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27 August 2015

The Manager
ASX Market Announcements
Australian Securities Exchange
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

Australian Foundation Investment Company Limited
Statutory Annual Report, Annual Shareholder Review,
Notice of Meeting and Proxy Form

Dear Sir / Madam

Please find attached the 2015 Statutory Annual Report, Annual Shareholder Review, Notice of Meeting and Proxy Form being sent to shareholders.

Yours faithfully

Simon Pordage
Company Secretary

Annual Report 2015

EXPERIENCE INCOME GROWTH

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

The Company's primary investment goals are:

- To pay dividends which, over time, grow faster than the rate of inflation.
- To provide attractive total returns over the medium to long term.

CONTENTS

DIRECTORS' REPORT

The Company aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

YEAR IN SUMMARY

PROFIT FOR THE YEAR

$293.6m

▲ Up 15.5% from 2014

TOTAL PORTFOLIO RETURN

+3.9%

S&P/ASX 200 Accumulation Index +5.7%

TOTAL PORTFOLIO

$6.6b Including cash at 30 June

$6.4 billion in 2014

FULLY FRANKED DIVIDENDS

14¢ Final | **23¢** Total

▲ Up 1 cent up from 2014

TOTAL SHAREHOLDER RETURN

+2.8%

Share price plus dividend

MANAGEMENT EXPENSE RATIO

0.16%

0.17% in 2014

5 YEAR SUMMARY

	2015	2014	2013	2012	2011
Net profit after tax ($ million)	**293.6**	254.3	242.8	219.9	233.3
Net profit per share (cents)	**27.2**	24.4	23.5	21.5	23.0
Dividends per share (cents)[(a)]	**23**	22	22	21	21
Investments at market value ($ million)[(b)]	**6,414**	6,324	5,411	4,570	4,885
Net asset backing (cents)[(c)]	**585.1**	584.5	518.5	435.1	478.9
Number of shareholders (30 June)	**107,622**	103,188	96,668	93,513	93,092

Notes

(a) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2015: 7.1 cents, 2014: nil, 2013: 4.3 cents, 2012 and 2011: nil.

(b) Excludes cash.

(c) Net asset backing per share based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

ABOUT THE COMPANY

Australian Foundation Investment Company Limited (AFIC) specialises in investing in Australian equities. We have been investing in Australian companies for over 80 years and is Australia's largest listed investment company.

Investment Aims

The Company aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

The Company's primary investment goals are to pay dividends which, over time, grow faster than the rate of inflation and to provide attractive total returns over the medium to long term.

Approach to Investing

The investment philosophy is built on taking a medium to longer term view of value, which means that the aim is to buy and hold individual stocks for the long term based on selection criteria, which, in summary, include:

- formulation and execution of business strategy of the Company and its underlying business value;
- key financial indicators, including cash flow, prospective price earnings relative to projected growth, sustainability of earnings and dividend yield; and
- corporate governance practices.

The Company has access to lines of credit of up to $150 million, which allows it to borrow money when appropriate investment returns are available. The Company also has on issue $203.6 million of convertible notes.

The Company also uses options written against a small proportion of its investments to generate additional income.

Our Structure

The Company has a 'closed end' structure, which means that the number of shares on issue is fixed and set by the Board. As a result, the Company does not issue new shares or cancel them as investors enter and leave. This allows management to concentrate on the performance of the funds invested over the longer term without having to deal with continuous inflows or outflows of monies.

Fees

The management expense ratio to 30 June 2015 was 0.16 per cent of assets. The Company does not charge entry or exit fees when shareholders acquire or dispose of their holdings, although transaction costs will be borne by the shareholder when buying or selling through a stockbroker. There are no trailing commissions or portfolio performance fees.

Investing in the Company

By investing in the Company, shareholders have immediate access to a diversified portfolio numbering around 100 companies, most of which are predominantly Australia's major companies, and to a Board and Investment Committee with extensive investment skills and practical business experience. The Company's shares can be bought or sold through the Australian Securities Exchange (ASX) and New Zealand Securities Exchange (NZX) (ASX Code: AFI, NZX Code: AFI). The Company's convertible notes can be bought or sold through the ASX (ASX Code: AFIG).

Transparency

We take an active approach to keeping shareholders informed about the Company's activities and performance including yearly and half-yearly profit announcements, regular shareholder briefings and access to all Company announcements, including monthly net tangible asset announcements, through the ASX and the Company's website afi.com.au

REVIEW OF OPERATIONS AND ACTIVITIES

Profit

Profit for the year to 30 June 2015 was $293.6 million, up 15.5 per cent from $254.3 million in the corresponding period last year. The profit figure this year includes a non-cash dividend of $31.9 million received as a result of the demerger of South32 from BHP Billiton. Last year's figure included $11.0 million of demerger dividends from Amcor and Brambles.

Income from investments (excluding demerger dividends), which consists primarily of franked dividend income, was up 8 per cent over the year. The trading portfolio contributed $8.4 million compared to $9.9 million last year.

Earnings per share for the year were 27.2 cents per share compared with 24.4 cents per share last year.

Dividends

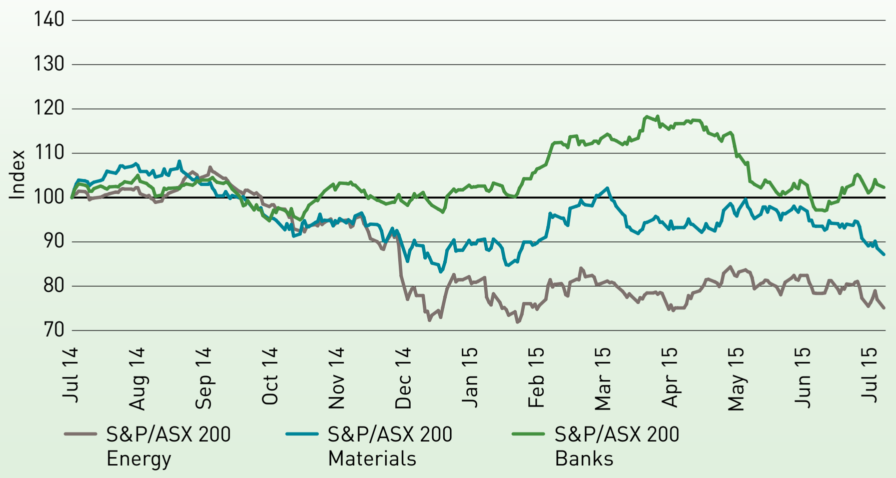
The Company has maintained its final dividend at 14 cents per share fully franked, bringing total dividends for the year to 23 cents per share fully franked, an increase of 1 cent from 22 cents last year. The Board notes the profit result provides scope to increase the dividend. Based on expectations, the Board currently intends to apply a 1 cent increase to the interim dividend to be paid in February 2016 to further rebalance the interim and final dividends.

Dividend Imputation

As shareholders may be aware there has recently been significant commentary about the dividend imputation system. The Tax Discussion Paper issued by the Australian Treasury in March 2015 posed a number of questions about the Australian taxation system. Specifically the following questions outlined in the discussion paper relating to dividend imputation were: 'Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?'

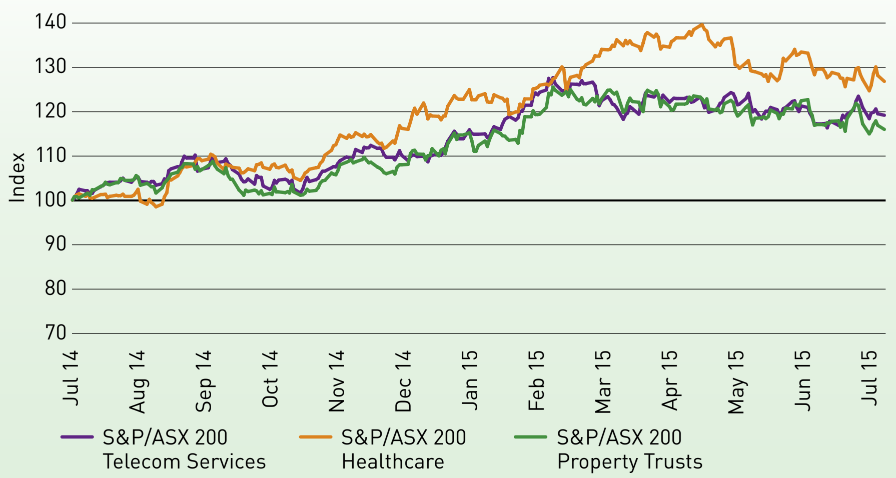
AFIC has made a submission to the Tax Discussion Paper. In it we strongly argued that the current imputation system, which avoids the double taxation of corporate profits in the hands of investors, is desirable and has served the Australian capital market very well. The system results in Australian investors being taxed at their marginal rate on the underlying company income by being given a tax credit for the company tax already paid. We believe this to be an equitable system for investors.

Figure 1: Relative performance of energy, materials and banking sectors in the market



Source: FactSet

Figure 2: Relative performance of telecom services, healthcare and property trust sectors in the market



Source: FactSet

In addition, by making the taxation on equity tax neutral with that of debt via the imputation system, Australia reduces the cost of equity for Australian investors. This lowering has led to Australian corporates becoming less geared, and thus less risky, further increasing their relative value to both foreign and domestic investors. We believe that for most companies the imputation system has placed an appropriate discipline on the balance between them paying out dividends and the use of capital for expansion.

We also suggested the imputation system is well understood and appreciated. It has been central to the health and robustness of the Australian equity market and superannuation system. As a result, any changes would have a significant impact on Australian investors. This is likely to have a negative effect on confidence, which may impact the broader economy.

AFIC's full submission to the Tax Discussion Paper is available on the Company's website.

Market and Portfolio Performance

Figures 1 and 2 highlight the relative performance of different sectors of the market over the financial year. The banks, until recently, and the property trust sector have been the beneficiary of investor attraction to yield. Materials and energy have clearly been impacted by the marked fall in commodity and energy prices. Finally companies in attractive and growing industry segments, such as healthcare and telecommunications services, also generated strong returns. It should be noted AFIC is not typically a large investor in the property trusts given the absence of franking in the dividends and the historical long term underperformance of this sector relative to industrial companies.

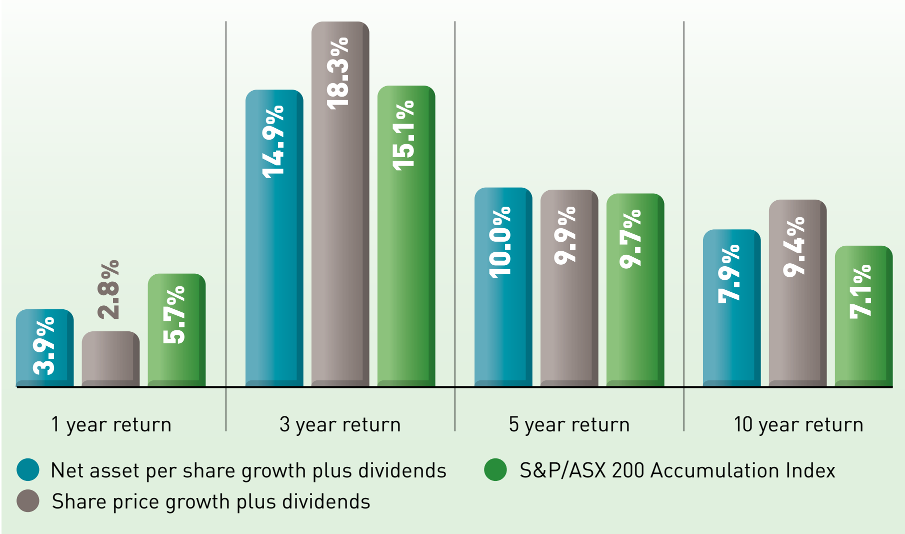
AFIC's portfolio return for the 12 months to 30 June 2015 was 3.9 per cent compared with the S&P/ASX 200 Accumulation Index of 5.7 per cent. The 10 year return for AFIC, which is consistent with its approach as a long term investor, was 7.9 per cent per annum versus the Index return of 7.1 per cent per annum. AFIC's performance numbers are after expenses and tax paid. It should also be noted that Index returns for the market do not include the impact of management expenses and tax on their performance.

The most significant contributors to AFIC's portfolio performance by value over the year were Commonwealth Bank, Telstra, Amcor, Transurban and Toll Holdings as a result of it being taken over by Japan Post.

Holdings that had the biggest negative impact on AFIC's portfolio performance were companies in the energy and resource sectors, including those companies exposed to these sectors such as Bradken and ALS Limited, as did the performance of Woolworths in the second half of the year. The underweight position in property trusts and to some extent the underweight position in healthcare, in particular CSL, also had a negative impact on relative performance.

The generation of fully franked income is one of the key aspects of AFIC's investment approach. As an indication of the importance of franking to returns it is useful to look at performance, including the benefit of franking credits. The total portfolio return (TPR) for one year, including dividends paid and the full benefit of franking credits, was 5.6 per cent. This compares with the S&P/ASX 200 Accumulation Index calculated on the same basis, which was 6.8 per cent. The comparable 10 year return for the portfolio was 9.8 per cent per annum against the benchmark return of 8.5 per cent per annum.

Figure 3: Portfolio and share price performance to 30 June 2015



Share Price Performance

The share price underperformed the portfolio return as the share price premium to the net asset backing (before tax on unrealised gains) fell from 5.8 per cent to 4.6 per cent over the course of the financial year. Importantly the share price over the long term has also performed well with this return aligned to the longer term portfolio returns.

Figure 5 outlines the benefit of compound returns and the value of AFIC's investment approach. It shows the total share price return (including dividends and the full benefit of franking credits) from an investment of $1,000 in AFIC shares over a 10 year period relative to the return from the S&P/ASX 200 Accumulation Index, including franking credits.

Investment Portfolio Activity

AFIC is a long term investor. Its particular interest is in companies that can deliver long term value and share their prosperity by growing dividends over time. Given extremely low interest rates, significant investor interest has also been in companies with good dividend yields driving those share prices to high levels for most of the year. Companies delivering reliable earnings growth also tended to trade at very high price earnings ratios (P/E ratio). Given these high valuations for most of the year it has been challenging to find value.

As a result, our primary investment interest this year has been to broaden the portfolio, including building particular areas in the portfolio such as Health and Aged Care and adding some smaller companies, including participation in selected initial public offerings (IPOs).

Major purchases in the investment portfolio included CSL and AGL (through its rights issue). Federation Centres was introduced to the portfolio during the year, with this holding further increased as a result of the merger with Novion Property Group. Other new companies added to the portfolio included Healthscope (via its IPO), Cover-More Group, Veda Group, Regis Healthcare (via its IPO) and Sims Metal Management.

Details of the new stocks added during year are:

- Federation Centres (following the merger between Federation Centres and Novion Property Group on 11 June 2015) is one of Australia's largest owners and managers of shopping centres. The group's portfolio of assets ranges from large super-regional malls to direct factory outlets and smaller convenience and neighbourhood centres across Australia.
- Healthscope is one of Australia's leading private healthcare operators, providing services through the operation of private hospitals and medical centres in Australia.
- Cover-More Group is a specialist and integrated travel insurance and medical assistance provider. The company holds the leading market position in Australia, with over 40 per cent market share through 25,000 active agents. It is also

Figure 4: Share price premium/discount to net asset backing

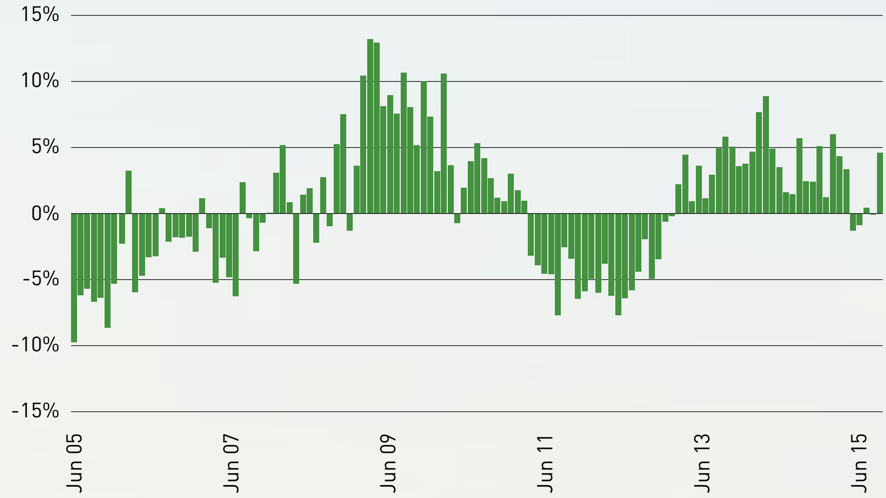
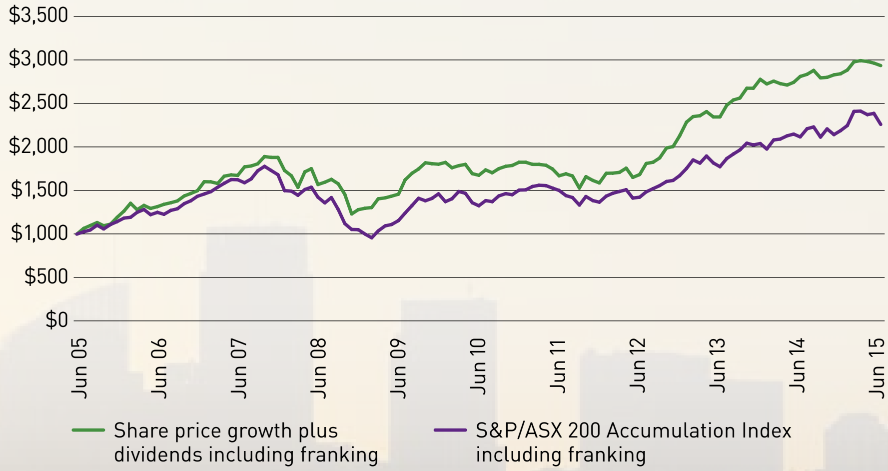


Figure 5: Ten year performance of an investment of $1,000 in AFIC shares including dividends and the full benefit of franking



Note: Assumes the reinvestment of dividends. This chart calculates the benefit of franking credits at the time dividends are paid for both AFIC and the Index. In practice there is a timing difference between receipt of the dividend and the realisation of the franking benefit in the following tax year.

steadily growing its footprint in Asia. Cover-More was established in 1986 and listed on the ASX in December 2013.

- Veda Group is the largest credit reference agency in Australia and New Zealand. It provides credit reporting, credit scoring and marketing analytics services.
- Regis Healthcare is one of the largest and most geographically diversified private Australian residential aged care providers, operating a large portfolio of high quality aged care facilities. Regis was formed in the early 1990s and listed on the ASX in October 2014.
- Sims Metal Management is the leading metals and electronics recycling company in the world. The company specialises in ferrous and non-ferrous metals recycling, post-consumer electronic goods recycling, and municipal waste recycling. Its primary operations are located in the United States, Australia and the United Kingdom.

The largest sales resulted from the takeover of Toll Holdings by Japan Post and activity in the Company's small buy and write portfolio, which led to the exercise of call options in Telstra, CSL, Transurban and Suncorp.

Overall purchases for the year totalled $377.1 million, with sales totalling $262.1 million.

Figure 6 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year. In comparison to last year there has been an increase in portfolio weightings in Healthcare (up from 3.6 per cent last year) and Telecom Services (up from 4.8 per cent last year) sectors. There was also an increase in cash to 2.5 per cent from 1.1 per cent at the end of last year. The biggest reduction was in Energy (down from 9.3 per cent last year) as the fall in oil price over the year impacted the share prices of companies in this sector.

Outlook

The expectation is that low interest rates will be a feature of global markets for some time. In the more immediate term there is likely to be periods of volatility as concerns arise about the risks in Europe and China and as adjustments are made over time to monetary policy settings by the Federal Reserve in the United States. However, the low interest rate environment in Australia is likely to provide underlying support to the market even in light of these other factors, which may produce some setbacks.

Figure 6: Investment by sector as at 30 June 2015

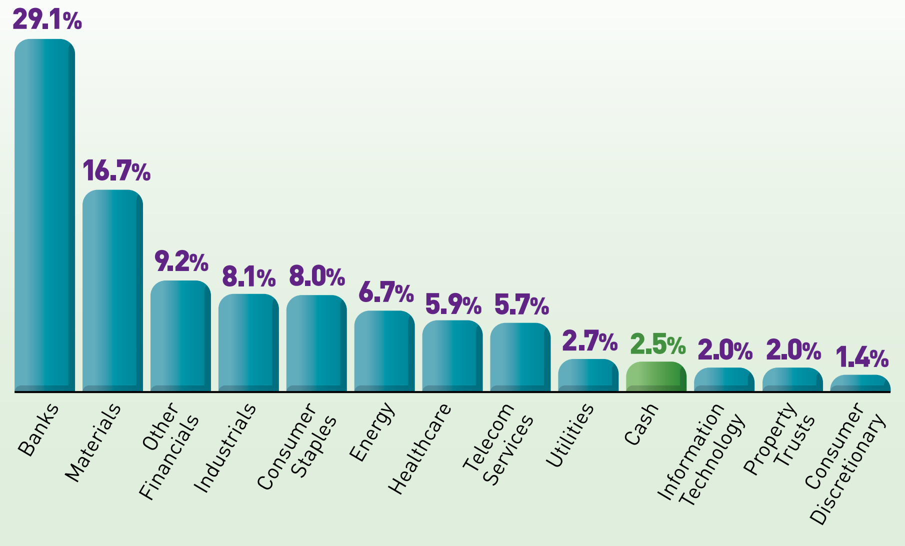


Figure 7 reinforces the attractiveness of equity yields when compared to 10 year government bond yields. The gap between equity yields and 10 year government bond yields remains high in response to subdued growth, low inflation and monetary policy.

The P/E ratio shows how much investors are willing to pay per dollar of earnings growth.

However, given the current environment in Australia where earnings growth is likely to be subdued as a result of current economic settings, it is evident that investors are also willing to pay above average P/E ratios given low interest rates. As a result, the market is at the upper end of valuation levels despite recent falls.

As experienced more recently, heightened perceptions of risk can quickly translate into sharp moves in equity markets. AFIC has the financial resources to take advantage of these adjustments. We believe the core of our portfolio is relatively well positioned. As a result, the focus of new investment is likely to be on specific value opportunities that may arise in smaller and mid cap sized companies that can deliver growing dividends over time, as well as underrepresented sectors in the portfolio such as healthcare.

The Company also operates a small buy and write portfolio within the investment portfolio, where stocks are purchased with the specific intent of selling call options against these holdings. A rise in volatility will assist with further profitable use of this portfolio as more call option premium is received for selling call options.

Ultimately, the real test of the market's direction over the longer term will be progress on economic reform in Australia, improved business and consumer confidence and the potential impact of a lower Australian dollar on international competitiveness. These factors will be central to companies generating additional revenue growth to improve profitability rather than the continued reliance of reducing costs, which has been the response of companies over recent years to inconsistent business conditions and external shocks such as falling commodity prices.

Company Position

Capital Changes

As a result of the reinvestment of dividends, 4,982,987 new shares were issued at a price of $5.93 per share in August 2014 and 3,379,323 new shares were issued at a price of $5.97 per share in February 2015.

