* |
| Qube Holdings | 27,628 | - |
| Ramsay Health Care | 61,880 | 48,702 |
| Ramsay Health CARES | 12,225 | 12,133 |
| Recall Holdings | 10,682 | - |
| Resmed | 12,056* | - |
| Rio Tinto | 216,585 | 193,115* |
| SAI Global | 12,775 | - |
| Santos | 116,621* | 100,826* |
| Scentre Group | 36,598 | - |
| Seek | 16,563 | 4,535 |
| Senex Energy Ltd | 32,468 | 27,563 |
| Soul Pattinson | 25,201 | - |
| Sonic Healthcare | 31,627* | 21,845 |
| Suncorp Group | 30,596* | 20,650* |
| Sydney Airport | 28,620 | 21,210 |
| Telstra Corporation | 287,045* | 257,914* |
| Templeton Global Growth Fund | 12,445 | 8,295 |
| Toll Holdings | 41,476 | 43,265 |
| Tox Free Solutions | 36,035 | 36,781 |
| TPG Telecom | 19,818 | - |
| Transurban Group | 146,287* | 108,331 |
| Treasury Wine Estates | 16,320 | 12,661 |
| Trust Company | - | 12,554 |
| Twenty-First Century Fox | 17,101 | - |
| Vocus Communications | 2,218 | - |

| | 2014 | 2013 |
|---|---|---|
| | **$'000** | **$'000** |
| Wesfarmers | 316,027 | 247,419 |
| Wesfarmers PPS | - | 56,481 |
| Westfield Corp | 30,335 | - |
| Westfield Group | - | 48,535 |
| Westfield Retail | - | 16,437 |
| Westpac Banking Corporation | 617,844 | 526,662 |
| Woodside Petroleum | 134,828 | 117,076* |
| Woolworths | 222,370* | 203,872 |
| WorleyParsons | 5,397 | 6,042 |
| **TOTAL** | **6,323,538** | **5,358,280** |
| Puttable Instruments & Convertible Notes classified as debt | 2,730 | 2,626 |
| **Total Investment Portfolio** | **6,326,268** | **5,360,906** |
| Trading Portfolio | (1,980) | 50,019 |
| **Total investments** | **6,324,288** | **5,410,925** |

*Part or all of the security was subject to call options written by the Company.

## 38. Parent entity financial information

### Summary financial information

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | 128,376 | 351,445 |
| **Total assets** | **6,454,712** | **5,712,715** |
| Current liabilities | 121,636 | 117,702 |
| **Total liabilities** | **1,273,866** | **1,089,008** |
| **Shareholders' equity** | | |
| Issued capital | 2,064,936 | 2,002,128 |
| **Reserves** | | |
| Revaluation reserve | 2,253,053 | 1,801,692 |
| Realised capital gains reserve | 317,624 | 334,243 |
| General reserve | 23,637 | 23,637 |
| Interest rate hedging reserve | (281) | (1,493) |
| Retained earnings | 521,877 | 463,500 |
| | **3,115,910** | **2,621,579** |
| **Total shareholders' equity** | **5,180,846** | **4,623,707** |
| **Profit or loss for the year** | **253,973** | **242,327** |
| **Total comprehensive income** | **720,668** | **845,888** |

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

## *Report on the financial report*

We have audited the accompanying financial report of Australian Foundation Investment Company Limited (the company), which comprises the balance sheet as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Australian Foundation Investment Company Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001*
*T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au*

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*Auditor's opinion*

In our opinion:

1. the financial report of Australian Foundation Investment Company Limited is in accordance with the *Corporations Act 2001,* including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

## *Report on the Remuneration Report*

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
21 July 2014