As a result of participation in the Company's Dividend Substitution Share Plan (DSSP), 301,765 new shares were issued at nil cost in August 2014 and 223,678 new shares were issued at nil cost in February 2015.

As a result of conversion of convertible notes, 306,318 new shares were issued at a price of $5.0864 per share in August 2014 and 170,036 new shares were issued at a price of $5.0864 per share in February 2015.

As a result of the Share Purchase Plan (SSP), 31,424,433 shares were issued at a price of $5.88 in October 2014.

The Company's buy-back facility remains open although no shares were bought back during the year.

Figure 7: Australian equity yields versus 10 year government bond yields

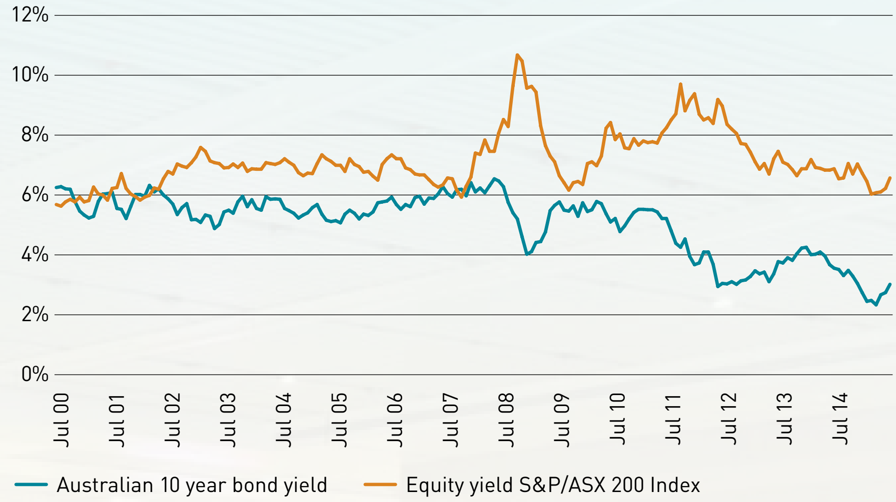
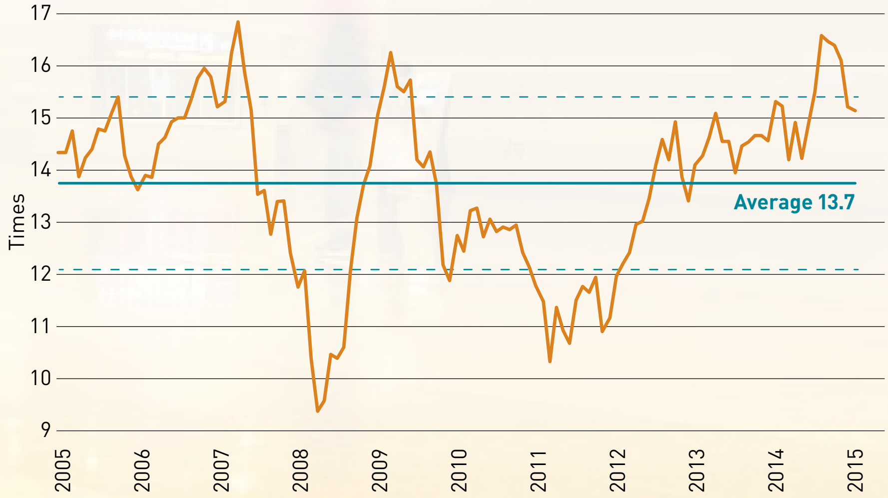


Figure 8: S&P/ASX 200 Price earnings ratio



Source: FactSet

The Company's contributed equity, net of share issue costs, rose $236.2 million to $2.3 billion from $2.1 billion. At the close of the year the Company had 1,089.8 million shares on issue.

Dividends

Directors have declared a fully franked final dividend of 14 cents per share, the same as last year. 3 New Zealand cents per share of the dividend will also have a New Zealand imputation credit attached.

The dividends paid during the year ended 30 June 2015 were as follows:

	$'000
Final dividend for the year ended 30 June 2014 of 14 cents fully franked at 30 per cent paid 29 August 2014	145,077
Interim dividend for the year ended 30 June 2015 of 9 cents per share fully franked at 30 per cent, paid 20 February 2015	96,409
	241,486

Dividend Substitution Share Plan (DSSP)

The Company has in place a Dividend Substitution Share Plan.

This enables shareholders to elect to receive shares in the Company instead of dividends, forgoing any franking credit and LIC gains that would otherwise be attached to the dividend, but deferring any tax due on the receipt of such shares (for Australian tax payers) until such time as the shareholding is sold. Shareholders will need to seek their own taxation advice in determining if this plan is suitable for them.

Further details are available on the Company's website or by request from the Company's Share Registrar.

Dividend Reinvestment Plan (DRP)

The Company's Dividend Reinvestment Plan (DRP) remains in operation. Under this plan, shareholders may elect to receive dividends (and the attached franking credit and LIC gains) and reinvest the cash value of the dividend in shares in the Company.

Shares under both the DSSP and the DRP for the final dividend in respect of the year ended 30 June 2015 will be issued at a 2.5 per cent discount to the Volume Weighted Average Price (VWAP) of AFI shares traded on the ASX and Chi-X automated trading systems in the five days from (and including) the day that the AFI shares trade ex the final dividend.

Financial Condition

The Company's primary source of funds consists of its shareholders' funds as noted above, plus the convertible notes. However, the Company also had agreements with Westpac and Commonwealth Bank of Australia for loan facilities totalling $150 million (see Note D2). At various points during the year, some of these facilities were drawn down. The Board takes a prudent and conservative approach to the use of borrowed funds. Currently, when used, they are maintained within a limit of 10 per cent of total assets. Total borrowings are currently well below this limit.

Listed Investment Company Capital Gains

Listed Investment Companies (LICs), which make capital gains on the sale of investments held for more than one year, are able to attach to their dividends a LIC capital gains amount, which some shareholders are able to use to claim a tax deduction. This is called a 'LIC capital gain attributable part'. The purpose of this is to put shareholders in LICs on a similar footing with holders of managed investment trusts with respect to capital gains tax on the sale of underlying investments.

Tax legislation sets out the definition of a 'LIC', which AFIC satisfies. Furthermore, from time to time the Company sells securities out of the investment portfolio held for more than one year, which may result in capital gains being made and tax being paid. The Company is therefore on occasion in a position to be able to make available to shareholders a LIC capital gain attributable part with our dividends. In respect of this year's final dividend of 14 cents per share for the year ended 30 June 2015, it carries with it a 7.1 cents per share LIC capital gain attributable part (2014: nil), largely as a result of the gain realised on the takeover of Toll Holdings. The amount that shareholders may be able to claim as a tax deduction depends on their individual situation. Further details are provided in the dividend statements.

Likely Developments

The Company intends to continue its investment activities going forward as it has done since its inception in 1928. The results of these investment activities depend upon the performance of the companies and securities in which we invest. Their performance in turn depends on many economic factors. These include economic growth rates, inflation, interest rates, exchange rates and taxation levels.

There are also industry and company specific issues such as management competence, capital strength, industry economics and competitive behaviour.

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities. However, the Company's focus is on results over the medium to long term and its twin objectives are to grow dividends at a rate faster than inflation and to provide shareholders with attractive capital growth.

Significant Changes in the State of Affairs

Directors are not aware of any other significant changes in the operations of the Company, or the environment in which it operates, that will adversely affect the results in subsequent years.

Events Since Balance Date

The Directors are not aware of any matter or circumstance not otherwise disclosed in the financial statements or the Directors' Report that has arisen since the end of the financial year that has affected or may affect the operations, or the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental Regulations

The Company's operations are such that they are not directly materially affected by environmental regulations.

Rounding of Amounts

The Company is of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' Report and Financial Report. Unless specifically stated otherwise, amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Corporate Governance Statement

The Company's Corporate Governance Statement for the financial year ended 30 June 2015 can be found on the Company's website at:

afi.com.au/Corporate-Governance.aspx

TOP 25 INVESTMENTS
As at 30 June 2015

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 June 2015

		Total Value $ Million	% of Portfolio
1	Commonwealth Bank of Australia	722.1	11.3
2	Westpac Banking Corporation	586.3	9.1
3	BHP Billiton*	384.6	6.0
4	National Australia Bank	336.3	5.2
5	Telstra Corporation	322.0	5.0
6	Wesfarmers	289.7	4.5
7	Australia and New Zealand Banking Group	273.3	4.3
8	Rio Tinto	196.3	3.1
9	Amcor	176.5	2.8
10	Transurban Group	170.5	2.7
11	Woolworths	161.8	2.5
12	AMP	121.0	1.9
13	Oil Search*	119.6	1.9
14	Brambles	118.4	1.8
15	Woodside Petroleum*	116.8	1.8
16	QBE Insurance Group*	113.3	1.8
17	CSL*	101.2	1.6
18	Computershare	95.5	1.5
19	AGL Energy	94.9	1.5
20	APA Group	85.2	1.3
21	Incitec Pivot	84.8	1.3
22	Ramsay Health Care	83.6	1.3
23	Origin Energy	83.3	1.3
24	Milton Corporation	64.8	1.0
25	Santos	62.9	1.0
Total		4,964.9	
As a percentage of total portfolio value (excludes cash)			77.4%

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

BOARD AND MANAGEMENT

Directors

Terrence A Campbell AO BCom (Melb). Chairman and Independent Non-Executive Director. Chairman of the Investment Committee and member of the Remuneration and Nomination Committees.

Mr Campbell has been a Director of the Company since September 1984, appointed Deputy Chairman in September 2008 and Chairman in October 2013. He is Senior Chairman of Goldman Sachs Australia and New Zealand (formerly Goldman Sachs JBWere) and Advisory Director of Goldman Sachs. Mr Campbell was formerly Chairman and Chief Executive of Goldman Sachs JBWere. He is also Chairman of Mirrabooka Investments Limited and is a former Director of Djerriwarrh Investments Limited and AMCIL Limited.

Ross E Barker BSc (Hons) (Melb), MBA (Melb), F Fin. Managing Director. Member of the Investment Committee. Managing Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Barker became Chief Executive Officer in February 2001 having been an Alternate Director of the Company since April 1987. He was appointed Managing Director in October 2001. He is also Managing Director of Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited. He is also Chairman of Melbourne Business School Ltd and a member of the Financial Reporting Council.

Jacqueline C Hey BCom (Melb), Grad Cert (Management), GAICD. Independent Non-Executive Director.

Ms Hey was appointed to the Board in July 2013. She is a Non-Executive Director of Qantas Limited, Bendigo and Adelaide Bank Limited, Special Broadcasting Service (SBS), Melbourne Business School Ltd and Cricket Australia. She is also the Honorary Consul for Sweden in Victoria. She was formerly Managing Director of Ericsson United Kingdom and Ireland and Managing Director of Ericsson Australia and New Zealand.

Graeme R Liebelt B Ec (Hons), FAICD. Independent Non-Executive Director. Chairman of the Remuneration Committee.

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited, Director of Australia and New Zealand Banking Group Limited, Deputy Chairman of the Melbourne Business School Ltd and a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors. He was formerly Managing Director and CEO of Orica Limited and Chairman and Director of the Global Foundation.

John Paterson BCom (Hons) (Melb), CPA, F Fin. Independent Non-Executive Director. Chairman of the Nomination Committee. Member of the Remuneration Committee and Investment Committee. Chairman of the Company's subsidiary, AICS.

Mr Paterson is a Company Director who was appointed to the Board in June 2005. He was a former Alternate Director of the Company for Mr Campbell from April 1987 to June 2005. He is Chairman of Djerriwarrh Investments Limited. He was formerly a Director of Goldman Sachs JBWere and is a former member of the Board of Guardians of Australia's Future Fund.

David A Peever BEc MSC (Mineral Economics). Independent Non-Executive Director. Member of the Audit Committee.

Mr Peever was appointed to the Board in November 2013. He was Managing Director of Rio Tinto Australia from 2009 to 2014. He had been with Rio Tinto since 1987 in an extensive range of senior roles.

He is Deputy Chairman and Chairman elect of Cricket Australia and a Director of the Melbourne Business School. He is a member of the Prime Minister's Indigenous Advisory Council and a member of the Chief of Defence's Gender Equality Advisory Board. He Chaired the Minister of Defence's First Principles Review of Defence and now Chairs the Minister's Oversight Board, which guides the implementation of the Review. He was formerly Vice-President of the Minerals Council of Australia and a Director of the Business Council of Australia.

Fergus D Ryan AO FCPA, FAICD. Independent Non-Executive Director. Member of the Investment Committee, Audit Committee and the Nomination Committee.

Mr Ryan is a company Director and Certified Public Accountant. He was appointed a Director of the Company in August 2001. He is also a Patron of the Global Foundation and a Councillor of The Committee for Melbourne.

He was formerly a Director of the Commonwealth Bank of Australia Limited, the Strategic Investment Coordinator and Major Projects Facilitator for the Federal Government, a Director of Clayton Utz, of the National Australia Day Council and the Centre for Social Impact. He was also former Deputy Chairman of the Council of the National Library. Mr Ryan spent his career with Arthur Andersen, during which he was Managing Partner Melbourne for 15 years and Managing Partner Australia for five years.

Catherine M Walter AM LLB (Hons), LLM, MBA (Melb), FAICD. Independent Non-Executive Director. Member of the Investment Committee, Remuneration Committee and the Audit Committee.

Mrs Walter is a solicitor and company Director. She was appointed a Director of the Company in August 2002. Mrs Walter is also a Director of the RBA's Payment Systems Board, Victorian Funds Management Corporation and WEHI. She was formerly Chair of Federation Square Pty Ltd and Australian Synchrotron Company Ltd and a Director of ASX, National Australia Bank Ltd, Orica Ltd and Melbourne Business School.

Peter J Williams Dip.All, MAICD, FAIM. Independent Non-Executive Director. Chairman of the Audit Committee. Member of the Investment Committee and Nomination Committee. Director of the Company's subsidiary, AICS.

Mr Williams was appointed a Director of the Company in February 2010. He is Chairman of MIPS Advisory Committee, Fiig Securities Limited and Olympic Park Sports Medical Centre Pty Ltd. He is a Director of the Australian Baseball Federation, National Australia Trustees Limited, Foundation for Young Australians and the E.W. Tipping Foundation. Mr Williams was formerly Managing Director of Equity Trustees Limited, a Director of the Trustee Corporations Association of Australia and a General Manager with AXA/National Mutual in Australia and Hong Kong.

Senior Executives

Geoffrey N Driver B Ec, Grad Dip Finance, MAICD. General Manager, Business Development and Investor Relations.

Mr Driver joined the Company in January 2003. Previously, he was with National Australia Bank Ltd for 18 years in various roles covering business strategy, marketing, distribution, investor relations and business operations. Mr Driver is Deputy Chairman of Trust for Nature (Victoria).

R Mark Freeman BE, MBA, Grad Dip App Fin (Sec Inst), AMP (INSEAD). Chief Investment Officer.

Mr Freeman has been Chief Investment Officer since joining the Company in February 2007. Prior to this he was a Partner with Goldman Sachs JBWere, where he spent 12 years advising the investment companies on their investment and dealing activities. He has a deep knowledge and experience of investments markets and the Company's approaches, policies and processes.

Simon M Pordage LLB (Hons), FGIA, FCIS, MAICD. Company Secretary.

Mr Pordage joined the Company in February 2009. He is a Chartered Secretary and has over 17 years' company secretarial experience and was previously Deputy Company Secretary for Australia and New Zealand Banking Group Limited and prior to that was Head of Board Support for Barclays PLC in the United Kingdom. He is a Vice President and Non-Executive Director of Governance Institute of Australia, Chairman of its National Legislation Review and Remuneration Committees and Deputy Chairman of its Victorian Council.

Andrew JB Porter MA (Hons) (St And), FCA, MAICD. Chief Financial Officer.

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 21 years' experience in accounting and financial management both in the United Kingdom, with Andersen Consulting and Credit Suisse First Boston, and in Australia where he was Regional Chief Operating Officer for the Corporate and Investment Banking Division of CSFB. He is also a Non-Executive Director of the Royal Victorian Eye & Ear Hospital and a member of the National Executive of the G100, the peak body for CFOs.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2015 and the numbers of meetings attended by each Director were:

	Board		Investment Committee		Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
RE Barker	12	12	35	34	-	4[#]	-	2[#]	-	-
TA Campbell	12	11	35	32	-	1[#]	2	1	3	3
JC Hey	12	11	-	31[#]	-	-	-	-	-	-
GR Liebelt	12	12	-	22[#]		-	2	2	-	-
J Paterson	12	11	35	30	-	-	2	2	3	3
DA Peever	12	11	-	26[#]	4	4	-	-	-	1[#]
FD Ryan	12	11	35	26	4	4	-	-	3	3
CM Walter	12	11	35	29	4	4	2	2	-	-
PJ Williams	12	12	35	33	4	4	-	1[#]	3	3

Attended meetings by invitation.

Retirement, Election and Continuation in Office of Directors

Messrs TA Campbell and GR Liebelt, having been re-elected and elected respectively by shareholders at the 2012 Annual General Meeting (AGM), will retire and, being eligible, will offer themselves for re-election at the forthcoming 2015 AGM. Mr FD Ryan will retire from the Board at the conclusion of the 2015 AGM.

Insurance of Directors and Officers

During the financial year, the Company paid insurance premiums to insure the Directors and Officers named in this report to the extent allowable by law. The terms of the insurance contract preclude disclosure of further details.

REMUNERATION REPORT

Contents

The Directors present AFIC's 2015 Remuneration Report, which outlines key aspects of our remuneration policy and remuneration awarded this year. The report is structured as follows:

1. Remuneration Policy and Link to Performance
2. Structure of Remuneration
3. Executive Remuneration Expense and Outcomes
4. Contract Terms
5. Non-Executive Director Remuneration

Appendix

A. Remuneration Governance
B. Annual Incentives: Details of Outcomes and Conditions
C. Long Term Incentives: Details of Outcomes and Conditions
D. Directors and executives: Equity Holdings and Other Transactions
E. Performance Measures, Investment Company

1. Remuneration Policy and Link to Performance

1.1 What is Our Remuneration Policy?

AFIC is an investor in securities listed primarily in Australia and New Zealand. Our primary objectives are to grow dividends at a faster rate than inflation and provide shareholders with capital growth over the medium to long term. To achieve this, we need to attract and retain professional, competent and highly motivated executives and staff through offering attractive remuneration arrangements which:

- reflect market conditions;
- recognise the skills, experience, roles, and responsibilities of the individuals;
- align with shareholder interests; and
- align with the risk management strategies.

Generally, we seek to set total remuneration at the upper or second quartile of the sectors in which we operate.

Remuneration for the Group's executives has two main elements:

- fixed annual remuneration (FAR); and
- performance-related pay, being annual incentives and long term incentives (LTI).

FAR is determined with reference to levels necessary to recruit and retain staff with the relevant skills and experience in the industry in which the Group operates. We seek external input to ensure that the FAR meets these conditions. This includes industry data provided by the Financial Institutions Remuneration Group Inc (FIRG) and McLagan for the financial services industry.

Through performance-related pay, the remuneration is adjusted to reflect the risks that the Company and its shareholders face and how the Company has responded to those risks. In particular:

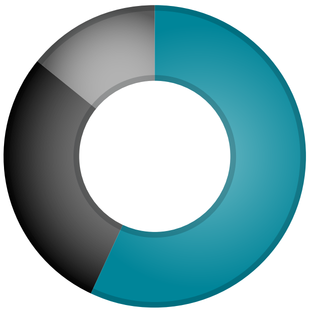
- The key performance indicators chosen to determine performance-related pay are those that the Company considers most relevant to its objectives of improving shareholder wealth over the medium to long term.
- The focus is on performance over the medium to long term with only a minor proportion of both annual incentives and LTI being dependent on a single year's performance.
- Executives other than the Chief Information Officer (CIO) agree to invest 50 per cent of the annual cash incentive (after tax) in AFIC shares and shares of the other investment companies (including AMCIL Limited, Djerriwarrh Investments Limited and Mirrabooka Investments Limited) and to hold these shares for a minimum of two years. The CIO and other members of the investment team are encouraged to purchase shares in AFIC and the other investment companies.

The Remuneration Committee may, at its discretion, cancel any performance rights that are yet to vest or to be tested in the event of any negative issues that may arise, including material mis-statement of the Company's financial statements.

1.2 What is Our Target Remuneration Mix?

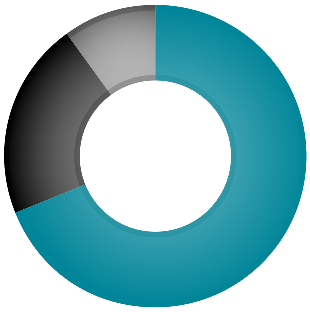
The target remuneration mix for executives is as follows:

Managing Director's target remuneration mix



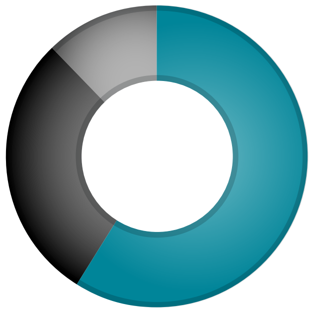
- Fixed annual remuneration ≈ 57%
- Annual incentive ≈ 29%
- Long term incentive ≈ 14%

Other executives' target remuneration mix



- Fixed annual remuneration ≈ 69%
- Annual incentive ≈ 21%
- Long term incentive ≈ 10%

Investment team's target remuneration mix



- Fixed annual remuneration ≈ 59%
- Annual incentive ≈ 29%
- Long term incentive ≈ 12%

1.3 How is the Remuneration Paid in 2015 Linked to Performance?

Table 1 discloses the actual remuneration outcomes received by the Company's executives during the year and the LTI that may vest in future years. These amounts are different to the statutory remuneration expense disclosed in Table 7. The Board considers the information about remuneration outcomes in Table 1 relevant for users because the statutory remuneration expense includes accounting charges for long term incentives that may or may not be received in future years. See below for details of the differences.

Table 1: Actual Executive Remuneration Outcomes

	Total FAR $	Other[1] $	Annual Incentive $	Prior Years' LTI Received[2] $	Dividends on Unvested ELTIP Shares $	Total Remuneration[3] $	LTI Forfeited $	Possible Future LTI (to Vest Over Next Four Years)[4] $
Ross Barker – Managing Director								
2015	**704,445**	**5,438**	**317,281**	**85,411**	**10,555**	**1,123,130**	**0**	**930,921**
2014	676,973	-	363,054	114,137	14,974	1,169,138	15,261	818,100
Mark Freeman – Chief Investment Officer								
2015	**800,000**	**-**	**338,800**	**151,570**	**-**	**1,290,370**	**0**	**601,350**
2014	780,000	-	398,520	182,420	-	1,360,940	0	616,730
Andrew Porter – Chief Financial Officer								
2015	**612,000**	**-**	**164,036**	**47,574**	**5,928**	**829,538**	**0**	**484,714**
2014	588,000	-	181,526	66,295	8,319	844,140	7,767	430,571
Geoff Driver – General Manager – Business Development and Investor Relations								
2015	**505,000**	**-**	**134,760**	**35,408**	**4,634**	**679,802**	**0**	**389,385**
2014	490,000	-	146,324	48,442	6,387	691,153	6,060	341,040
Simon Pordage – Company Secretary								
2015	**376,000**	**-**	**101,096**	**11,959**	**2,489**	**491,544**	**0**	**268,908**
2014	365,000	-	109,714	8,335	2,776	485,825	0	217,591

1. Other relates to a refund of charges in respect of parking for 2015 and prior.

The value of LTI forfeited during the year in Table 1 was determined based on the closing price of AFIC shares on the last possible vesting date.

The differences between the amounts disclosed in Table 1 and the amounts in Table 7 are as follows:

2. Prior year's LTI received in Table 1 shows the value of performance shares that vested during the year, measured at the closing price on the day that they were received. In respect of the investment team, it shows the cash payment received during the year for the previous financial year. In contrast, Table 7 shows the accounting expense recognised in relation to the LTI plans during the year.
3. Total remuneration in Table 1 includes the amount of dividends paid to executives in relation to unvested Executive Long Term Incentive Plan (ELTIP) shares. For accounting purposes, the dividends are recognised as distributions in equity and not as an expense.
4. The future LTI in Table 1 reflects potential future remuneration that may be received by the executives over the next four years if the performance conditions are satisfied. This includes the performance shares that are yet to vest under the old ELTIP, valued at the closing price of AFIC shares as at 30 June 2015 (30 June 2014), plus the estimated amounts payable under the new ELTIP and the investment team LTI plan assuming the performance conditions will be satisfied at the time of vesting. For accounting purposes, these amounts are recognised as expense over the vesting period.

Information about Non-Executive Director remuneration is provided in section 5 Non-Executive Director Remuneration.

1.3.1 Fixed Remuneration

Most executives received modest inflationary increases in their fixed annual remuneration this year. AFIC continues to operate in a highly competitive market, and salary levels are reviewed periodically with the aim of remunerating its executives to the extent required to attract and retain executives who are leaders in their field.

1.3.2 Performance-related Pay

The tables in this section show:

- AFIC's performance against annual incentive metrics for the executives (excluding the CIO). 28.5 per cent of the annual incentive that is determined by AFIC's performance (Table 2). 14.5 per cent of the annual incentive for executives (other than the CIO) is based on the Company performance of the other investment companies (see Table 18). A further 20 per cent is based on personal objectives. The remaining 37 per cent of the annual incentives of executives (excluding the CIO) are assessed against investment returns from AFIC and the other investment companies (see Table 3 for AFIC and Table 18 for the other investment companies). See Table 5 for more details on what the measures are.
- Investment performance for AFIC against annual incentive metrics for both the executives and the investment team (Table 3).
- The outcomes for the two LTI awards that were tested for vesting during the year (Table 4).

Refer to sections 2.2 and 2.3 for explanations of the measures used.

The tables show that whilst the medium to long term targets (which are the primary focus) were achieved, the one year figures were not. The risk/reward performance figures over both three and five years also did not meet benchmark. This has resulted in over 10 per cent of the target annual incentive not being paid. AFIC's returns are after taxes and expenses and represent the 'net' return to the shareholders, whereas index returns do not include either, and many returns quoted by managed funds exclude either tax or expenses, or both.

AFIC's metrics were largely mirrored by the other investment companies, which bear part of the costs of employing the Group's executives and staff (refer to section E in the Appendix for details). Mirrabooka outperformed on most of the metrics in both the short and the longer term, whilst Djerriwarrh (and AMCIL to a lesser extent) also underperformed on the shorter term metrics.

This is the third year of the new AFIC Executive Long Term Incentive Plan (LTIP). As it is a four year plan, no amounts have been paid out under it yet.

Executives did not receive all of their LTIP under the old plan this year. 37.5 per cent may still vest in July or August 2015, but the full targets were not achieved during the year (see Table 4). If the full targets are not achieved by August 2015, the shares will be forfeited.

For the investment team, the continued strong out-performance over time of AMCIL and Mirrabooka was offset in part by the in-line performance of AFIC and the underperformance of Djerriwarrh on a gross return (GR) basis. This resulted in 84 per cent of the LTIP vesting this year. Detailed information about the performance of each investment company is provided in section E of the Appendix (Table 18).

Table 2: Executive Team Performance (Excluding Investment Returns)

Performance Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Total shareholder return (14.6 per cent)			
Share price return – one year	5.7%	2.8%	Unfavourable ●
Share price return – three years	15.1%	18.3%	Favourable ●
Share price return – five years	9.7%	9.9%	Favourable ●
Share price return – eight years	2.8%	5.4%	Favourable ●
Share price return – 10 years	7.1%	9.4%	Favourable ●
Growth in net operating result per share (8.3 per cent)	1.6%	11.8%	Favourable ●
Management expense ratio compared to base of 0.19 per cent (5.6 per cent)	0.19%	0.16%	Favourable ●

Outcome

● Achieved

● Partially achieved

● Not achieved

Table 3: Investment Team Performance (Including Investment Returns Used for Executives)

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Investment return – one year	5.7%	4.6%	Unfavourable ●
Investment return – three years	15.1%	15.1%	Favourable ●
Investment return – five years	9.7%	10.1%	Favourable ●
Investment return – eight years	2.8%	4.5%	Favourable ●
Investment return – 10 years	7.1%	8.4%	Favourable ●
Gross return – one year	6.8%	5.6%	Unfavourable ●
Gross return – three years	16.7%	16.8%	Favourable ●
Gross return – five years	11.3%	12.0%	Favourable ●
Gross return – eight years	4.2%	5.9%	Favourable ●
Gross return – 10 years	8.5%	9.8%	Favourable ●
Reward to risk – three years	1st qtr	91st/159 3rd qtr	Unfavourable ●
Reward to risk – five years	1st qtr	39th/137 2nd qtr	Unfavourable ●
Reward to risk – eight years	1st qtr	25th/113 1st qtr	Favourable ●
Reward to risk – 10 years	1st qtr	16th/87 1st qtr	Favourable ●

Outcome
- ● Achieved
- ● Partially achieved
- ● Not achieved

Table 4: Vesting and Forfeiture of Long Term Incentives During The Year

Award Date	Assessment Dates	Measure Tested 2015	Benchmark Result	AFIC Result	% Vested	% Forfeited
Old ELTIP – performance shares[1]						
25 August 2010	August 2014 – August 2015	Total shareholder return	9.46%	10.26%	25%	-
		Total portfolio return	10.99% (median)/12.22% 75th percentile	12.02%	37.5%	-
Investment team LTI						
1 July 2011	30 June 2015	Gross return	10.8%	11.5%	84.2%	15.8%

1. Of the shares awarded in August 2010, 62.5 per cent of the total award had vested as at 30 June 2015. 37.5 per cent vested as the TPR was 12.02 per cent for four years at the end of August 2014, which was between the 62.5th and 75th percentile of the comparative Mercer Wholesale Equity Australia All-Cap universe. 25 per cent vested as the total shareholder return (TSR) for the four years and one month at the end of September 2014 was 10.26 per cent, which was 8.5 per cent above the comparative (S&P/ASX 200 9.46 per cent for the same period). 37.5 per cent of the award remains eligible for vesting until the end of August 2015.

2. Structure of Remuneration

2.1 Fixed Annual Remuneration (FAR)

The FAR component of an executive's remuneration comprises base salary, superannuation guarantee contributions and fringe benefits. Executives can elect to receive a portion of their FAR in the form of additional superannuation contributions or fringe benefits. This will not affect the gross amount payable by the Group. Dividends received by the executives in relation to unvested shares awarded under the old ELTIP are taken into account when setting remuneration levels.

2.2 Annual Incentives

There are two annual incentive plans, one for the executives (excluding the CIO) and one for the investment team (including the CIO). As the roles and objectives of the Senior Executives and investment team are different, it is desirable to provide separate incentives to focus each team on the different business-critical measures they are able to impact. Table 5 below outlines the key terms and conditions.

Table 5: Annual Incentives – Key Terms and Conditions

Targeted % of FAR	Managing Director 50%	Other Executives 30%	Investment Team 50%
Objectives	Align remuneration with the creation of shareholder wealth over the past year and over a longer period. Choose measures that reflect the management of the Group and the other investment companies, as well as the key investment returns that reflect the creation of shareholder wealth.		Align remuneration with the outcomes of the Group's investment objectives over a period of between one and 10 years. Choose measures that are the key metrics for portfolio performance, and also include dividends paid and franking credits, as well as actual portfolio return and the risk profile of the investments.
Performance measures	• Company performance (43 per cent): relative total shareholder return (movement in share price plus dividends paid and assumed to be reinvested) over the previous one, three, five, eight and 10 years, growth in net operating result and management expense ratio. • Investment performance (37 per cent): relative investment return, gross return and risk/reward return, the same as for investment team (see on the right for details). • Personal objectives (20 per cent).		• Investment return relative to S&P/ASX 200 Accumulation Index over the previous one, three, five, eight and 10 years. • Gross return compared to S&P/ASX 200 Accumulation Index grossed up for franking credits over previous one, three, five, eight and 10 years. • Risk and reward return compared to performance of peers over previous three, five, eight and 10 years. • Income generation for current year (Djerriwarrh only). • Qualitative measures: investment process and diversification of portfolio. • Personal objectives.
Relative weightings of investment companies for investment related performance	AFIC: 53 per cent Djerriwarrh Investments Limited: 16 per cent AMCIL Limited: 4 per cent Mirrabooka Investments Limited: 7 per cent Personal objectives: 20 per cent		
Delivery of award	Incentive is paid in cash, but 50 per cent of the after tax amount received is used by recipients to acquire shares in AFIC and the other investment companies which they agree to hold for minimum of two years.		Paid in cash or shares or combination of both, at the discretion of the Remuneration Committee.
Performance measured in 2015	Majority of measures achieved except for the one year measures and the shorter term risk reward measures (see Tables 2 and 3 above).		Majority of measures achieved except for the one year measures and the shorter term risk reward measures (see Tables 2 and 3 above).
Outcomes for 2015 (see Table 10 for details)	88.75 per cent	Average 89.1 per cent	84.7 per cent (CIO)

The performance measures of each annual incentive plan are reviewed by the Remuneration Committee. The Committee may, from time to time, revise the performance conditions and weightings in order to better meet the objectives of the annual incentive policies. It may also change or suspend any part of the incentive payment arrangements. If relevant targets are not achieved but performance is close to the target, some of the incentive may be paid. This is noted as 'partially achieved' in Table 3. Where stretch levels of performance are achieved above target, then higher amounts may be paid. To date, total annual incentives paid to each executive have never exceeded target.

For more detailed information about the annual incentive performance conditions and outcomes for 2015, please refer to Section B Annual Incentives: Details of Outcomes and Conditions in the Appendix.

2.3 Long Term Incentive Plans (LTIP)

As for the annual incentives, there are also two LTI plans, one for the executives (excluding the CIO), which is called the ELTIP, and one for the investment team (including the CIO). A new ELTIP was introduced in 2012. Table 6 outlines the purpose and the key terms and conditions of each plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executives New ELTIP (Performance Rights)	Old ELTIP (Performance Rights)	Investment Team LTI Plan
Target	50 per cent of targeted STI	50 per cent of gross amount awarded under STI Plan	20 per cent of FAR
Objectives	Align remuneration with growth in shareholder wealth over a forward looking period of four years (four to five years for the old ELTIP). Reward out-performance.		
Performance measures	• Total gross shareholder return relative to S&P/ASX 200 Gross Accumulation Index – 50 per cent. • Total portfolio return relative to median performance of comparable retail fund managers – 50 per cent. Graded vesting for both, see Table 15 in the Appendix for details.	• Total shareholder return relative to S&P/ASX 200 Accumulation Index – 50 per cent. • Total portfolio return relative to median performance of comparable retail fund managers – 50 per cent. Graded vesting for both, see Table 15 in the Appendix for details.	Gross return for AFIC and the other investment companies, relative to relevant accumulation indices. Graded vesting depending on performance, see Table 15 in the Appendix for details.
Performance period	Four years	Four to five years	Four years
Retesting	No retesting.	First testing after four years, then every month until the end of year five.	No retesting.
Entitlement to dividends during vesting period	No entitlement during vesting period.	Executives are entitled to dividends on unvested shares.	No entitlement.
Delivery	Executives will be paid an amount of cash that is dependent on the original ELTIP amount granted and the Company's TSR over the vesting period. Executives must use the after tax amount of cash received to purchase AFIC shares on-market (no dilution to existing shareholders).	Executives are granted performance shares (ordinary share purchased on-market), which will vest if performance conditions are satisfied.	Paid in cash or shares, at the discretion of the Remuneration Committee.
Holding lock over shares acquired (where applicable)	None	None	None
Performance for awards tested in 2015 (Table 4)	n/a	August 2010: 62.5 per cent vested in current year, 37.5 per cent still eligible for vesting (see Table 4).	July 2011: 84.2 per cent vested (see Table 4).

For more detailed information about the LTI plans and their performance conditions, including vesting schedules and outcomes for 2015, please refer to Section C Long Term Incentives: Details of Outcomes and Conditions in the Appendix.

3. Executive Remuneration Expense and Outcomes

This section discloses the remuneration expense recognised under accounting standards for each executive (Table 7). These amounts are different to the remuneration outcomes disclosed in Table 1 as noted in that table.

Table 7: Remuneration Expense

	Short Term	Short Term	Short Term	Post Employment
	Base Salary $	Non-cash Benefits[1] $	Other[2] $	Superannuation $
Ross Barker – Managing Director				
2015	658,182	10,705	558	35,000
2014	632,030	8,643	1,300	35,000
Mark Freeman – Chief Investment Officer				
2015	775,000	-	-	25,000
2014	755,000	-	-	25,000
Andrew Porter – Chief Financial Officer				
2015	587,000	-	-	25,000
2014	565,083	-	-	22,917
Geoff Driver – General Manager – Business Development and Investor Relations				
2015	475,000	-	-	30,000
2014	465,000	-	-	25,000
Simon Pordage – Company Secretary				
2015	357,217	-	-	18,783
2014	347,225	-	-	17,775

1. Non-cash benefits relate to the provision of a car parking space.
2. Other relates to a refund of charges in respect of parking.

	Short Term	Long Term Share Based Payments				
Total Fixed Remuneration $	Annual Incentives $	LTI Cash Settled $	LTI Equity Settled $	Other Long Term Payments $	Total Remuneration $	Percentage Fixed/ Performance Related
704,445	317,281	185,947	33,187	-	1,240,860	57%/43%
676,973	363,054	131,549	64,886	-	1,236,462	55%/45%
800,000	338,800	-	-	158,090	1,296,890	62%/38%
780,000	398,520	-	-	160,734	1,339,254	58%/42%
612,000	164,036	95,123	18,121	-	889,280	69%/31%
588,000	181,526	67,200	35,924	-	872,650	67%/33%
505,000	134,760	76,824	14,497	-	731,081	69%/31%
490,000	146,324	53,932	27,700	-	717,956	68%/32%
376,000	101,096	55,951	9,100	-	542,147	69%/31%
365,000	109,714	38,816	13,125	-	526,655	69%/31%

4. Contract Terms

Each executive is employed under an open-ended contract, the terms of which can be varied by mutual agreement. There is no provision for cessation of employment. Either the Company or the executive can give notice in accordance with statutory requirements (typically four weeks' notice; this can be altered at the Board's discretion but in no case to be more than 12 months). There are no specific payments to be made as a consequence of termination beyond those required by statute. Should there be any payments, these will be at the Board's discretion.

Material breaches of the terms of employment will normally result in the termination of an executive's employment.

5. Non-Executive Director Remuneration

Shareholders approve the maximum aggregate amount of remuneration per year to be allocated between Non-Executive Directors (NEDs) as they see fit. In proposing the amount for consideration by shareholders, the Remuneration Committee takes into account the time demands made on Directors together with such factors as the general level of fees paid to Australian corporate directors.

For NEDs charged with the responsibility of the oversight of the Company's activities, a fixed annual fee is paid with no element of performance-related pay.

The amount approved at the AGM in October 2007 was $1,000,000 per annum, which is the maximum amount that may be paid in total to all NEDs. Retirement allowances for Directors were frozen at 30 June 2004.

NEDs do not receive any performance-based remuneration. On appointment, the Company enters into a deed of access and indemnity with each NED. There are no termination payments due at the cessation of office, and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

The amounts paid to each NED, and the figures for the corresponding period, are set out in Table 8.

Table 8: Non-Executive Director Remuneration

	Primary (Fee/Base Salary) $	Post Employment (Superannuation) $	Total Remuneration $
TA Campbell AO – Chairman (from 9 October 2013)			
2015	155,251	14,749	170,000
2014	131,218	12,138	143,356
DR Argus AC – Non-Executive Director (retired 9 October 2013)			
2015	-	-	-
2014	20,112	1,860	21,972
JC Hey – Non-Executive Director (appointed 31 July 2013)			
2015	77,626	7,374	85,000
2014	69,647	6,442	76,089
GR Liebelt – Non-Executive Director			
2015	77,626	7,374	85,000
2014	75,515	6,985	82,500
J Paterson – Non-Executive Director			
2015	77,626	7,374	85,000
2014	75,515	6,985	82,500
DA Peever – Non-Executive Director (appointed 20 November 2013)			
2015	77,626	7,374	85,000
2014	47,328	4,378	51,706
FD Ryan AO – Non-Executive Director			
2015	50,000	35,000	85,000
2014	54,920	27,580	82,500
BB Teele – (Chairman until 9 October 2013, retired 9 October 2013)			
2015	-	-	-
2014	40,224	4,646	44,870
CM Walter AM – Non-Executive Director			
2015	77,626	7,374	85,000
2014	75,515	6,985	82,500
PJ Williams – Non-Executive Director			
2015	77,626	7,374	85,000
2014	75,515	6,985	82,500
Total Remuneration of Non-Executive Directors			
2015	671,007	93,993	765,000
2014	665,509	84,984	750,493

Amounts Payable on Retirement

The amounts payable to the current NEDs who were in office at 30 June 2004, which will be paid when they retire, are set out in Table 9. These amounts were expensed in prior years as the retirement allowances accrued. It is expected that FD Ryan AO will retire during the year ended 30 June 2016. Should this occur, the amount owing as a retirement allowance of $66,329 will be paid to him. Neither of the other two NEDs listed below are expected to retire in the forthcoming year.

Table 9: Non-Executive Director Retirement Allowance

	Amount Payable on Retirement $
TA Campbell AO	114,500
FD Ryan AO	66,329
CM Walter AM	42,385
Total	223,214

Appendix
A. Remuneration Governance
Responsibilities of the Board and the Remuneration Committee

The Board's primary responsibilities include:

- reviewing and approving the recommendations of the Remuneration Committee; and
- providing guidance to the Remuneration Committee where appropriate.

For more information, the Charter of the Board is available on the Company's website.

The Remuneration Committee's primary responsibilities include:

- reviewing the level of fees for NEDs and the Chairman;
- reviewing the Managing Director's remuneration arrangements;
- evaluating the Managing Director's performance;
- reviewing the remuneration arrangements for other Senior Executives;
- monitoring legislative developments with regards to executive remuneration; and
- ensures that the Group continues to comply with all requirements in this area.

For more information, the Charter of the Remuneration Committee is available on the Company's website.

The Remuneration Committee is composed of four NEDs (GR Liebelt (Chairman), TA Campbell AO, J Paterson and CM Walter AM) and meets at least twice per year.

Policy on Hedging

The Company provides no lending or leveraging arrangements to its executives, who are prohibited by Company policy from entering into hedging arrangements that mitigate the possibility that 'at risk' incentive payments may not vest.

Use of Remuneration Consultants

The Remuneration Committee has approved the appointment of an independent consultant, Ernst & Young, to advise regarding executive and NED remuneration matters during the year.

Ernst & Young reports directly to the Remuneration Committee (where deemed necessary) and is engaged by it to review recommendations to the Remuneration Committee and provide independent advice to the Committee on:

(a) Proposed remuneration levels and remuneration structure for the Managing Director.

(b) Proposed remuneration levels and remuneration structure for the Managing Director's direct reports.

(c) Proposed remuneration levels of NEDs.

Ernst & Young provided no remuneration advice during the year.

The Board is satisfied that these arrangements ensure that any remuneration recommendations made by remuneration consultants are free from influence by management.

The use of the remuneration advisers by management is limited to specific areas to ensure that the independent advice that the Remuneration Committee receives is not perceived as having been compromised by management.

Ernst & Young is separately engaged by management to report on the following:

(a) trends in remuneration for the sectors in which the Group operates (provision of market practice data);

(b) the relative positioning of the remuneration of the Group's employees (including executives) within those sectors;

(c) proposed remuneration levels for employees other than designated Senior Executives; and

(d) advice on the operation of the incentive plans (e.g. tax and accounting advice).

The Managing Director then makes recommendations to the Remuneration Committee with regards to the remuneration levels and structure of the executives.

Ernst & Young also reviews the calculations used in determining the vesting of awards and certifies them as being correct and in accordance with the terms and conditions of the LTI plan.

Ernst & Young was paid $6,628 during the year ended 30 June 2015 for general remuneration advice including confirmation of vesting calculations (2014: $26,569), and during the year the Group also paid $127,827 for other professional advice received, which included acting as the internal auditor for AICS and general taxation and accountancy advice (2014: $167,184) (all including GST).

Ernst & Young was remunerated on an invoiced basis, based on work performed.

The Company also participates in the annual McLagan and FIRG surveys of fund managers to understand current remuneration levels and practices.

B. Annual Incentives: Details of Outcomes and Conditions

Table 10 below shows the annual incentives paid to individual executives as a result of AFIC's and the other investment companies' performance on financial metrics and the individual's achievement of their own personal objectives. Tables 11 and 12 set out the detailed terms and conditions of the annual incentives. For a high level summary, see section 2.2 and Table 5 of the main part of the Remuneration Report.

Table 10: Annual Incentive Outcomes

Executive	Percentage of Target Paid	$ Paid	Percentage of Target Forfeited	$ Forfeited
Ross Barker	89%	$317,281	11%	$40,219
Andrew Porter	89%	$164,036	11%	$19,964
Geoff Driver	89%	$134,760	11%	$16,740
Simon Pordage	89%	$101,096	11%	$12,304
Mark Freeman	85%	$338,800	15%	$61,200

Table 11: Executive Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
Company Performance (43 per cent) The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Relative total shareholder return (TSR): TSR is the movement in share price plus the dividends paid by the Company assumed to be reinvested. TSR performance is measured against the S&P/ASX 200 Accumulation Index over one, three, five, eight and 10 year periods (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• TSR: this is a direct measure of the increase in shareholders' wealth against the performance of the index.
	• Growth in net profit per share: measured against CPI.	• Growth in net profit per share reflects the ability of the Company to meet its stated aim of 'paying out dividends which, over time, grow faster than the rate of inflation.'
	• Management expense ratio (MER): measured against prior years' results or, in the case of AFIC, measured against a base of 0.19 per cent.	• MER reflects the costs of running the Company.
Investment Performance (37 per cent)		The NEDs consider that the metrics used equate, over the medium to long term, with the stated objectives of the Company, namely 'to provide attractive total returns and pay dividends, which, over time, grow faster than the rate of inflation'.
The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Relative investment return: measure of the return on the portfolio invested (including cash) over the previous one, three, five, eight and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• Investment return: reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders wealth by the investment decisions of the Company.
	• Gross return (GR): measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous one, three, five, eight and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• Gross return (GR): reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits.
	• Risk/reward return: this is a measure over three, five, eight and 10 years of the past performance of the Company, compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer. (Note: this measure is used for AFIC's performance only, reflecting that Company's focus on producing stable returns over the medium to long term).	• Risk/reward return: best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected. Note: the Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.
Personal objectives (20 per cent)	Includes: • advice to the Board; • succession planning; • management of staff; • risk management; • promotion of the corporate culture; and • satisfaction of key internal stakeholders. These measures all contribute to the efficient running of the Group and the other investment companies, enhancing investment outcomes.	Personal objectives are included in incentive calculations to encourage out-performance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Managing Director reviews the performance of each executive with the Remuneration Committee, and the Remuneration Committee alone determines how the Managing Director is performing against these objectives.

Table 12: Investment Team Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
Investment return The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Measure of the return on the portfolio invested (including cash) over the previous one, three, five, eight and 10 years. Measured relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• Investment return reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders' wealth by the investment decisions of the Company.
Gross return The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous one, three, five, eight and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• Gross return reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits.
Risk/reward return Note: this measure is used for AFIC's performance only	• This is a measure over the previous three, five, eight and 10 years of Company performance. It is calculated by using the movement in the net asset backing of the Company (per share) plus the dividends reinvested divided by the standard deviation of the movement in the net asset backing of the Company (per share) plus the dividends reinvested over the same period. This is compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer.	• Risk/reward return best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected, therefore aligning executives to shareholders. Reflects AFIC's focus on producing stable returns over the medium to long term. Note: the Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.
Income generation	• This is relevant for measuring Djerriwarrh Investments Limited's operating earnings as a per cent of the average investable assets. It is a one year measure only, and measures the ability of the investment team to generate returns from the assets of Djerriwarrh Investments Limited. It is compared to the return generated in prior years.	• Reflects the objective for Djerriwarrh Investments Limited to create an enhanced income from its portfolio.
Qualitative measures	• Investment process – including the identification of quality stocks. • Diversifying the portfolio – for example, developing a 'nursery' of smaller potential growth stocks.	• These qualitative processes provide the opportunities for the future growth of the Company's investments.
Personal objectives	• Includes research, stock ideas, portfolio management, meeting participation, interaction with staff and presentation skills.	• Personal objectives are included in incentive calculations to encourage out-performance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Chief Investment Officer reviews the performance of each member of the investment team with the Managing Director and the Remuneration Committee.

C. Long Term Incentives: Details of Outcomes and Conditions

This section shows a reconciliation of the performance shares outstanding under the old ELTIP award (Table 13) and the outstanding cash bonuses under the new ELTIP and the investment team LTI schemes (Table 14). It also explains the detailed terms and conditions of the three LTIs that are currently in operation (Table 15). For a high level overview, see section 2.3 of the main body of the Remuneration Report.

Table 13: Performance Shares Held by Executives (Old ELTIP)

Year Granted	Value Granted	Number Granted	Opening Balance	Vested Current Year	Forfeited	Closing Balance (Yet to Vest)	Value Forfeited[1]	Value Vested[1]	Maximum Value Yet to Vest[2]
Ross Barker – Managing Director									
2011	$111,327	23,063	23,063	14,413	-	8,650	-	$85,411	$52,938
2012	$123,470	29,472	29,472	-	-	29,472	-	-	$180,369
Andrew Porter – Chief Financial Officer									
2011	$62,009	12,846	12,846	8,028	-	4,818	-	$47,574	$29,486
2012	$67,319	16,069	16,069	-	-	16,069	-	-	$98,342
Geoff Driver – General Manager – Business Development and Investor Relations									
2011	$46,152	9,561	9,561	5,975	-	3,586	-	$35,408	$21,946
2012	$54,144	12,924	12,924	-	-	12,924	-	-	$79,095
Simon Pordage – Company Secretary									
2011	$15,592	3,230	3,230	2,018	-	1,212	-	$11,959	$7,417
2012	$35,107	8,380	8,380	-	-	8,380	-	-	$51,286

1. The dollar amounts shown are the market value of the shares vested at the date of vesting (for shares that vested) or at the last possible day of vesting (for those forfeited).
2. The dollar value yet to vest is calculated using AFIC's share price as at 30 June 2015 ($6.12). The minimum value yet to vest is nil.

The grant and vesting dates for the performance shares that are yet to vest are:

- Granted 25 August 2010, vesting: August 2014 – August 2015. Grant date value: $4.83.
- Granted 22 August 2011, vesting: August 2015 – August 2016. Grant date value: $4.19.

The grant dates and percentages of the old ELTIP that vested during the year are disclosed in Table 4. They are the same for all executives.

Table 14: Vesting of New ELTIP and Investment Team LTI

New ELTIP Award Date	Vesting Date Subject to Performance Hurdles	Value at Award Date	Number of Rights Awarded	Value Per Right	Value Yet to Vest 30 June 2015
Ross Barker – Managing Director					
1 July 2012	30 June 2016	$173,000	42,126	$4.107	$289,412
1 July 2013	30 June 2017	$182,000	33,562	$5.423	$222,713
1 July 2014	30 June 2018	$178,750	29,707	$6.017	$185,489
Andrew Porter – Chief Financial Officer					
1 July 2012	30 June 2016	$88,970	21,664	$4.107	$148,838
1 July 2013	30 June 2017	$92,000	16,965	$5.423	$112,580
1 July 2014	30 June 2018	$92,000	15,290	$6.017	$95,468
Geoff Driver – General Manager – Business Development and Investor Relations					
1 July 2012	30 June 2016	$71,610	17,437	$4.107	$119,796
1 July 2013	30 June 2017	$73,500	13,554	$5.423	$89,942
1 July 2014	30 June 2018	$75,750	12,589	$6.017	$78,606
Simon Pordage – Company Secretary					
1 July 2012	30 June 2016	$50,250	12,236	$4.107	$84,063
1 July 2013	30 June 2017	$55,000	10,142	$5.423	$67,304
1 July 2014	30 June 2018	$56,700	9,423	$6.017	$58,838

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount	Award Vested for the Year $	%	Value Yet to Vest 30 June 2015
Mark Freeman – Chief Investment Officer (Investment team LTI)					
1 July 2011	30 June 2015	$150,696	$126,886	84.2%	-
1 July 2012	30 June 2016	$154,464	-	-	$154,464
1 July 2013	30 June 2017	$160,000	-	-	$160,000
1 July 2014	30 June 2018	$160,000	-	-	$160,000

The value of the outstanding ELTIP performance rights as at 30 June 2015 was estimated using the Company's TSR since the award (18.32 per cent for three years, 10.09 per cent for two years and 2.76 per cent for one year). The value of the investment team LTI that is yet to vest is the target amount. Actual amounts awarded may exceed this amount, depending on performance over the four year vesting period.

The investment team LTI that vested on 30 June 2015 will be paid to Mark Freeman in the 2016 financial year. During the year ended 30 June 2015, Mark Freeman received $151,570 in respect of the four years ended 30 June 2014, which was 104.1 per cent of the target amount of $145,600. The benchmark annualised return for the period was 12.4 per cent, whilst AFIC's return was 13.6 per cent.

Table 15 – Long Term Incentive Plans

New ELTIP (Performance Rights)

Nature of grant	Rights to receive cash that must then be used by the executives to acquire AFIC shares on market.	
Performance conditions	1. Total gross shareholder return (50 per cent): the movement in the share price and the index price, grossed up to reflect the value of franking credits. This is compared to that of the market such that only out-performance is rewarded. Out-performance of this index over time should be an indicator of the value added by the Company to shareholders' wealth. Both the Company's return and the index return are smoothed over 30 days to remove excess volatility. 2. Total portfolio return (50 per cent): the movement in the net asset backing of the Company (per share) plus the dividends paid by the Company reinvested. This compares AFIC's investment performance against that of other fund managers (based on the Mercer Investment Consulting Survey of Australian Retail Fund managers, which provides the industry benchmark of funds management performance over the relevant 48 months period), so that only out-performance relative to its peers is rewarded.	
Vesting schedule: total gross shareholder return	Company performance relative to gross accumulation index	Percentage of rights vesting
	Underperformance	0 per cent
	< or = 20 per cent out-performance	Straight line between 25 per cent and 50 per cent
	> 20 per cent out-performance	50 per cent
Vesting schedule: total portfolio return	Company performance	Percentage of rights vesting
	Less than median performance	0 per cent
	Median to < or = 75th percentile	Straight line between 25 per cent and 50 per cent
	> 75 per cent percentile	50 per cent
Valuation of performance rights	At 1 July each year, the 30 day Volume Weighted Average Price of AFIC shares up to, but not including, 1 July will be calculated. The amount of ELTIP available will then be divided by this average price to determine the number of performance rights that may vest in four years' time. The value of the performance rights will be adjusted each year by the total shareholder return for the year, calculated based on the 30 day Volume Weighted Average Price of AFIC shares up to 1 July. At vesting time, the value of the performance rights that will vest is converted to cash, based on the value of the rights at that time.	
Accounting treatment	Under current accounting standards, the ELTIP scheme is classified as a cash-settled scheme. The expected amount payable upon vesting, must therefore be estimated each year and adjusted not only for the likelihood of vesting but also for changes in the value of the performance rights. In the first year, 25 per cent of the expected amount payable will be booked as an expense. At the end of the second year, 50 per cent of the new expected final value less the amount booked in the previous year will be booked. At the end of the third year, 75 per cent of the total estimated final value less amounts previously expensed will be booked. At the end of the fourth year, the actual liability will be calculated and a balancing adjustment made.	

Investment Team LTI Plan

Nature of grant	**Cash or shares, at discretion of the Company.**	
Performance condition	Gross return, which measures the movement in the net asset backing of the Company (per share), plus the dividends assumed to be reinvested grossed up for franking credits. This return is compared to the relevant accumulating index as set out below.	
Indices that investment portfolios are assessed against	**Investment portfolio**	**Relevant accumulation index**
	AFIC (60 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Djerriwarrh Investments Limited (25 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Mirrabooka Investments Limited (10 per cent)	S&P/ASX Mid Cap 50 Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index, grossed up for franking credits
	AMCIL Limited (5 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
Vesting schedule: Company gross return	**Company performance relative to the relevant accumulation index**	**Percentage of rights vesting**
	< 90 per cent performance	0 per cent
	90 – 99 per cent performance	Board discretion
	> 100 per cent up to 110 per cent performance	Straight line between 50 per cent and 100 per cent
	> 110 per cent up to 120 per cent performance	Straight line between 100 per cent and 150 per cent
	120 per cent + performance	150 per cent

Previous ELTIP (Performance Shares)

Nature of grant	**Performance shares that vest when the performance conditions are satisfied.**	
Performance conditions	1. Total shareholder return (50 per cent) must outperform the S&P/ASX 200 Accumulation Index. 2. Total portfolio return (50 per cent) must outperform the median performance of comparable retail fund managers (based on the Mercer Investment Consulting Survey of Australian Retail Fund managers, which provides the industry benchmark of funds management performance over the relevant 48 to 60 month period).	
Vesting schedule: total gross shareholder return	**Company performance relative to gross accumulation index**	**Percentage of rights vesting**
	Underperformance	0 per cent
	< 10 per cent out-performance	25 per cent
	10 per cent to 20 per cent out-performance	37.5 per cent
	> 20 per cent out-performance	50 per cent
Vesting schedule – total portfolio return	**Company performance**	**Percentage of rights vesting**
	Less than median performance	0 per cent
	Median to <62.5th percentile	25 per cent
	62.5th percentile to <75th percentile	37.5 per cent
	> 75 per cent percentile	50 per cent
Vesting points and vesting period	Four years after performance shares are granted to executives, performance is measured against the hurdles to determine what proportion of shares will vest, i.e. will be released to participants. This measurement point is called the vesting point. There are potentially 13 vesting points under the ELTIP, starting with the first test at the end of year four, and at each month end thereafter until the fifth year of the performance period.	
Dividends	Dividends are paid to the executives on performance shares prior to vesting, but are taken into account when setting the executive's FAR.	
Accounting treatment	If the shares fail to vest because an employee ceases employment at any time prior to the vesting of the shares, or the total portfolio return is less than the median performance, the unvested shares will be cancelled and expenses recognised to date will be reversed. However, if the shares fail to vest because the TSR condition is not satisfied, the relevant expenses will continue to be recognised.	
Reasons for change	Although dividends received under unvested shares in the ELTIP were taken into account when assessing total remuneration, the Remuneration Committee decided that this should no longer occur. It was also considered that the multiple vesting periods may give an executive a greater likelihood of vesting than was considered to be best market practice. External advice was therefore sought in structuring a new plan that would continue to meet incentive objectives.	

D. Directors and Executives: Equity Holdings and Other Transactions

Tables 16 and 17 set out reconciliations of shares and convertible notes 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.

Table 16: Shareholdings of Directors and Executives

	Opening Balance	Changes During Year	Closing Balance	Subject to Vesting
TA Campbell	363,564	13,068	376,632	-
RE Barker	867,995	15,045	883,040	38,122
JC Hey	5,405	2,802	8,207	-
GR Liebelt	59,250	87,393	146,643	-
J Paterson	408,410	19,256	427,666	-
DA Peever	1,730	7,150	8,880	-
FD Ryan	86,767	-	86,767	-
CM Walter	156,589	13,883	170,472	-
PJ Williams	14,422	-	14,422	-
GN Driver	118,960	4,362	123,322	16,510
RM Freeman	127,777	4,461	132,238	-
SM Pordage	26,339	3,133	29,472	9,592
AJB Porter	136,291	5,307	141,598	20,887

Table 17: Holdings of 6.25 per cent 2017 Convertible Notes

	Opening Balance	Changes During Year	Closing Balance
RE Barker	250	-	250
CM Walter	6,262	-	6,262
J Paterson	4,500	1,375	5,875
GN Driver	250	-	250

Other Arrangements with Non-Executive Directors

Non-Executive Directors John Paterson 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:

	Rental Income Received/Receivable $
J Paterson	30,364
CM Walter	16,883

E. Performance Measures by Investment Company

Table 18 on the following page shows the performance of AFIC and the other investment companies over the past five years, including details of TSR, TPR and GR. These measures, which represent growth in shareholder wealth, determine the vesting of AFIC's LTI plans to executives and the investment team.

Table 18: Detailed Performance Measures for AFIC and the Other Investment Companies

Year Ending 30 June	10 Year Return	8 Year Return	5 Year Return	4 Year Return	3 Year Return	2015	2014	2013	2012	2011
Comparative returns										
S&P/ASX 200 Accumulation Return	7.1%	2.8%	9.7%	9.2%	15.1%	5.7%	17.4%	22.8%	-6.7%	11.7%
Gross S&P/ASX 200 Accumulation Return	8.5%	4.2%	11.3%	10.8%	16.7%	6.8%	19.2%	24.6%	-5.2%	13.2%
Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	3.9%	-2.2%	5.2%	2.8%	9.0%	5.6%	16.9%	4.8%	-13.6%	15.3%
Gross Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	4.8%	-1.3%	6.2%	3.8%	9.9%	6.3%	18.0%	5.9%	-12.7%	16.3%
AFIC										
Total shareholder return	9.4%	5.4%	9.9%	13.1%	18.3%	2.8%	17.9%	36.7%	-1.1%	-2.3%
Total portfolio return	7.9%	4.0%	10.0%	9.6%	14.9%	3.9%	17.3%	24.4%	-4.8%	11.5%
Growth in net operating result per share	4.6%	1.8%	8.4%	4.9%	9.8%	11.8%	7.5%	13.2%	-11.2%	23.9%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.16%	0.17%	0.18%	0.19%	0.17%
Risk/reward return[1]	16th/87	25th/113	39th/137	48th/147	91st/159	139th/176	36th/177	90th/175	25th/151	65th/137
Gross return	9.8%	5.9%	12.0%	11.5%	16.8%	5.6%	19.2%	26.5%	-2.9%	13.5%
Investment return	8.4%	4.5%	10.1%	9.8%	15.1%	4.6%	17.0%	24.4%	-4.7%	11.7%
Djerriwarrh Investments Limited										
Total shareholder return	8.5%	5.6%	10.3%	12.1%	14.4%	5.2%	17.4%	21.2%	5.4%	3.3%
Total portfolio return	6.2%	2.1%	7.9%	7.1%	11.3%	0.2%	15.6%	19.0%	-4.4%	10.9%
Growth in net operating profit per share	-0.3%	-3.3%	0.7%	-4.4%	6.5%	10.8%	20.7%	-8.4%	-31.8%	23.9%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.41%	0.39%	0.39%	0.41%	0.38%
Gross return	9.2%	5.2%	11.3%	10.5%	14.7%	3.2%	19.1%	22.5%	-1.3%	14.0%
Investment return	7.7%	4.3%	9.7%	9.1%	13.1%	2.8%	16.3%	21.1%	-2.2%	12.0%
Operating earnings as a percentage of available investable assets	n/a	n/a	n/a	n/a	n/a	7.9%	7.6%	6.9%	8.0%	10.1%

Year Ending 30 June	10 Year Return	8 Year Return	5 Year Return	4 Year Return	3 Year Return	2015	2014	2013	2012	2011
Mirrabooka Investments Limited										
Total shareholder return	11.0%	6.7%	15.6%	15.5%	20.0%	4.3%	21.2%	36.6%	2.8%	16.2%
Total portfolio return	8.7%	4.0%	12.5%	11.7%	14.6%	3.1%	22.8%	18.9%	3.5%	15.8%
Growth in net operating result per share	-1.1%	-6.3%	-0.7%	-7.2%	-6.7%	-10.0%	-7.0%	-1.6%	-10.0%	30.0%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.67%	0.64%	0.70%	0.79%	0.79%
Gross return	11.2%	6.7%	15.5%	14.8%	17.9%	6.8%	26.4%	21.2%	5.7%	18.2%
Investment return	11.8%	7.0%	15.4%	14.7%	18.4%	6.5%	26.5%	23.1%	4.5%	17.9%
AMCIL Limited										
Total shareholder return	12.1%	7.8%	13.7%	14.5%	14.6%	-0.9%	22.7%	23.6%	14.1%	10.8%
Total portfolio return	12.1%	6.3%	10.9%	10.2%	12.4%	2.2%	14.7%	21.1%	4.0%	13.6%
Growth in net operating result per share	4.7%	-1.4%	2.3%	-4.4%	2.6%	4.3%	-9.6%	14.8%	-22.6%	33.6%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.67%	0.65%	0.77%	0.84%	0.80%
Gross return	14.3%	8.6%	13.3%	12.9%	15.3%	5.1%	18.8%	22.5%	5.9%	14.8%
Investment return	14.0%	8.4%	13.3%	12.6%	15.3%	3.9%	17.9%	25.3%	4.8%	16.1%

1. This represents the Company's ranking in the Mercer IDPS Australian Share Universe – i.e. 10th out of 71 funds. The period used is year to May.

NON-AUDIT SERVICES

Details of non-audit services performed by the auditors may be found in Note F2 of the Financial Report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the *Corporations Act 2001* including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company, or jointly sharing economic risk and rewards.

A copy of the Auditors Independence Declaration is set out on page 35.

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

Terry Campbell

Terrence Campbell AO
Chairman

Melbourne
20 July 2015

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
20 July 2015

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FINANCIAL STATEMENTS CONTENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Dividends and distributions	A3	317,762	275,793
Revenue from deposits and bank bills		3,425	4,898
Other revenue	A3	4,461	4,208
Total revenue		325,648	284,899
Net gains on trading portfolio and non-equity investments	A3	8,440	9,945
Income from operating activities		334,088	294,844
Finance costs		(15,757)	(20,525)
Administration expenses	B1	(14,867)	(14,122)
Profit before income tax expense		303,464	260,197
Income tax expense	B2, E2	(9,860)	(5,904)
Profit for the year		293,604	254,293
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		293,503	254,213
Minority interest		101	80
		293,604	254,293

		Cents	Cents
Basic earnings per share	A5	27.23	24.35
Diluted earnings per share	A5	27.11	24.32

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2015

	Year to 30 June 2015			Year to 30 June 2014		
	Revenue[1] $'000	Capital[1] $'000	Total $'000	Revenue[1] $'000	Capital[1] $'000	Total $'000
Profit for the year	293,650	(46)	293,604	254,220	73	254,293
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	(23,281)	(23,281)	-	665,894	665,894
Deferred tax expense on above	-	(3,122)	(3,122)	-	(200,411)	(200,411)
Items that may be recycled through the Income Statement						
Gross movement in fair value for interest rate swaps	-	401	401	-	1,731	1,731
Tax expense on above	-	(120)	(120)	-	(519)	(519)
Total other comprehensive income[2]	-	(26,122)	(26,122)	-	466,695	466,695
Total comprehensive income	293,650	(26,168)	267,482	254,220	466,768	720,988

1. 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio, including non-equity investments held in the investment portfolio. Income in the form of distributions and dividends is recorded as 'revenue'. All other items, including expenses, are included in profit for the year, which is categorised under 'revenue'.
2. Total tax movement in other comprehensive income: 2015: $(3.2) million; 2014: ($200.9) million.

	Year to 30 June 2015			Year to 30 June 2014		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Total comprehensive income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	293,549	(26,168)	267,381	254,140	466,768	720,908
Minority interests	101	-	101	80	-	80
	293,650	(26,168)	267,482	254,220	466,768	720,988

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2015

	Note	2015 $'000	2014 $'000
Current assets			
Cash	D1	163,840	69,084
Receivables		46,059	65,758
Trading portfolio		1,930	-
Total current assets		211,829	134,842
Non-current assets			
Fixtures and fittings		-	76
Investment portfolio	A2	6,412,242	6,326,268
Deferred tax assets		527	864
Total non-current assets		6,412,769	6,327,208
Total assets		6,624,598	6,462,050
Current liabilities			
Payables		10,783	6,128
Tax payable		30,050	13,419
Borrowings	D2	-	100,000
Trading portfolio		-	1,980
Provisions		3,409	3,213
Interest rate hedging contracts		-	281
Total current liabilities		44,242	125,021
Non-current liabilities			
Provisions		1,508	1,089
Convertible notes	D3	202,252	203,779
Deferred tax liabilities – investment portfolio	B2	930,152	948,009
Total non-current liabilities		1,133,912	1,152,877
Total liabilities		1,178,154	1,277,898
Net assets		5,446,444	5,184,152
Shareholders' equity			
Share capital	A1, D7	2,301,232	2,064,936
Revaluation reserve	A1, D4	2,152,455	2,253,053
Realised capital gains reserve	A1, D5	391,773	317,624
General reserve	A1	23,637	23,637
Interest rate hedging reserve	A1	-	(281)
Retained profits	A1, D6	576,382	524,319
Parent entity interest		5,445,479	5,183,288
Minority interest		965	864
Total equity		5,446,444	5,184,152

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2015

Year Ended 30 June 2015	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,064,936**	**2,253,053**
Dividends paid	A4	-	-
Shares issued – Dividend Reinvestment Plan	D7	49,724	-
Shares issued – Share Purchase Plan	D7	184,671	-
Shares issued – conversion of notes	D7	2,423	-
Other share capital adjustments		(522)	-
Total transactions with shareholders		**236,296**	**-**
Profit for the year		**-**	**(46)**
Other comprehensive income (net of tax)			
Net losses for the period		-	(26,403)
Net movement in fair value of swap contracts		-	-
Other comprehensive income for the year		**-**	**(26,403)**
Transfer to realised capital gains of cumulative gains on investments sold		-	(74,149)
Total equity at the end of the year		**2,301,232**	**2,152,455**

Year Ended 30 June 2014	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,002,128**	**1,801,692**
Dividends paid	A4	-	-
Shares issued – Dividend Reinvestment Plan	D7	46,064	-
Shares issued – conversion of notes	D7	16,660	-
Other share capital adjustments		84	-
Total transactions with shareholders		**62,808**	**-**
Profit for the year		**-**	**73**
Other comprehensive income (net of tax)			
Net gains for the period		-	465,483
Net movement in fair value of swap contracts		-	-
Other comprehensive income for the year		**-**	**465,483**
Transfer to realised capital gains of cumulative gains on investments sold		-	(14,195)
Total equity at the end of the year		**2,064,936**	**2,253,053**

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

Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
317,624	23,637	(281)	524,319	5,183,288	864	5,184,152
-	-	-	(241,486)	(241,486)	-	(241,486)
-	-	-	-	49,724	-	49,724
-	-	-	-	184,671	-	184,671
-	-	-	-	2,423	-	2,423
-	-	-	-	(522)	-	(522)
-	-	-	(241,486)	(5,190)	-	(5,190)
-	-	-	293,549	293,503	101	293,604
-	-	-	-	(26,403)	-	(26,403)
-	-	281	-	281	-	281
-	-	281	-	(26,122)	-	(26,122)
74,149	-	-	-	-	-	-
391,773	23,637	-	576,382	5,445,479	965	5,446,444

Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
334,243	23,637	(1,493)	465,701	4,625,908	784	4,626,692
(30,814)	-	-	(195,522)	(226,336)	-	(226,336)
-	-	-	-	46,064	-	46,064
-	-	-	-	16,660	-	16,660
-	-	-	-	84	-	84
(30,814)	-	-	(195,522)	(163,528)	-	(163,528)
-	-	-	254,140	254,213	80	254,293
-	-	-	-	465,483	-	465,483
-	-	1,212	-	1,212	-	1,212
-	-	1,212	-	466,695	-	466,695
14,195	-	-	-	-	-	-
317,624	23,637	(281)	524,319	5,183,288	864	5,184,152

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2015

	Note	2015 $'000 Inflows/ (Outflows)	2014 $'000 Inflows/ (Outflows)
Cash flows from operating activities			
Sales from trading portfolio		41,909	77,672
Purchases for trading portfolio		(32,297)	-
Interest received		3,680	5,886
Dividends and distributions received		309,469	244,715
		322,761	328,273
Other receipts		4,467	4,213
Administration expenses		(14,903)	(13,669)
Finance costs paid		(14,993)	(19,830)
Income taxes paid		(13,677)	(4,616)
Net cash inflow/(outflow) from operating activities	E1	283,655	294,371
Cash flows from investing activities			
Sales from investment portfolio		244,676	175,794
Purchases for investment portfolio		(325,949)	(477,264)
Net cash inflow/(outflow) from investing activities		(81,273)	(301,470)
Cash flows from financing activities			
Repayment of borrowings		(100,000)	-
Proceeds from share issues		184,671	-
Share issue transaction costs		(597)	(57)
Dividends paid		(191,700)	(180,200)
Net cash inflow/(outflow) from financing activities		(107,626)	(180,257)
Net increase/(decrease) in cash held		94,756	(187,356)
Cash at the beginning of the year		69,084	256,440
Cash at the end of the year	D1	163,840	69,084

For the purpose of the Cash Flow Statement, 'cash' includes cash and deposits held at call.

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

A. Understanding AFIC's Financial Performance

A1. How AFIC Manages its Capital

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

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

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

	2015 $'000	2014 $'000
Share capital	2,301,232	2,064,936
Revaluation reserve	2,152,455	2,253,053
Realised capital gains	391,773	317,624
General reserve	23,637	23,637
Interest rate hedging reserve	-	(281)
Retained profits	576,382	524,319
	5,445,479	5,183,288

Refer to Notes D4 – D7 for a reconciliation of movement from period to period for each equity account (except the general reserve, which is historical and relates to past profits that can be distributed and has had no movement, and the interest rate hedging reserve).

A2. Investments Held and How They Are Measured

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

The investment portfolio holds securities that the Company intends to retain on a long term basis, and includes a small sub-component over which options may be written. The trading portfolio consists of securities that are held for short term trading only, including option contracts written over securities that are held in the specific sub-component of the investment portfolio, and is relatively small in size. The Board has therefore focused the information in this section on the investment portfolio.

The balance and composition of the investment portfolio was:

	2015 $'000	2014 $'000
Equity instruments (excluding below) at market value	6,248,944	6,179,489
Equity instruments (over which options may be written)	148,845	131,824
Hybrids	11,788	12,225
Convertible notes that are classified as debt	2,665	2,730
	6,412,242	6,326,268

How Investments Are Shown in the Financial Statements

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

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

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

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

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

Net Tangible Asset Backing Per Share

The Investment Committee regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains in AFIC's long term investment portfolio. Deferred tax is calculated as set out in Note B2. The relevant amounts as at 30 June 2015 and 30 June 2014 were as follows:

	30 June 2015 $	30 June 2014 $
Net tangible asset backing per share		
Before tax	5.85	5.85
After tax	5.00	4.94

Equity Investments

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

Puttable Instruments and Convertible Notes

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

Securities Sold and How They Are Measured

During the period $215.7 million (2014: $163.6 million) of equity securities were sold. The cumulative gain on the sale of securities was $74.1 million for the period after tax (2014: $14.2 million). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated Statement of Changes in Equity). These sales were accounted for at the date of trade.

Where securities are sold, any difference between the sale price and the carrying amount is transferred from the revaluation reserve to the realisation reserve and the amounts noted in the Consolidated Statement of Changes in Equity. This means the Company is able to identify the realised gains out of which it can pay a LIC gain as part of the dividend, which conveys certain taxation benefits to many of AFIC's shareholders.

A3. Operating Income

The total income received from AFIC's investments in 2015 is set out below.

	2015 $'000	2014 $'000
Dividends from securities held in investment portfolio at 30 June	314,066	272,317
Income from investment securities sold during the year	3,449	2,608
Dividends from securities held in trading portfolio at 30 June	-	-
Interest income from securities in investment portfolio	247	246
Income from trading and non-equity securities sold during the year	-	622
	317,762	275,793

Interest income		
Income from cash investments	3,425	4,898
Other income		
Administration fees	4,403	4,204
Other income	58	4
	4,461	4,208

Dividend Income

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

Trading Income and Non-equity Investments

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

		2015 $'000	2014 $'000
Net gains			
Net realised gains from trading portfolio	– shares	4,101	4,321
	– options	3,533	5,190
Unrealised gains from trading portfolio	– shares	12	-
	– options	859	330
Unrealised gains/(losses) from non-equity investments		(65)	104
		8,440	9,945

$119.3 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2014: $126.5 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd, which require participants in the exchange traded option market to lodge collateral, and are recorded as part of the Group's investment portfolio. If all call options were exercised, this would lead to the sale of $60.7 million worth of securities at an agreed price – the 'exposure' (2014: $79.9 million).

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2015 are shown below:

	2015 $'000	2014 $'000
(a) Dividends Paid During the Year		
Final dividend for the year ended 30 June 2014 of 14 cents fully franked at 30 per cent paid 29 August 2014 (2014: 14 cents fully franked at 30 per cent paid on 30 August 2013)	145,077	143,800
Interim dividend for the year ended 30 June 2015 of 9 cents per share fully franked at 30 per cent, paid 20 February 2015 (2014: 8 cents fully franked at 30 per cent paid 21 February 2014)	96,409	82,536
	241,486	226,336
Dividends paid in cash	191,762	180,272
Dividends reinvested in shares	49,724	46,064
	241,486	226,336
Dividends forgone via DSSP	3,128	2,307
(b) Franking Credits		
Opening balance of franking account at 1 July	128,143	126,024
Franking credits on dividends received	100,932	95,833
Tax paid during the year	13,458	4,277
Franking credits paid on ordinary dividends paid	(103,494)	(97,001)
Franking credits deducted on DSSP shares issued	(1,341)	(990)
Closing balance of franking account	137,698	128,143
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	44,659	28,167
Adjusted closing balance	182,357	156,310
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(65,391)	(62,943)
Net available	116,966	93,367
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	272,921	217,856

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

(c) New Zealand Imputation Account

(Figures in A$ at year-end exchange rate: 2015: NZX$1.14; A$1; 2014: NZX$ 41.077; A$1)

	2015	2014
Opening balance	6,761	630
Imputation credits on dividends received	5,599	6,131
Imputation credits on dividends paid	-	-
Closing balance	12,360	6,761

Three New Zealand cents per share of the dividend to be paid on 28 August 2015 will have a New Zealand imputation credit attached. This will utilise, at the above exchange rates, $11.2 million of the above balance.

	2015 $'000	2014 $'000
(d) Dividends Declared After Balance Date		
Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30 per cent. The aggregate amount of the final dividend for the year to 30 June 2015 to be paid on 28 August 2015, but not recognised as a liability at the end of the financial year is:	152,578	

(e) Listed Investment Company Capital Gain Account		
Balance of the LIC capital gain account	61,134	10,254
This equates to an attributable amount of	87,334	14,649

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains, or the receipt of LIC distributions from LIC securities held in the portfolios. $54.5 million of the capital gain ($77.8 million of the attributable amount) will be paid out as part of the final dividend on 28 August 2015.

A5. Earnings Per Share

The table below shows the earnings per share based on the profit for the year.

	2015	2014
Basic earnings per share	Number	Number
Weighted average number of ordinary shares used as the denominator	1,078,053,226	1,044,013,116
	$'000	$'000
Profit for the year	293,503	254,213
	Cents	Cents
Basic earnings per share	27.23	24.35

Diluted earnings per share		
Weighted average number of ordinary shares attributable to members of the Company	1,078,053,226	1,044,013,116
Weighted maximum number of potential shares as a result of possible conversion	40,185,036	42,677,765
	1,118,238,262	1,086,690,881
	$'000	$'000
Profit after tax for the year attributable to members of the Company	293,503	254,213
Interest and costs on convertible notes (after tax)	9,570	10,027
Adjusted profit after tax attributable to members of the Company	303,073	264,240
	Cents	Cents
Diluted earnings per share	27.11	24.32

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2015 $'000	2014 $'000
Rental expense relating to non-cancellable leases	(534)	(512)
Employee benefit expenses	(9,815)	(9,128)
Depreciation charge	(75)	(130)
Other administration expenses	(4,443)	(4,352)

Employee Benefit Expenses

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

	Short Term Benefits $	Other Long Term benefits $	Post Employment Benefits $	Share Based Payments $	Total $
2015					
Non-Executive Directors	671,007	-	93,993	-	765,000
Executives	3,919,635	158,090	133,783	488,750	4,700,258
Total	4,590,642	158,090	227,776	488,750	5,465,258
2014					
Non-Executive Directors	665,509	-	84,984	-	750,493
Executives	3,973,419	160,734	125,692	433,132	4,692,977
Total	4,638,928	160,734	210,676	433,132	5,443,470

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group does not make loans to Directors or Executives.

B2. Tax

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

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

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

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

Tax Expense

The income tax expense for the period is shown below:

	2015 $'000	2014 $'000
(a) Reconciliation of Income Tax Expense to Prima Facie Tax Payable		
Profit before income tax expense	303,464	260,197
Tax at the Australian tax rate of 30 per cent (2014: 30 per cent)	91,039	78,059
Tax offset for franked dividends	(70,454)	(66,473)
Demerger dividends not taxable	(9,557)	(3,294)
Tax effect of sundry items not taxable in calculating taxable income	(147)	76
	10,881	8,368
Over provision in prior years	(1,021)	(2,464)
Total tax expense	9,860	5,904

Deferred Tax Liabilities – Investment Portfolio

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

	2015 $'000	2014 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	930,152	948,009
Opening balance at 1 July	948,009	751,761
Charged to Income Statement for puttable instruments/non-equity investments	(19)	31
Tax on realised gains	(20,960)	(4,194)
Charged to OCI for ordinary securities on gains or losses for the period	3,122	200,411
	930,152	948,009

B3. Risk

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. As a LIC that invests in tradeable securities, AFIC can never be free of market risk as it invests its capital in securities, which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment portfolio, would lead to a reduction in AFIC's comprehensive income of $224.3 million and $448.7 million respectively, at a tax rate of 30 per cent (2014: $221.3 million and $442.6 million), and a reduction in profit after tax of $93,000 and $187,000 respectively, at a tax rate of 30 per cent (2014: $96,000 and $191,000). The revaluation reserve at 30 June 2015 was $2.15 billion (2014: $2.3 billion). It would require a fall in the value of the investment portfolio of 48 per cent after tax to fully deplete this (2014: 51 per cent).

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

AFIC's investment by sector is as below:

	2015 %	2014 %
Energy	**6.71**	9.34
Materials	**16.66**	17.46
Industrials	**8.07**	8.31
Consumer discretionary	**1.36**	1.10
Consumer staples	**7.97**	9.61
Banks	**29.16**	29.71
Other financials (including property trusts)	**11.23**	10.52
Telecommunications	**5.68**	4.83
Healthcare	**5.92**	3.61
Other – e.g. information technology and utilities	**4.75**	4.43
Cash	**2.49**	1.08

	2015 %	2014 %
Securities representing over 5 per cent of the investment portfolio at 30 June 2015 were:		
Commonwealth Bank	**11.3**	10.8
Westpac	**9.1**	9.8
BHP Billiton	**6.0**	8.1
National Australia Bank	**5.2**	4.9
Telstra	**5.0**	4.5

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings (with the exception of the convertible notes) are short term for a fixed interest rate. The convertible notes were also issued at a fixed interest rate.

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

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

Credit Risk

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

Cash

All cash investments not held in a transactional account are invested in short term deposits with Australia's 'big four' commercial banks or their wholly-owned subsidiaries or in cash management trusts managed by those subsidiaries. In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

Receivables

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

Trading and Investment Portfolios

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

Liquidity Risk

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

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

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

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

	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
30 June 2015					
Non-derivatives					
Payables	10,783	-	-	10,783	10,783
Borrowings	-	-	-	-	-
Convertible notes	-	-	203,568	203,568	202,252
	10,783	-	203,568	214,351	213,035
Derivatives					
Options in trading portfolio[1]	-	-	-	-	1,229
Interest rate swaps	-	-	-	-	-
	-	-	-	-	1,229

	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
30 June 2014					
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					
Options in trading portfolio[1]	1,950	-	-	1,950	1,980
Interest rate swaps	264	-	-	264	281
	2,214	-	-	2,214	2,261

1. In the case of call options, there are no contractual cash flows because 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 (none in 2015) written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow).

C. Unrecognised Items

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

C1. Contingencies

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

ADDITIONAL INFORMATION

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

D. Balance Sheet reconciliations

E. Income Statement reconciliations

F. Other information

D. Balance Sheet Reconciliations

This section provides information about the basis of calculation of line items in the financial statements that the Directors do not consider significant in the context of the Group's operations.

D1. Current Assets – Cash

	2015 $'000	2014 $'000
Cash at bank and in hand (including on-call)	119,772	19,584
Fixed term deposits	44,068	49,500
	163,840	69,084

Cash holdings yielded an average floating interest rate of 2.76 per cent (2014: 3.5 per cent). All cash investments not held in a transactional account or an overnight 'at call' account are invested in short term deposits with Australia's 'big four' commercial banks or their wholly-owned subsidiaries, all rated 'AA-' by S&P, which have a maturity of three months or less or in cash management trusts managed by those subsidiaries (currently rated AAAm).

D2. Credit Facilities

	2015 $'000	2014 $'000
Commonwealth Bank of Australia – cash advance facilities	115,000	165,000
Amount drawn down	0	100,000
Undrawn facilities	115,000	65,000
Westpac Bank – cash advance facilities	35,000	85,000
Amount drawn down	0	0
Undrawn facilities	35,000	85,000
Total short term loan facilities	150,000	250,000
Amount drawn down	0	100,000
Unknown 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.

D3. Convertible Notes

	2015 $'000	2014 $'000
Non-current unsecured – convertible notes at amortised cost	**202,252**	203,779

There were 2,035,676 convertible notes outstanding at 30 June 2015 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 2015, the face value of the convertible notes was $203.6 million (2014: $206 million). Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd.

At issuance the residual value of the equity component of the convertible notes was calculated as nil.

D4. Revaluation Reserve

	2015 $'000	2014 $'000
Opening balance at 1 July	**2,253,053**	1,801,692
Gains/(losses) on investment portfolio		
– Equity instruments	**(23,281)**	665,894
– Puttable/debt instruments (transferred from retained profits)	**(65)**	104
Provision for tax on unrealised gains	**(3,103)**	(200,442)
Cumulative taxable realised (gains)/losses (net of tax)	**(74,149)**	(14,195)
	2,152,455	2,253,053

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

D5. Realised Capital Gains Reserve

	2015 $'000	2014 $'000
Opening balance at 1 July	**317,624**	334,243
Dividends paid	**-**	(30,814)
Cumulative taxable realised gains for period through OCI (net of tax)	**74,149**	14,195
	391,773	317,624

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

D6. Retained Profits

	2015 $'000	2014 $'000
Opening balance at 1 July	**524,319**	465,701
Dividends paid	**(241,486)**	(195,522)
Profit for the year	**293,503**	254,213
Transfer to revaluation reserve (puttable instruments and non-equity investments) (net of tax)	**46**	(73)
	576,382	524,319

This reserve relates to past profits.

D7. Share Capital

(a) Share Capital

	Consolidated and Parent Entity 2015 Shares '000	Consolidated and Parent Entity 2015 $'000	Consolidated and Parent Entity 2014 Shares '000	Consolidated and Parent Entity 2014 $'000
Ordinary shares – fully paid	1,089,844	2,301,238	1,049,055	2,065,017
Less ELTIP shares adjustment	-	(6)	-	(81)
	1,089,844	2,301,232	1,049,055	2,064,936

(b) Movements in Share Capital

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/7/2013	Balance		1,037,326		2,002,350
30/8/2013	Dividend Reinvestment Plan	(i)	5,182	5.64	29,224
30/8/2013	Dividend Substitution Share Plan	(ii)	252	n/a	-
31/8/2013	Convertible note conversion	(iv)	2	5.09	12
4/10/2013	Cancellation of ELTIP shares		(5)	n/a	(27)
21/2/2014	Dividend Reinvestment Plan	(i)	2,874	5.86	16,840
21/2/2014	Dividend Substitution Share Plan	(ii)	151	n/a	-
28/2/2014	Convertible note conversion	(iv)	3,273	5.09	16,648
Various	Costs of issue		-		(30)
30/6/2014	Balance		1,049,055		2,065,017
29/8/2014	Dividend Reinvestment Plan	(i)	4,983	5.93	29,549
29/8/2014	Dividend Substitution Share Plan	(ii)	302	n/a	-
31/8/2014	Convertible note conversion	(iv)	306	5.09	1,558
6/10/2014	Share Purchase Plan	(v)	31,425	5.88	184,671
20/2/2015	Dividend Reinvestment Plan	(i)	3,379	5.97	20,175
20/2/2015	Dividend Substitution Share Plan	(ii)	224	n/a	-
28/2/2015	Convertible note conversion	(iv)	170	5.09	865
Various	Costs of issue		-		(597)
30/6/2015	Balance		1,089,844		2,301,238

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

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

(iii) The Group has an on-market share buy-back program. During the financial year, no shares were bought back (2014: nil).

(iv) See Note D3. 24,230 Feb 2017 convertible notes were converted into shares during the year (2014: 166,605).

(v) During the year, the Group had a SPP. Shareholders were invited to subscribe for $15,000 worth of new shares. Pricing was set at the lower of $5.93 or a 2.5 per cent discount to the VWAP of the shares traded on the five days up to and including the closing date of the offer.

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

E. Income Statement Reconciliations

E1. Reconciliation of Net Cash Flows From Operating Activities to Profit

	2015 $'000	2014 $'000
Profit for the year	293,604	254,293
Fair value movement in puttable instruments	46	(73)
Add back depreciation	75	130
Net decrease/(increase) in trading portfolio	(3,910)	51,999
Dividends received as securities under DRP investments	(3,399)	(11,047)
Decrease/(increase in current receivables	19,699	(13,487)
– Less increase/(decrease) in receivables for investment portfolio	(19,125)	12,707
Increase in deferred tax liabilities	(17,520)	196,716
– Less increase/(decrease) in deferred tax liability on investment portfolio	17,857	(196,248)
Increase/(decrease) in current payables	4,655	(3,206)
– Less decrease/(increase) in payables for investment portfolio	(5,523)	2,554
– Less increase/(decrease) in dividends payable	(62)	(73)
Increase/(decrease) in provision for tax payable	16,631	4,932
Movement in ELTIP account	75	141
Capital gains tax charge taken through equity	(20,960)	(4,194)
Increase/(decrease) in other provisions/non-cash items (including convertible note expenses)	1,512	(773)
Net cash flows from operating activities	283,655	294,371

E2. Tax Reconciliations

Tax Expense Composition

	2015 $'000	2014 $'000
Charge for tax payable relating to the current year	10,563	7,869
Over provision in prior years	(1,021)	(2,464)
Increase/(decrease) in deferred tax liabilities – investment portfolio	(19)	31
Decrease in deferred tax assets	337	468
	9,860	5,904

Amounts Recognised Directly Through Other Comprehensive Income

Net increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	3,122	200,411
	3,122	200,411

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2015 $'000	2014 $'000
(a) Tax on unrealised gains in the trading portfolio	(261)	(99)
(b) Provisions and expenses charged to the accounting profit that are not yet tax deductible	1,553	1,375
(c) Interest and dividend income receivable that is not assessable for tax until receipt	(765)	(412)
	527	864

Movements:		
Opening asset balance at 1 July	864	1,332
Credited/(charged) to Income Statement	(337)	(468)
	527	864

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

The portion of deferred tax liability likely to be reversed within the next 12 months is $1 million (2014: $0.5 million). This relates primarily to items described in items (a) and (c) above.

F. Other Information

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

F1. Related Parties

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

(a) Arrangements With Non-Executive Directors

Non-Executive Directors John Paterson 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 $47,247 (2014: $59,542).

(b) AICS Transactions With Minority Interests

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

	2015 $'000	2014 $'000
Administration expenses charged for the year	2,274	2,234

(c) AICS Transactions With Other Listed Investment Companies

AICS had the following transactions with other LICs to which it provides services:

Administration expenses charged for the year to Mirrabooka Investments Ltd	1,398	1,310
Administration expenses charged for the year to AMCIL Ltd	768	717

F2. Remuneration of Auditors

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

	2015 $	2014 $
PricewaterhouseCoopers		
Audit or review of financial reports	**239,964**	207,470
AFSL compliance audit and review	**9,925**	9,683
Non-audit services		
Taxation compliance services	**37,868**	36,970
Total remuneration	**287,757**	254,123

F3. Segment Reporting

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

Description of Segments

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

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

Segment Information Provided to the Board

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

Other Segment Information

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

AFIC is domiciled in Australia and most of AFIC's income is derived from Australian entities or entities that maintain a listing in Australia. AFIC has a diversified portfolio of investments, with only three investments comprising more than 10 per cent of AFIC's income, including realised income from the trading and options written portfolios – BHP Billiton (15.9 per cent – including $31.9 million (9.5 per cent of income) of demerger dividend from the demerger of South32), Commonwealth Bank (10.6 per cent) and Westpac Bank (10.1 per cent).

F4. Summary of Significant Accounting Policies Not Previously Disclosed

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

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

Phrase	AASB Terminology
Market value	Fair value for actively traded securities
Cash	Cash and cash equivalents
Share capital	Contributed equity
Options	Derivatives written over equity instruments that are valued at fair value through profit or loss
Hybrids	Equity instruments that have some of the characteristics of debt

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

AFIC has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2015 ('the inoperative standards') except for AASB 9 (2009), which was adopted on 7 December 2009. The impact of the inoperative standards has been assessed and the impact has been identified as not being material. AFIC only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

Basis of Accounting

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

Fair Value of Financial Assets and Liabilities

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

Convertible Notes

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

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

Employee Benefits

(i) Wages, Salaries and Annual Leave

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

(ii) Long Service Leave

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

(iii) Cash Incentives

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

(iv) Share Incentives

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

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

For the Investment Team Long Term Incentive Plan, the incentives are based on the performance of the Group and investment companies to which the Group provides administration services over a four year period. The incentives may be settled in shares (but based on a cash amount) or cash. 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 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 four 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 and loss account in the following manner – 25 per cent of the total estimated cost in year one, 50 per cent of the total estimated cost in year two less the expense charged in year one, 75 per cent of the total estimated cost in year three less the expense charged in years one and two, and 100 per cent of the total estimated cost in year four less the expense charged in years one, two and three.

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.
- 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.

Directors' Retirement Allowances

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

Administration Fees

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

Operating Leases

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

Rounding of Amounts

AFIC is a company of the kind referred to in Class Order 98/0100, 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.

F5. Performance Bond

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

F6. Share Based Payments

Share Based Payments

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

(a) Executive Incentive Plans

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

(i) Senior Executive Annual Incentive Plan

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 per cent 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.

22,452 shares (2014: 22,859 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $135,685 (2014: $131,877).

(ii) Senior 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 TSR and the 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 the Remuneration Report.

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

The expense will be charged in accordance with AASB 2 directly through the Group's profit and loss account in the following manner – 25 per cent of the total estimated cost in year one, 50 per cent of the total estimated cost in year two less the expense charged in year one, 75 per cent of the total estimated cost in year three less the expense charged in years one and two, and 100 per cent of the total estimated cost in year four less the expense charged in years one, two and three.

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.

67,009 rights were awarded under the plan during the year ended 30 June 2015 (2014: 74,223). An expense of $413,846 (2014: $299,884) was incurred.

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

2015 Award Date	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
August 2010	August 2014 – August 2015	48,700	-	30,434	-	18,266
August 2011	August 2015 – August 2016	66,845	-	-	-	66,845
Total		115,545	-	30,434	-	85,111

2014 Award Date	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
August 2008	August 2012 – August 2013	5,112	-	-	5,112	-
October 2009	October 2013 – October 2014	39,502	-	39,502	-	-
August 2010	August 2014 – August 2015	48,700	-	-	-	48,700
August 2011	August 2015 – August 2016	66,845	-	-	-	66,845
Total		160,159	-	39,502	5,112	115,545

(iii) Investment Team Long Term Incentive Plan

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

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

$371,859 under this plan vested in the period (2014: $415,657) and was paid in cash.

(b) Employee Share Acquisition Scheme

Under the current Employee Share Acquisition Scheme, each employee who is not a participant in the Senior Executive or investment team incentive plans is awarded $5,000 per annum. After PAYG is deducted, $2,500 is used to buy shares in the Company, which 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. During the financial year, 3,216 shares were purchased under this scheme at an average price of $6.21.

(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:

	2015 $'000	2014 $'000
Share based payment expense	**529**	458

(d) Liability

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

F7. Lease Commitments

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

	2015 $'000	2014 $'000
Due within one year	**563**	563
Later than one year but less than five	**-**	563
Greater than five years	**-**	-
	563	1,126

F8. Principles of Consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent, and its subsidiary, AICS. 25 per cent of AICS is owned by Djerriwarrh Investments Ltd, another investment company for which AICS performs operational and investment services, and for which it is paid monthly.

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

The financial information for the parent entity, disclosed in F9 below, has been prepared on the same basis as the consolidated financial statements. All notes are for the consolidated group unless specifically noted otherwise.

F9. Subsidiaries

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

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2015	Equity Holding 2014
Australian Investment Company Services Ltd	Australia	Ordinary	75%	75%

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

F10. Parent Entity Financial Information

Summary Financial Information

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

	2015 $'000	2014 $'000
Balance Sheet		
Current assets	204,211	128,376
Total assets	6,616,668	6,454,712
Current liabilities	40,486	121,636
Total liabilities	1,173,929	1,273,866
Shareholders' equity		
Issued capital	2,301,232	2,064,936
Reserves		
Revaluation reserve	2,152,455	2,253,053
Realised capital gains reserve	391,773	317,624
General reserve	23,637	23,637
Interest rate hedging reserve	-	(281)
Retained earnings	573,642	521,877
	3,141,507	3,115,910
Total shareholders' equity	5,442,739	5,180,846
Profit or loss for the year	293,200	253,973
Total comprehensive income	267,078	720,668

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 37 to 66 are in accordance with the *Corporations Act 2001* including:

(a) complying with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) giving a true and fair view of the entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note F4 to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and the Chief Financial Officer regarding the financial statements in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2015.

The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer to the best of their knowledge, the financial records of the Company have been properly maintained, that the financial statements comply with accounting standards and that they give a true and fair view.

Terrence Campbell AO
Chairman

Melbourne
20 July 2015

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 consolidated balance sheet as at 30 June 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 F, 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
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pwc

Auditor's opinion

In our opinion:

(a) 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 2015 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*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note F.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
20 July 2015

INFORMATION ABOUT SHAREHOLDERS AND NOTEHOLDERS

At 17 July 2015 there were 107,774 holdings of ordinary shares and 4,184 holders of December 2011 6.25 per cent unsecured convertible notes. These holdings were distributed in the following categories:

Size of Holding	Shareholdings	Noteholdings
1 to 1,000	26,816	3,900
1,001 to 5,000	37,701	245
5,001 to 10,000	18,483	28
10,001 to 100,000	23,785	11
100,000 and over	989	0
Total	107,774	4,184

Percentage held by the 20 largest holders	5.43%	14.66%
Average holding	10,112	486

There were 2,356 shareholdings of less than a marketable parcel of $500 (80 shares).

There were 2 noteholdings of less than a marketable parcel of $500 (5 notes).

Voting Rights of Ordinary Shares

The Constitution provides for votes to be cast:

(i) on a show of hands, one vote for each shareholder; and

(ii) on a poll, one vote for each fully paid ordinary share.

Voting Rights of Convertible Notes

Noteholders have certain rights to vote at meetings of noteholders but are not entitled to vote at general meetings, unless provided for by the ASX Listing Rules or the Corporations Act.

Major Shareholders

The 20 largest registered holdings of ordinary shares and unsecured convertible notes as at 17 July 2015 are listed below:

Ordinary Shares	Shares Held	%
Questor Financial Services Limited <TPS RF A/C>	6,315,952	0.58
Bougainville Copper Limited	5,025,000	0.46
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	4,836,305	0.44
Navigator Australia Ltd <MLC Investment Sett A/C>	4,254,412	0.39
National Nominees Limited	3,721,823	0.34
HSBC Custody Nominees (Australia) Limited	3,357,269	0.31
Custodial Services Limited <Beneficiaries Holding A/C>	3,184,671	0.29
Trustees of The Redemptorist Fathers	2,878,000	0.26
Bruce Teele	2,641,301	0.24
Invia Custodian Pty Limited <RISF A/C>	2,520,569	0.23
Bushways Pty Ltd	2,513,399	0.23
Investment Custodial Services Limited <C A/C>	2,439,281	0.22
Investment Custodial Services Limited <C A/C>	2,403,081	0.22
Citicorp Nominees Pty Limited	2,274,699	0.21
Netwealth Investments Limited <Wrap Services A/C>	2,232,992	0.20
New Zealand Central Securities Depository Limited	1,919,149	0.18
Kalymna Pty Ltd	1,852,186	0.17
UBS Wealth Management Australia Nominees Pty Ltd	1,765,591	0.16
Questor Financial Services Limited <TPS PIP A/C>	1,639,795	0.15
Twibill Pty Ltd	1,440,493	0.13

Unsecured Convertible Notes – (December 2011, 6.25 per cent)	Units Held	%
UBS Nominees Pty Ltd	32,810	1.61
J P Morgan Nominees Australia Limited	27,172	1.33
Custodial Services Limited <Beneficiaries Holding A/C>	25,604	1.26
HSBC Custody Nominees (Australia) Limited	22,192	1.09
Netwealth Investments Limited <Super Services A/C>	21,228	1.04
Netwealth Investments Limited <Wrap Services A/C>	20,831	1.02
Questor Financial Services Limited <TPS RF A/C>	16,260	0.80
National Nominees Limited	14,071	0.69
Invia Custodian Pty Limited <Grattan Inst/Cth Fund A/C>	11,968	0.59
Invia Custodian Pty Limited <Grattan Inst/General Fd A/C>	11,942	0.59
Hedgewick Pty Ltd	11,000	0.54
Invia Custodian Pty Limited <RISF A/C>	10,000	0.49
Wintol Pty Ltd <G & P Burg Super Fund A/C>	10,000	0.49
Company B Ltd	9,831	0.48
The Beach Retreat Pty Ltd <Rob Noble Super Fund A/C>	9,745	0.48
UBS Wealth Management Australia Nominees Pty Ltd	9,110	0.45
Koornala Pty Ltd <Yahalom SF A/C>	8,874	0.44
HSBC Custody Nominees (Australia) Limited – A/C 2	8,800	0.43
Nabe Pty Ltd <The Glass A/C>	8,500	0.42
The Wyatt Benevolent Institution Inc	8,500	0.42

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
Federation Centres[(a)]	46,414
South32[(b)]	31,339
Healthscope	19,667
CSL	16,205
AGL Energy[(c)]	11,183
Japara Healthcare	10,494
Regis Healthcare	10,065

Disposals (Above $10 Million)	Proceeds $'000
Toll Holdings[(d)]	73,269
Novion Property Group[(e)]	46,414
Bradken	10,437

(a) As consideration for the merger with Novion Property Group.

(b) As a result of the demerger of BHP Billiton.

(c) 1 for 5 rights issue at $11.00 per share.

(d) Takeover by Japan Post Co. Ltd.

(e) Merger with Federation Centres.

MAJOR TRANSACTIONS IN THE BUY AND WRITE PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
National Australia Bank[f]	24,895
CSL	11,851
Asciano	11,509

Disposals (Above $10 Million)	Proceeds $'000
Telstra (from the exercise of call options)	15,017
CSL (from the exercise of call options)	12,551
Transurban Group (mostly from the exercise of call options)	11,171
Suncorp Group (mostly from the exercise of call options)	10,877
National Australia Bank ($7 million from the exercise of call options)	10,414

(f) Includes $21.5 million from 2 for 25 rights issue at $28.50 per share.

SUB-UNDERWRITING

Company	Underwritten by	Description	Amount Underwritten
National Australia Bank	Macquarie Capital (Australia) Limited, Merrill Lynch Equities (Australia Limited) and Morgan Stanley Australia Securities Limited	Accelerated renounceable entitlement offer of two new shares for every existing 25 shares (2 for 25)	$8,333,343
ARB Corporation	Taylor Collison Limited	ARB Dividend Reinvestment Plan and ARB Bonus Share Plan	$6,500,000

SUBSTANTIAL SHAREHOLDERS

The Company has not been notified of any substantial shareholders.

TRANSACTIONS IN SECURITIES

During the year ended 30 June 2015, the Company recorded 907 transactions in securities. $1,062,250 in brokerage (including GST) was paid or accrued for the year.

HOLDINGS OF SECURITIES

As at 30 June 2015

Individual investments for the combined investment and trading portfolios as at 30 June 2015 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the ASX each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

Individual holdings in the portfolios may change during the course of the year. In addition, holdings that are part of the trading portfolio may be subject to call options or sale commitments, by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
AGL	AGL Energy	5,083	6,100	94,852
AHD	Amalgamated Holdings	775	1,030	12,919
AIA	Auckland International Airport	1,170	1,170	5,125
AIO*	Asciano	2,810	4,855	31,777
ALQ	ALS	4,826	4,942	28,913
AMC	Amcor	12,864	12,864	176,496
AMP	AMP	20,100	20,100	121,005
ANN	Ansell	1,284	1,284	30,928
ANZ	Australia and New Zealand Banking Group	8,488	8,488	273,304
APA	APA Group	11,643	10,340	85,202
APE	AP Eagers	325	769	7,194
ARB	ARB Corporation	583	948	12,353
ASH	Ashley Services Group	0	4,819	2,867
ASX	ASX	550	459	18,302
AWC	Alumina	14,323	14,323	21,914
AZJ*	Aurizon Holdings	2,980	2,480	12,700
BGA	Bega Cheese	2,203	2,203	9,538
BHP*	BHP Billiton	14,221	14,221	384,632
BKL	Blackmores	36	36	2,725
BKN	Bradken	6,000	1,576	2,261
BKW	Brickworks	1,503	1,503	20,741
BLD	Boral	4,008	4,008	23,450
BXB	Brambles	11,174	11,174	118,439
CAJ	Capitol Health	0	9,905	7,577
CBA	Commonwealth Bank of Australia	8,483	8,483	722,149
CCL	Coca-Cola Amatil	5,160	5,160	47,214

HOLDINGS OF SECURITIES continued
As at 30 June 2015

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
CPU	Computershare	8,156	8,156	95,511
CSL*	CSL	1,002	1,172	101,239
CSR	CSR	2,492	2,492	9,072
CTX	Caltex Australia	655	605	19,269
CVO	Cover-More Group	0	4,737	11,275
CWP	Cedar Woods Properties	4,060	3,859	20,299
DJW	Djerriwarrh Investments	8,597	8,597	40,318
DLX	DuluxGroup	2,556	2,556	14,621
DUI	Diversified United Investment	12,030	12,030	42,226
EHE	Estia Health	0	952	5,709
EQT	Equity Trustees	1,456	1,488	30,345
FBU	Fletcher Building	1,115	1,115	8,040
FDC*	Federation Centres	0	17,378	50,739
FLT	Flight Centre Travel Group	131	241	8,219
FOX	Twenty-First Century Fox	459	459	19,443
FPH	Fisher & Paykel Healthcare	800	1,706	10,390
HSO	Healthscope	0	7,885	21,446
IAG	Insurance Australia Group	4,255	3,500	19,531
ICQ	iCar Asia	2,855	4,155	2,929
ILU	Iluka Resources	2,367	2,367	18,179
IPL	Incitec Pivot	22,209	22,029	84,813
IPP	iProperty Group	4,488	5,326	12,783
IRE	IRESS	2,709	2,709	27,419
IVC	InvoCare	1,279	1,150	13,915
JHC	Japara Healthcare	6,000	10,393	26,710
JHX	James Hardie Industries	1,150	1,350	23,382
LIC	Lifestyle Communities	2,659	4,293	10,475

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
MIR	Mirrabooka Investments	8,728	8,728	22,692
MLT	Milton Corporation	14,403	14,403	64,813
MQA*	Macquarie Atlas Roads Group	0	1,000	3,169
NAB	National Australia Bank	9,543	10,097	336,345
ORA	Orora	12,864	12,864	26,886
ORG	Origin Energy	7,187	6,957	83,280
ORI	Orica	2,712	2,712	57,703
OSH*	Oil Search	16,483	16,783	119,622
PHG	Pulse Health	3,933	7,967	4,541
PPT	Perpetual	1,031	1,031	49,863
QBE*	QBE Insurance Group	7,796	8,290	113,288
QUB	Qube Holdings	12,118	13,451	31,610
REC	Recall Holdings	2,235	2,235	15,487
REG	Regis Healthcare	0	2,666	13,755
RHC	Ramsay Health Care	1,360	1,360	83,599
RIO	Rio Tinto	3,652	3,652	196,282
RMD	ResMed	2,200	2,700	19,629
S32*	South32	0	17,721	31,580
SAI	SAI Global	2,500	2,500	10,425
SCG	Scentre Group	11,437	11,437	42,888
SEK*	Seek	1,045	1,600	22,365
SGM*	Sims Metal Management	0	700	7,264
SHL	Sonic Healthcare	1,825	2,020	43,167
SOL	Washington H Soul Pattinson	1,709	1,709	22,963
SRX	Sirtex Medical	0	220	6,391
STO	Santos	8,178	8,037	62,927
SUN*	Suncorp Group	2,260	1,740	23,299

HOLDINGS OF SECURITIES continued
As at 30 June 2015

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
SXY	Senex Energy	46,717	46,467	13,011
SYD	Sydney Airport	6,782	6,782	33,774
TCL	Transurban Group	19,795	18,335	170,518
TGG	Templeton Global Growth Fund	9,685	12,106	15,798
TLS	Telstra Corporation	55,095	52,445	322,012
TOX	Tox Free Solutions	10,661	10,661	32,197
TPM	TPG Telecom	3,597	4,677	41,950
TWE	Treasury Wine Estates	3,258	3,258	16,255
VED	Veda Group	0	4,100	9,102
VOC	Vocus Communications	466	1,725	9,951
WBC	Westpac Banking Corporation	18,236	18,236	586,295
WES	Wesfarmers	7,553	7,423	289,703
WFD	Westfield Corporation	4,243	4,243	38,692
WOR	WorleyParsons	310	310	3,227
WOW	Woolworths	6,314	6,000	161,760
WPL*	Woodside Petroleum	3,283	3,413	116,768
Total				6,399,719

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

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
PPCG	Peet 9.5% convertible notes	26	26	2,665
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	115	11,788
Total				14,453

ISSUES OF SECURITIES

Date of Issue	Type	Price	Remarks
20 February 2015	DRP/DSSP	$5.97	2.5 per cent discount
6 October 2014	SPP	$5.88	2.5 per cent discount
29 August 2014	DRP/DSSP	$5.93	2.5 per cent discount
21 February 2014	DRP/DSSP	$5.86	2.5 per cent discount
30 August 2013	DRP/DSSP	$5.64	2.5 per cent discount DSSP = Dividend Substitution Share Plan
22 February 2013	DRP	$5.37	
31 August 2012	DRP	$4.36	
24 February 2012	DRP	$4.26	
19 December 2011	Convertible notes	$100 face value	Mature 28 February 2017. Interest rate 6.25 per cent per annum. Conversion price: $5.0864
31 August 2011	DRP	$4.18	
25 February 2011	DRP	$4.72	2.5 per cent discount
1 September 2010	DRP	$4.65	2.5 per cent discount
2 June 2010	SPP	$4.62	2.5 per cent discount. SPP = Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 rights issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

* Note for issues of securities in earlier years, please consult the Company's website, afi.com.au or via telephone (03) 9650 9911.

COMPANY PARTICULARS

Australian Foundation Investment Company Limited (AFIC)
ABN 56 004 147 120

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

Company Secretaries
Simon M Pordage
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office and Mailing Address
Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

Telephone	(03) 9650 9911
Facsimile	(03) 9650 9100
Email	invest@afi.com.au
Website	afi.com.au

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

Telephone	1800 780 784 (toll free)

Share Registrar
Australia
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

New Zealand
Computershare Investor Services Pty Ltd
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder Enquiry Lines	1300 662 270 (Australia) 0800 333 501 (from New Zealand) +61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com.au/contact

For all enquiries relating to shareholdings, noteholdings, dividends and related matters, please contact the Share Registrar as above.

Australian and New Zealand Securities Exchange Codes

AFI	Ordinary shares (ASX and NZX)
AFIG	Unsecured convertible notes (ASX)

SHAREHOLDER MEETINGS

Annual General Meeting

Time	10.00am
Date	Wednesday 7 October 2015
Venue	RACV City Club
Location	501 Bourke Street Melbourne

Brisbane Shareholder Meeting

Time	10.00am
Date	Friday 9 October 2015
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

Adelaide Shareholder Meeting

Time	10.00am
Date	Monday 12 October 2015
Venue	Adelaide Festival Centre
Location	King William Road Adelaide

Sydney Shareholder Meeting

Time	10.00am
Date	Monday 19 October 2015
Venue	Four Seasons Hotel
Location	199 George Street Sydney

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

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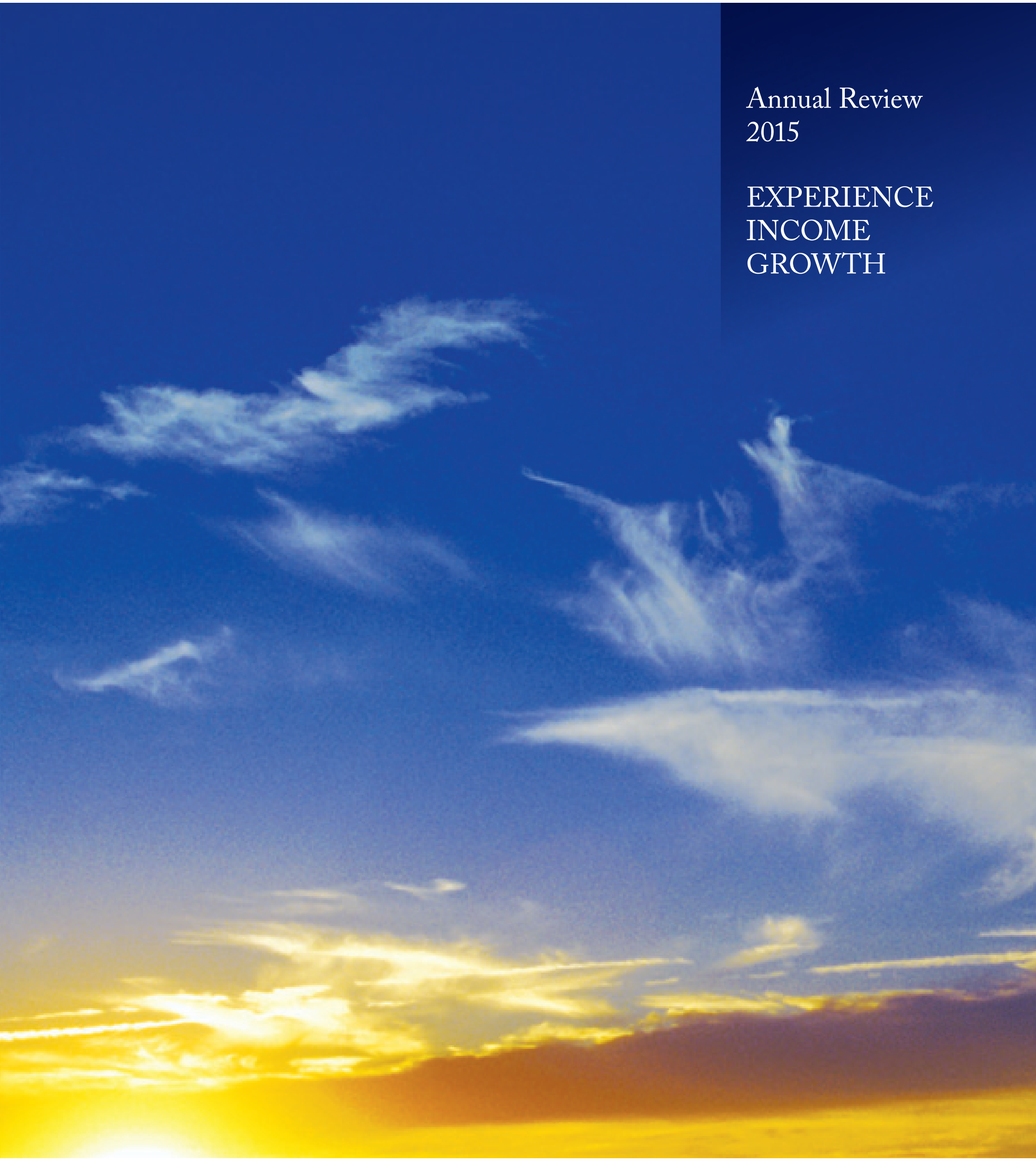


Annual Review 2015

EXPERIENCE
INCOME
GROWTH

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

The Company's primary investment goals are:

- To pay dividends which, over time, grow faster than the rate of inflation.
- To provide attractive total returns over the medium to long term.

CONTENTS

The Company aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

YEAR IN SUMMARY

PROFIT FOR THE YEAR

$293.6m

▲ Up 15.5% from 2014

TOTAL SHAREHOLDER RETURN

+2.8%

Share price plus dividend

FULLY FRANKED DIVIDENDS

14¢ Final

23¢ Total

▲ Up 1 cent up from 2014

MANAGEMENT EXPENSE RATIO

0.16%

0.17% in 2014

TOTAL PORTFOLIO RETURN

+3.9%

S&P/ASX 200 Accumulation Index +5.7%

TOTAL PORTFOLIO

$6.6b Including cash at 30 June

$6.4 billion in 2014

REVIEW OF OPERATIONS AND ACTIVITIES

Profit

Profit for the year to 30 June 2015 was $293.6 million, up 15.5 per cent from $254.3 million in the corresponding period last year. The profit figure this year includes a non-cash dividend of $31.9 million received as a result of the demerger of South32 from BHP Billiton. Last year's figure included $11.0 million of demerger dividends from Amcor and Brambles.

Income from investments (excluding demerger dividends), which consists primarily of franked dividend income, was up 8 per cent over the year. The trading portfolio contributed $8.4 million compared to $9.9 million last year.

Earnings per share for the year were 27.2 cents per share compared with 24.4 cents per share last year.

Dividends

The Company has maintained its final dividend at 14 cents per share fully franked, bringing total dividends for the year to 23 cents per share fully franked, an increase of 1 cent from 22 cents last year. The Board notes the profit result provides scope to increase the dividend. Based on expectations, the Board currently intends to apply a 1 cent increase to the interim dividend to be paid in February 2016 to further rebalance the interim and final dividends.

Dividend Imputation

As shareholders may be aware there has recently been significant commentary about the dividend imputation system. The Tax Discussion Paper issued by the Australian Treasury in March 2015 posed a number of questions about the Australian taxation system. Specifically the following questions outlined in the discussion paper relating to dividend Imputation were: 'Is the dividend imputation system continuing to serve Australia well as our economy becomes increasingly open? Could the taxation of dividends be improved?'.

AFIC has made a submission to the Tax Discussion Paper. In it we strongly argued that the current imputation system, which avoids the double taxation of corporate profits in the hands of investors, is desirable and has served the Australian capital market very well. The system results in Australian investors being taxed at their marginal rate on the underlying company income by being given a tax credit for the company tax already paid. We believe this to be an equitable system for investors.

In addition, by making the taxation on equity tax neutral with that of debt via the imputation system, Australia reduces the cost of equity for Australian investors. This lowering has led to Australian corporates becoming less geared, and thus less risky, further increasing their relative value to both foreign and domestic investors. We believe that for most companies the imputation system has placed an appropriate discipline on the balance between them paying out dividends and the use of capital for expansion.

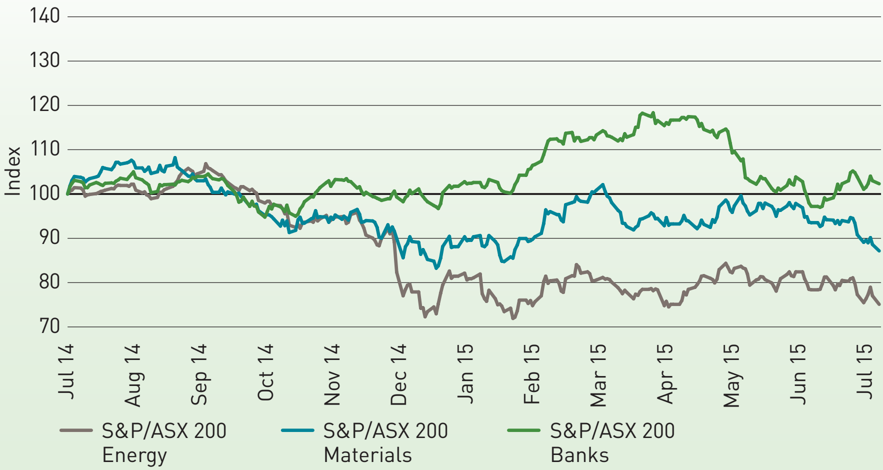
We also suggested the imputation system is well understood and appreciated. It has been central to the health and robustness of the Australian equity market and superannuation system. As a result, any changes would have a significant impact on Australian investors. This is likely to have a negative effect on confidence, which may impact the broader economy.

AFIC's full submission to the Tax Discussion Paper is available on the Company's website.

Market and Portfolio Performance

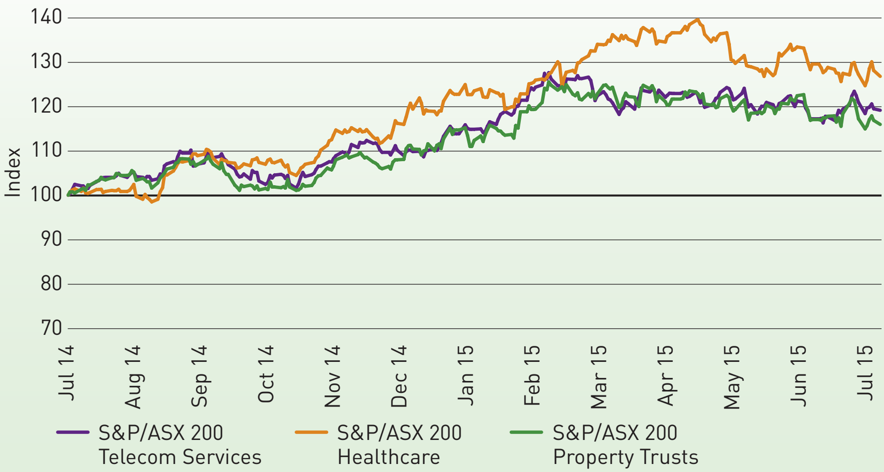
Figures 1 and 2 highlight the relative performance of different sectors of the market over the financial year. The banks, until recently, and the property trust sector have been the beneficiary of investor attraction to yield. Materials and energy have clearly been impacted by the marked fall in commodity and energy prices. Finally companies in attractive and growing industry segments, such as healthcare and telecommunications services, also generated strong returns. It should be noted AFIC is not typically a large investor in the property trusts given the absence of franking in the dividends and the historical long term underperformance of this sector relative to industrial companies.

Figure 1: Relative performance of energy, materials and banking sectors in the market



Source: FactSet

Figure 2: Relative performance of telecom services, healthcare and property trust sectors in the market



Source: FactSet

REVIEW OF OPERATIONS AND ACTIVITIES
continued

AFIC's portfolio return for the 12 months to 30 June 2015 was 3.9 per cent compared with the S&P/ASX 200 Accumulation Index of 5.7 per cent. The 10 year return for AFIC, which is consistent with its approach as a long term investor, was 7.9 per cent per annum versus the Index return of 7.1 per cent per annum. AFIC's performance numbers are after expenses and tax paid. It should also be noted that Index returns for the market do not include the impact of management expenses and tax on their performance.

The most significant contributors to AFIC's portfolio performance by value over the year were Commonwealth Bank, Telstra, Amcor, Transurban and Toll Holdings as a result of it being taken over by Japan Post.

Holdings with the biggest negative impact on AFIC's portfolio performance were companies in the energy and resource sectors, including those companies exposed to these sectors such as Bradken and ALS Limited, as did the performance of Woolworths in the second half of the year. The underweight position in property trusts and to some extent the underweight position in healthcare, in particular CSL, also had a negative impact on relative performance.

The generation of fully franked income is one of the key aspects of AFIC's investment approach. As an indication of the importance of franking to returns it is useful to look at performance, including the benefit of franking credits. The total portfolio return for one year, including dividends paid and the full benefit of franking credits, was 5.6 per cent. This compares with the S&P/ASX 200 Accumulation Index calculated on the same basis which was 6.8 per cent. The comparable 10 year return for the portfolio was 9.8 per cent per annum against the benchmark return of 8.5 per cent per annum.

Share Price Performance

The share price underperformed the portfolio return as the share price premium to the net asset backing (before tax on unrealised gains) fell from 5.8 per cent to 4.6 per cent over the course of the financial year. Importantly the share price over the long term has also performed well with this return aligned to the longer term portfolio returns.

Figure 3: Portfolio and share price performance to 30 June 2015

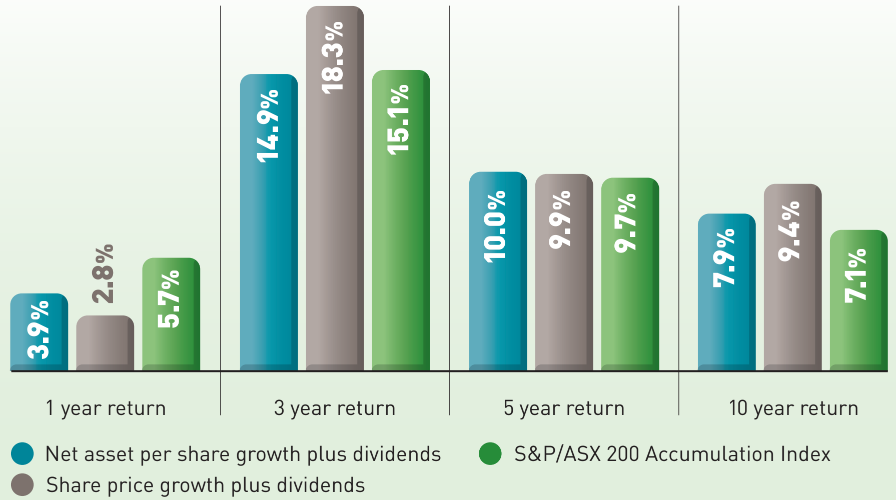
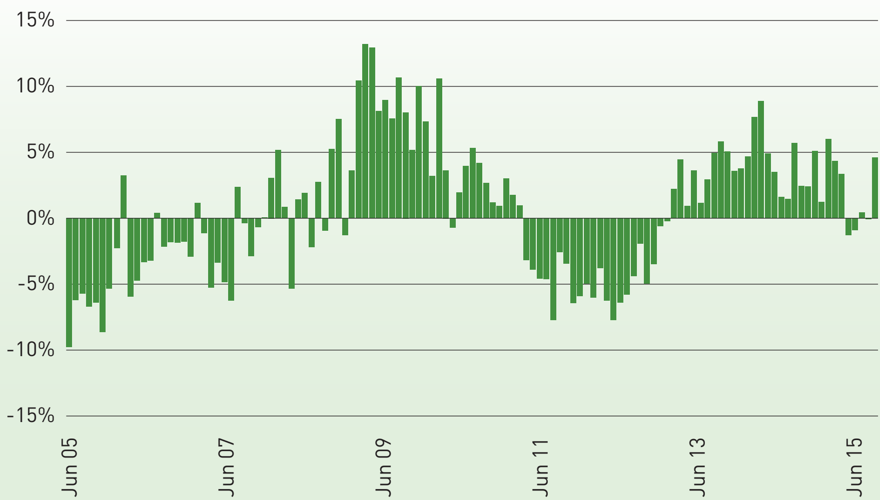


Figure 4: Share price premium/discount to net asset backing



REVIEW OF OPERATIONS AND ACTIVITIES
continued

Figure 5 outlines the benefit of compound returns and the value of AFIC's investment approach. It shows the total share price return (including dividends and the full benefit of franking credits) from an investment of $1,000 in AFIC shares over a 10 year period relative to the return from the S&P/ASX 200 Accumulation Index, including franking credits.

Investment Portfolio Activity

AFIC is a long term investor. Its particular interest is in companies that can deliver long term value and share their prosperity by growing dividends over time. Given extremely low interest rates, significant investor interest has also been in companies with good dividend yields driving those share prices to high levels for most of the year. Companies delivering reliable earnings growth also tended to trade at very high price earnings ratios (P/E ratio). Given these high valuations for most of the year it has been challenging to find value.

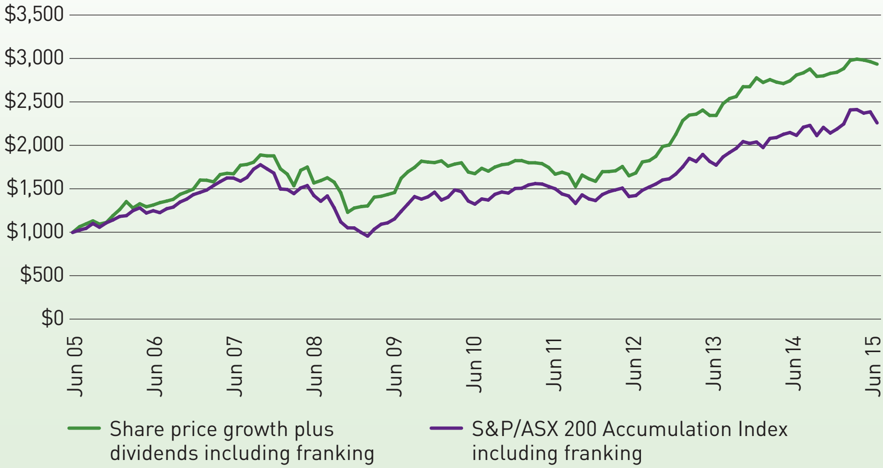
As a result, our primary investment interest this year has been to broaden the portfolio, including building particular areas in the portfolio such as Health and Aged Care and adding some smaller companies, including participation in selected initial public offerings (IPOs).

Major purchases in the investment portfolio included CSL and AGL (through its rights issue). Federation Centres was introduced to the portfolio during the year, with this holding further increased as a result of the merger with Novion Property Group. Other new companies added to the portfolio included Healthscope (via its IPO), Cover-More Group, Veda Group, Regis Healthcare (via its IPO) and Sims Metal Management.

Details of the new stocks added during year are:

- Federation Centres (following the merger between Federation Centres and Novion Property Group on 11 June 2015) is one of Australia's largest owners and managers of shopping centres. The group's portfolio of assets ranges from large super-regional malls to direct factory outlets, smaller convenience and neighbourhood centres across Australia.
- Healthscope is one of Australia's leading private healthcare operators, providing services through the operation of private hospitals and medical centres in Australia.
- Cover-More Group is a specialist and integrated travel insurance and medical assistance provider. The company holds the leading market position in Australia, with over 40 per cent market share through 25,000 active agents. It is also steadily growing its footprint in Asia. Cover-More was established in 1986 and listed on the ASX in December 2013.

Figure 5: Ten year performance of an investment of $1,000 in AFIC shares including dividends and the full benefit of franking



Note: Assumes the reinvestment of dividends. This chart calculates the benefit of franking credits at the time dividends are paid for both AFIC and the Index. In practice there is a timing difference between receipt of the dividend and the realisation of the franking benefit in the following tax year.

- Veda Group is the largest credit reference agency in Australia and New Zealand. It provides credit reporting, credit scoring and marketing analytics services.
- Regis Healthcare is one of the largest and most geographically diversified private Australian residential aged care providers, operating a large portfolio of high quality aged care facilities. Regis was formed in the early 1990s and listed on the ASX in October 2014.
- Sims Metal Management is the leading metals and electronics recycling company in the world. The company specialises in ferrous and non-ferrous metals recycling, post-consumer electronic goods recycling, and municipal waste recycling. Its primary operations are located in the United States, Australia and the United Kingdom.

The largest sales resulted from the takeover of Toll Holdings by Japan Post and activity in the Company's small buy and write portfolio, which led to the exercise of call options in Telstra, CSL, Transurban and Suncorp.

Overall purchases for the year totalled $377.1 million, with sales totalling $262.1 million.

Figure 6 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year. In comparison to last year there has been an increase in portfolio weightings in Healthcare (up from 3.6 per cent last year) and Telecom Services (up from 4.8 per cent last year) sectors. There was also an increase in cash to 2.5 per cent from 1.1 per cent at the end of last year. The biggest reduction was in Energy (down from 9.3 per cent last year) as the fall in oil price over the year impacted the share prices of companies in this sector.

Outlook

The expectation is that low interest rates will be a feature of global markets for some time. In the more immediate term it is likely there will be periods of volatility as concerns arise about the risks in Europe, China and as adjustments are made over time to monetary policy settings by the Federal Reserve in the United States. However, the low interest rate environment in Australia is likely to provide underlying support to the market even in light of these other factors, which may produce some setbacks.

Figure 7 reinforces the attractiveness of equity yields when compared to 10 year government bond yields. The gap between equity yields and 10 year government bond yields remains high in response to subdued growth, low inflation and monetary policy.

The P/E ratio shows how much investors are willing to pay per dollar of earnings growth.

However, given the current environment in Australia where earnings growth is likely to be subdued as a result of current economic settings, it is evident that investors are also willing to pay above average P/E ratios given the low interest rates. As a result, the market is at the upper end of valuation levels despite recent falls.

Figure 6: Investment by sector as at 30 June 2015

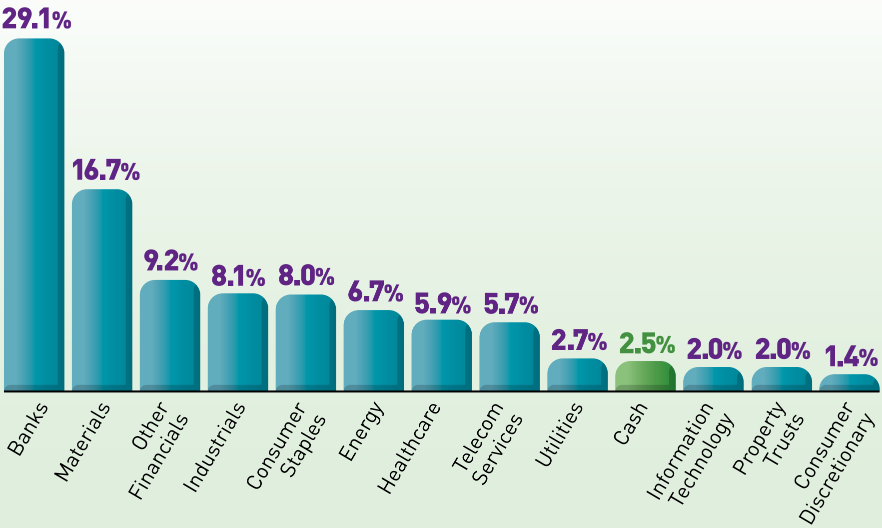
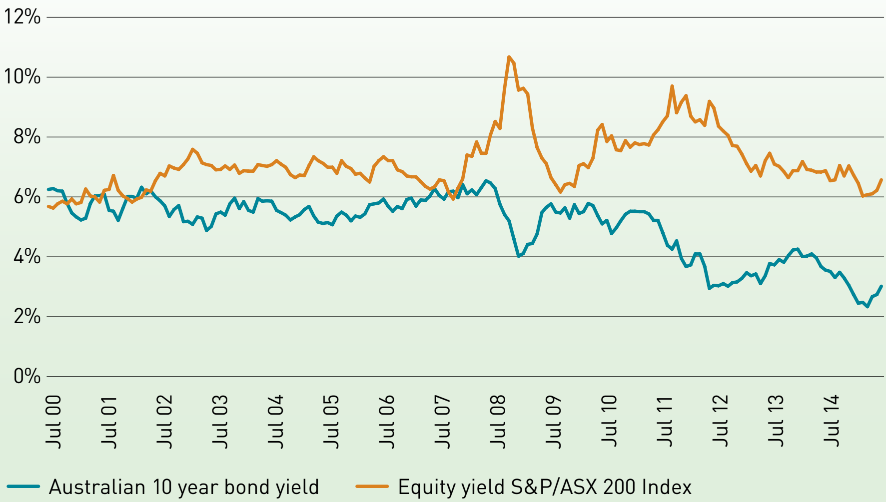


Figure 7: Australian equity yields versus 10 year government bond yields



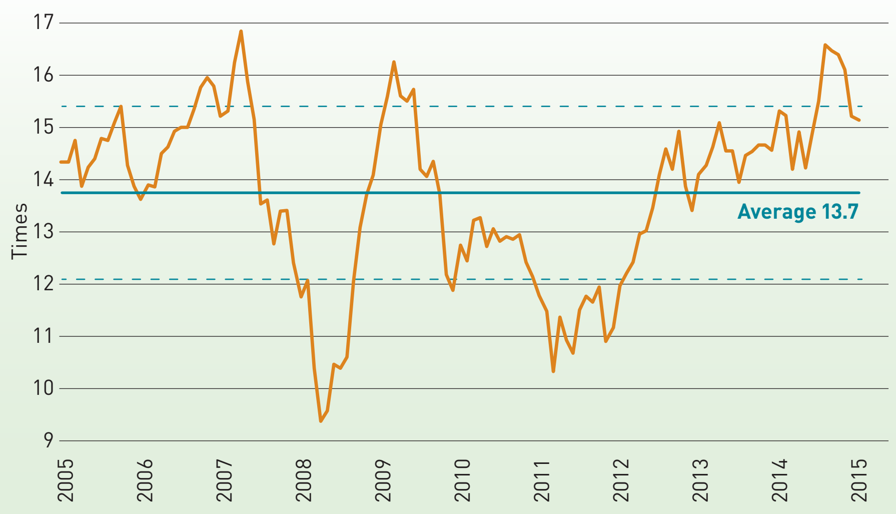
REVIEW OF OPERATIONS AND ACTIVITIES
continued

As experienced more recently, heightened perceptions of risk can quickly translate into sharp moves in equity markets. AFIC has the financial resources to take advantage of these adjustments. We believe the core of our portfolio is relatively well positioned. As a result, the focus of new investment is likely to be on specific value opportunities that may arise in smaller and mid cap sized companies that can deliver growing dividends over time, as well as underrepresented sectors in the portfolio such as healthcare.

The Company also operates a small buy and write portfolio within the investment portfolio, where stocks are purchased with the specific intent of selling call options against these holdings. A rise in volatility will assist with further profitable use of this portfolio as more call option premium is received for selling call options.

Ultimately the real test of the market's direction over the longer term will be progress on economic reform in Australia, improved business and consumer confidence and the potential impact of a lower Australian dollar on international competitiveness. These factors will be central to companies generating additional revenue growth to improve profitability rather than the continued reliance of reducing costs, which has been the response of companies over recent years to inconsistent business conditions and external shocks such as falling commodity prices.

Figure 8: S&P/ASX 200 Price earnings ratio



Source: FactSet

TOP 25 INVESTMENTS
As at 30 June 2015

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 June 2015

		Total Value $ Million	% of Portfolio
1	Commonwealth Bank of Australia	722.1	11.3
2	Westpac Banking Corporation	586.3	9.1
3	BHP Billiton*	384.6	6.0
4	National Australia Bank	336.3	5.2
5	Telstra Corporation	322.0	5.0
6	Wesfarmers	289.7	4.5
7	Australia and New Zealand Banking Group	273.3	4.3
8	Rio Tinto	196.3	3.1
9	Amcor	176.5	2.8
10	Transurban Group	170.5	2.7
11	Woolworths	161.8	2.5
12	AMP	121.0	1.9
13	Oil Search*	119.6	1.9
14	Brambles	118.4	1.8
15	Woodside Petroleum*	116.8	1.8
16	QBE Insurance Group*	113.3	1.8
17	CSL*	101.2	1.6
18	Computershare	95.5	1.5
19	AGL Energy	94.9	1.5
20	APA Group	85.2	1.3
21	Incitec Pivot	84.8	1.3
22	Ramsay Health Care	83.6	1.3
23	Origin Energy	83.3	1.3
24	Milton Corporation	64.8	1.0
25	Santos	62.9	1.0
Total		4,964.9	
As a percentage of total portfolio value (excludes cash)			77.4%

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

INCOME STATEMENT
For the year ended 30 June 2015

	2015 $'000	2014 $'000
Dividends and distributions	317,762	275,793
Revenue from deposits and bank bills	3,425	4,898
Other revenue	58	-
Net gains on trading portfolio (including unrealised gains or losses)	8,440	9,945
Total income	329,685	290,636
Finance costs	(15,757)	(20,525)
Administration expenses (net of recoveries)	(10,464)	(9,914)
Profit before income tax	303,464	260,197
Income tax	(9,860)	(5,904)
Net profit	293,604	254,293

	Cents	Cents
Net profit per share	27.23	24.35

BALANCE SHEET
As at 30 June 2015

	2015 $'000	2014 $'000
Current assets		
Cash	163,840	69,084
Receivables	46,059	65,758
Trading portfolio	1,930	-
Total current assets	211,829	134,842
Non-current assets		
Fixtures and fittings	-	76
Investment portfolio	6,412,242	6,326,268
Deferred tax assets	527	864
Total non-current assets	6,412,769	6,327,208
Total assets	6,624,598	6,462,050
Current liabilities		
Payables	10,783	6,128
Tax payable	30,050	13,419
Borrowings	-	100,000
Trading portfolio	-	1,980
Provisions	3,409	3,213
Interest rate hedging contracts	-	281
Total current liabilities	44,242	125,021
Non-current liabilities		
Provisions	1,508	1,089
Convertible notes	202,252	203,779
Deferred tax liabilities – investment portfolio	930,152	948,009
Total non-current liabilities	1,133,912	1,152,877
Total liabilities	1,178,154	1,277,898
Net assets	5,446,444	5,184,152
Shareholders' equity		
Share capital	2,301,282	2,064,986
Revaluation reserve	2,152,455	2,253,053
Realised capital gains reserve	391,773	317,624
General reserve	23,637	23,637
Interest rate hedging reserve	-	(281)
Retained profits	577,297	525,133
Total shareholders' equity (including minority interests)	5,446,444	5,184,152

SUMMARISED STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2015

	2015 $'000	2014 $'000
Total equity at the beginning of the year	5,184,152	4,626,692
Dividends paid	(241,486)	(226,336)
Shares issued – Dividend Reinvestment Plan	49,724	46,064
– Conversion of convertible notes	2,423	16,660
– Share Purchase Plan	184,671	-
Other share capital adjustments	(522)	84
Total transactions with shareholders	(5,190)	(163,528)
Profit for the year	293,604	254,293
Revaluation of investment portfolio	(23,281)	665,894
Provision for tax on revaluation	(3,122)	(200,411)
Revaluation of investment portfolio (after tax)	(26,403)	465,483
Net movement in fair value for interest rate swaps	281	1,212
Total comprehensive income for the year	267,482	720,988
Realised gains on securities sold	95,109	18,389
Tax expense on realised gains on securities sold	(20,960)	(4,194)
Net realised gains on securities sold	74,149	14,195
Transfer from revaluation reserve to realised gains reserve	(74,149)	(14,195)
Total equity at the end of the year	5,446,444	5,184,152

A full set of AFIC's final accounts are available on the Company's website.

HOLDINGS OF SECURITIES
As at 30 June 2015

Individual investments for the combined investment and trading portfolios as at 30 June 2015 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

Individual holdings in the portfolios may change during the course of the year. In addition, holdings that are part of the trading portfolio may be subject to call options or sale commitments, by which they may be sold at a price significantly different from the market price prevailing at the time of the exercise or sale.

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
AGL	AGL Energy	5,083	6,100	94,852
AHD	Amalgamated Holdings	775	1,030	12,919
AIA	Auckland International Airport	1,170	1,170	5,125
AIO*	Asciano	2,810	4,855	31,777
ALQ	ALS	4,826	4,942	28,913
AMC	Amcor	12,864	12,864	176,496
AMP	AMP	20,100	20,100	121,005
ANN	Ansell	1,284	1,284	30,928
ANZ	Australia and New Zealand Banking Group	8,488	8,488	273,304

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
APA	APA Group	11,643	10,340	85,202
APE	AP Eagers	325	769	7,194
ARB	ARB Corporation	583	948	12,353
ASH	Ashley Services Group	0	4,819	2,867
ASX	ASX	550	459	18,302
AWC	Alumina	14,323	14,323	21,914
AZJ*	Aurizon Holdings	2,980	2,480	12,700
BGA	Bega Cheese	2,203	2,203	9,538
BHP*	BHP Billiton	14,221	14,221	384,632
BKL	Blackmores	36	36	2,725
BKN	Bradken	6,000	1,576	2,261
BKW	Brickworks	1,503	1,503	20,741
BLD	Boral	4,008	4,008	23,450
BXB	Brambles	11,174	11,174	118,439
CAJ	Capitol Health	0	9,905	7,577
CBA	Commonwealth Bank of Australia	8,483	8,483	722,149
CCL	Coca-Cola Amatil	5,160	5,160	47,214
CPU	Computershare	8,156	8,156	95,511

HOLDINGS OF SECURITIES continued
As at 30 June 2015

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
CSL*	CSL	1,002	1,172	101,239
CSR	CSR	2,492	2,492	9,072
CTX	Caltex Australia	655	605	19,269
CVO	Cover-More Group	0	4,737	11,275
CWP	Cedar Woods Properties	4,060	3,859	20,299
DJW	Djerriwarrh Investments	8,597	8,597	40,318
DLX	DuluxGroup	2,556	2,556	14,621
DUI	Diversified United Investment	12,030	12,030	42,226
EHE	Estia Health	0	952	5,709
EQT	Equity Trustees	1,456	1,488	30,345
FBU	Fletcher Building	1,115	1,115	8,040
FDC*	Federation Centres	0	17,378	50,739
FLT	Flight Centre Travel Group	131	241	8,219
FOX	Twenty-First Century Fox	459	459	19,443
FPH	Fisher & Paykel Healthcare	800	1,706	10,390

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
HSO	Healthscope	0	7,885	21,446
IAG	Insurance Australia Group	4,255	3,500	19,531
ICQ	iCar Asia	2,855	4,155	2,929
ILU	Iluka Resources	2,367	2,367	18,179
IPL	Incitec Pivot	22,209	22,029	84,813
IPP	iProperty Group	4,488	5,326	12,783
IRE	IRESS	2,709	2,709	27,419
IVC	InvoCare	1,279	1,150	13,915
JHC	Japara Healthcare	6,000	10,393	26,710
JHX	James Hardie Industries	1,150	1,350	23,382
LIC	Lifestyle Communities	2,659	4,293	10,475
MIR	Mirrabooka Investments	8,728	8,728	22,692
MLT	Milton Corporation	14,403	14,403	64,813
MQA*	Macquarie Atlas Roads	0	1,000	3,169
NAB	National Australia Bank	9,543	10,097	336,345

HOLDINGS OF SECURITIES continued
As at 30 June 2015

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
ORA	Orora	12,864	12,864	26,886
ORG	Origin Energy	7,187	6,957	83,280
ORI	Orica	2,712	2,712	57,703
OSH*	Oil Search	16,483	16,783	119,622
PHG	Pulse Health	3,933	7,967	4,541
PPT	Perpetual	1,031	1,031	49,863
QBE*	QBE Insurance Group	7,796	8,290	113,288
QUB	Qube Holdings	12,118	13,451	31,610
REC	Recall Holdings	2,235	2,235	15,487
REG	Regis Healthcare	0	2,666	13,755
RHC	Ramsay Health Care	1,360	1,360	83,599
RIO	Rio Tinto	3,652	3,652	196,282
RMD	ResMed	2,200	2,700	19,629
S32*	South32	0	17,721	31,580
SAI	SAI Global	2,500	2,500	10,425
SCG	Scentre Group	11,437	11,437	42,888
SEK*	Seek	1,045	1,600	22,365
SGM*	Sims Metal Management	0	700	7,264
SHL	Sonic Healthcare	1,825	2,020	43,167
SOL	Washington H Soul Pattinson	1,709	1,709	22,963

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
SRX	Sirtex Medical	0	220	6,391
STO	Santos	8,178	8,037	62,927
SUN*	Suncorp Group	2,260	1,740	23,299
SXY	Senex Energy	46,717	46,467	13,011
SYD	Sydney Airport	6,782	6,782	33,774
TCL	Transurban Group	19,795	18,335	170,518
TGG	Templeton Global Growth Fund	9,685	12,106	15,798
TLS	Telstra Corporation	55,095	52,445	322,012
TOX	Tox Free Solutions	10,661	10,661	32,197
TPM	TPG Telecom	3,597	4,677	41,950
TWE	Treasury Wine Estates	3,258	3,258	16,255
VED	Veda Group	0	4,100	9,102
VOC	Vocus Communications	466	1,725	9,951
WBC	Westpac Banking Corporation	18,236	18,236	586,295
WES	Wesfarmers	7,553	7,423	289,703
WFD	Westfield Corporation	4,243	4,243	38,692
WOR	WorleyParsons	310	310	3,227
WOW	Woolworths	6,314	6,000	161,760
WPL*	Woodside Petroleum	3,283	3,413	116,768
Total				6,399,719

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

HOLDINGS OF SECURITIES continued
As at 30 June 2015

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held 2014 '000	Number Held 2015 '000	Market Value 2015 $'000
PPCG	Peet 9.5% convertible notes	26	26	2,665
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	115	11,788
Total				14,453

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
Federation Centres[(a)]	46,414
South32[(b)]	31,339
Healthscope	19,667
CSL	16,205
AGL Energy[(c)]	11,183
Japara Healthcare	10,494
Regis Healthcare	10,065

Disposals (Above $10 Million)	Proceeds $'000
Toll Holdings[(d)]	73,269
Novion Property Group[(e)]	46,414
Bradken	10,437

(a) As consideration for the merger with Novion Property Group.

(b) As a result of the demerger of BHP Billiton.

(c) 1 for 5 rights issue at $11.00 per share.

(d) Takeover by Japan Post Co. Ltd.

(e) Merger with Federation Centres.

MAJOR TRANSACTIONS IN THE BUY AND WRITE PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
National Australia Bank[(a)]	24,895
CSL	11,851
Asciano	11,509

Disposals (Above $10 Million)	Proceeds $'000
Telstra (from the exercise of call options)	15,017
CSL (from the exercise of call options)	12,551
Transurban Group (mostly from the exercise of call options)	11,171
Suncorp Group (mostly from the exercise of call options)	10,877
National Australia Bank ($7 million from the exercise of call options)	10,414

(a) Includes $21.5 million from 2 for 25 rights issue at $28.50 per share.

5 YEAR SUMMARY

	2015	2014	2013	2012	2011
Net profit after tax ($ million)	**293.6**	254.3	242.8	219.9	233.3
Net profit per share (cents)	**27.2**	24.4	23.5	21.5	23.0
Dividends per share (cents)[a]	**23**	22	22	21	21
Investments at market value ($ million)[b]	**6,414**	6,324	5,411	4,570	4,885
Net asset backing (cents)[c]	**585.1**	584.5	518.5	435.1	478.9
Number of shareholders (30 June)	**107,622**	103,188	96,668	93,513	93,092

Notes

(a) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2015: 7.1 cents, 2014: nil, 2013: 4.3 cents, 2012 and 2011: nil.

(b) Excludes cash.

(c) Net asset backing per share based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

COMPANY PARTICULARS

Australian Foundation Investment Company Limited (AFIC)
ABN 56 004 147 120

AFIC is a listed investment company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

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

Company Secretaries
Simon M Pordage
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office and Mailing Address
Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

Telephone	(03) 9650 9911
Facsimile	(03) 9650 9100
Email	invest@afi.com.au
Website	afi.com.au

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

Telephone	1800 780 784 (toll free)

Share Registrar
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Shareholder Enquiry Lines	1300 662 270 (Australia) 0800 333 501 (from New Zealand) +61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com.au/contact

For all enquiries relating to shareholdings, dividends and related matters, please contact the Share Registrar in your country.

Australian and New Zealand Securities Exchange Codes

AFI	Ordinary shares (ASX and NZX)
AFIG	Unsecured convertible notes (ASX)

SHAREHOLDER MEETINGS

Annual General Meeting

Time	10.00am
Date	Wednesday 7 October 2015
Venue	RACV City Club
Location	501 Bourke Street Melbourne

Brisbane Meeting

Time	10.00am
Date	Friday 9 October 2015
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

Adelaide Meeting

Time	10.00am
Date	Monday 12 October 2015
Venue	Adelaide Festival Centre
Location	King William Road Adelaide

Sydney Meeting

Time	10.00am
Date	Monday 19 October 2015
Venue	Four Seasons Hotel
Location	199 George Street Sydney

The Annual Report for 2015 is available on AFIC's website afi.com.au or by contacting the Company on (03) 9650 9911.

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COMPANY

NOTICE OF ANNUAL GENERAL MEETING 2015

The Annual General Meeting of **Australian Foundation Investment Company Limited**, ABN: 56 004 147 120 (the Company) will be held at: **RACV CITY CLUB, 501 BOURKE STREET, MELBOURNE, VICTORIA 3000** at **10.00am (AEDT) on Wednesday 7 October 2015.**

The Company has determined that, for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register at **7.00pm (AEDT) on Monday 5 October 2015**.

BUSINESS OF THE MEETING

1. FINANCIAL STATEMENTS AND REPORTS

To consider the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2015.

(Please note that no resolution will be required to be passed on this matter)

2. ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution *(as an ordinary resolution)*:

“That the Remuneration Report for the financial year ended 30 June 2015 be adopted.”

(Please note that the vote on this item is advisory only)

3. & 4. RE-ELECTION OF DIRECTORS

To consider and, if thought fit, to pass the following resolutions *(as ordinary resolutions)*:

"That Mr Graeme Liebelt, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

"That Mr Terrence Campbell AO, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

5. RENEWAL OF PARTIAL TAKEOVER APPROVAL RULES

To consider and, if thought fit, pass the following resolution *(as a special resolution)*:

"To insert Rules 79 and 80 relating to partial takeover approvals in the Company’s constitution in the form provided in the Explanatory Notes. If renewed, these Rules will come into effect from the close of the 2015 Annual General Meeting and will cease to have effect (unless renewed earlier) on 7 October 2018”.

By Order of the Board

Simon Pordage
Company Secretary
27 August 2015

EXPLANATORY NOTES

The Explanatory Notes below provide additional information regarding the items of business proposed for the Annual General Meeting.

IMPORTANT: Shareholders are urged to direct their proxy how to vote by clearly marking the relevant box for each item on the proxy form.

Please ensure that your properly completed proxy form reaches the share registry by the deadline of 10.00am (AEDT) on Monday 5 October 2015.

1. FINANCIAL STATEMENTS AND REPORTS

During this item there will be a reasonable opportunity for shareholders to ask questions and comment on the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2015. No resolution will be required to be passed on this matter.

Shareholders who have not elected to receive a hard copy of the Company's 2015 Annual Report can view or download it from the Company's website at:

www.afi.com.au/Reports-by-year.aspx

2. ADOPTION OF REMUNERATION REPORT

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of item 2.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of item 2.**

During this item there will be a reasonable opportunity for shareholders at the meeting to comment on and ask questions about the Remuneration Report which can be found in the Company's 2015 Annual Report. As prescribed by the Corporations Act, the vote on the proposed resolution is an advisory one.

Voting exclusions on item 2

Pursuant to section 250R(4) of the Corporations Act 2001, the Company is required to disregard any votes cast on item 2 (in any capacity) by or on behalf of either a member of the key management personnel, details of whose remuneration are included in the remuneration report; or a closely related party of such a member (together "prohibited persons").

However, the Company will not disregard a vote if:

- the prohibited person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- the vote is not cast on behalf of a prohibited person.

If the Chairman of the meeting is appointed, or taken to be appointed, as a proxy, the shareholder can direct the Chairman of the meeting to vote for or against, or to abstain from voting on, the resolution on item 2 (Adoption of Remuneration Report) by marking the appropriate box opposite item 2 on the proxy form.

Pursuant to section 250R(5) of the Corporations Act 2001, if the Chairman of the meeting is a proxy and the relevant shareholder does not mark any of the boxes opposite item 2, the relevant shareholder will be expressly authorising the Chairman to exercise the proxy in relation to item 2.

ITEMS 3 & 4. RE-ELECTION OF DIRECTORS

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of items 3 & 4.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of items 3 & 4.**

Mr Liebelt and Mr Campbell AO were elected and re-elected respectively as Directors by shareholders at the 2012 AGM. As such they are required to seek re-election by shareholders at this AGM. Their biographical details are set out below:

Graeme R Liebelt
B Ec (Hons), FAICD. Independent Non-Executive Director. Chairman of the Remuneration Committee.

Mr Liebelt has been a Director of the Company since June 2012. He is Chairman of Amcor Limited, Director of Australia and New Zealand Banking Group Limited, Deputy Chairman of the Melbourne Business School Limited and a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors. He was formerly Managing Director and CEO of Orica Limited and Chairman and Director of the Global Foundation.

Terrence A Campbell AO
BCom (Melb). Chairman and Independent Non-Executive Director. Chairman of the Investment Committee and member of the Remuneration and Nomination Committees.

Mr Campbell has been a Director of the Company since September 1984, appointed Deputy Chairman in September 2008 and Chairman in October 2013. He is Senior Chairman of Goldman Sachs Australia and New Zealand (formerly Goldman Sachs JBWere) and Advisory Director of Goldman Sachs. Mr Campbell was formerly Chairman and Chief Executive of Goldman Sachs JBWere. He is also Chairman of Mirrabooka Investments Limited and a former Director of Djerriwarrh Investments Limited and AMCIL Limited.

Further information regarding the Company's Corporate Governance arrangements and the Board's role can be found on the Company's website at:

www.afi.com.au/Corporate-Governance.aspx

5. RENEWAL OF PARTIAL TAKEOVER APPROVAL RULES

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of item 5.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of item 5.**

This is the Explanatory Statement pursuant to Section 648G of the Corporations Act 2001 (Cth) in relation to altering the Constitution of the Company.

The Corporations Act permits a company to include rules in its Constitution which enable the company to refuse to register a transfer of shares resulting from a partial (or proportional) takeover bid unless a resolution is first passed by members approving the takeover bid.

The proposed adoption of the partial takeover approval provisions
The Directors propose to renew the following partial takeover approval rules in the Company's Constitution. They mirror exactly the existing Rules 79 and 80, previously approved by shareholders at the 2012 AGM and which will expire on 10 October 2015 unless renewed earlier:

79. Restriction on Registration
Subject to the Corporations Act and the Listing Rules, the registration of any transfer of shares giving effect to a takeover contract under a proportional takeover bid in respect of shares in a class of shares in the Company is prohibited unless and until a resolution to approve the takeover bid is passed in accordance with rule 80.

80. Procedures

(a) Subject to rule 80(b), the only persons entitled to vote on a resolution to approve a proportional takeover bid are those persons who, as at the end of the day on which the first offer under the takeover bid was made, held shares included in the bid class for which the offer was made. Each person entitled to vote has one vote for each share in the relevant class held by the person at that time.

(b) Neither the bidder under the takeover bid nor any associate of the bidder is entitled to vote on the resolution.

(c) The resolution is to be considered at a meeting convened and conducted by the Company of the persons entitled to vote on the resolutions. The provisions of this Constitution relating to general meetings apply to the meeting with any modifications the Directors decide are required in the circumstances.

(d) The resolution is taken to have been passed only if the proportion that the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than 50 per cent.

If approved by shareholders at the meeting, the proposed Rules 79 and 80 will operate for three years from the date of the meeting (that is, until 7 October 2018) unless renewed earlier.

Partial takeover bids

A partial takeover bid involves the bidder offering to buy a proportion only of each shareholder's shares in the target company.

This means that control of the target company may pass without members having the chance to sell all their shares to the bidder. It also means the bidder may acquire control of the target company without paying an adequate premium for gaining control.

To address this possibility, a company may provide in its Constitution that, in the event of a partial takeover bid being made for shares in the company, the directors must convene a meeting of shareholders to vote on a resolution to approve that bid.

A meeting convened under the partial takeover provisions is treated as a general meeting of the company and the majority decision of the company's members will be binding on all individual members.

The Directors consider that it is in the interests of shareholders for the Company to have the partial takeover approval rules in the Constitution of the Company.

Effect of proposed partial takeover approval rules

Where a partial takeover bid is made, the Directors must convene a meeting of shareholders to vote on a resolution to approve the partial bid before the 14th day prior to the closing of the bid period.

The vote is decided on a simple majority. Each person who, as at the end of the day on which the first offer under the takeover bid was made, held bid class shares is entitled to vote. Neither the bidder nor its associates are entitled to vote on the resolution.

If a meeting is not held, a resolution approving the partial bid will be deemed by section 648E of the Corporations Act to have been passed thereby allowing the partial bid to proceed. Further, the Directors will contravene the Act if they fail to ensure a resolution to approve the bid is voted on.

If the resolution is rejected, the registration of any transfer of shares resulting from that partial takeover bid will be prohibited and the bid will be deemed to be withdrawn. If the resolution is approved, the relevant transfers of shares will be registered provided they comply with the other provisions of the Constitution.

Rules 79 and 80 will not apply to full takeover bids and will expire three years after the date they were adopted as part of the Company’s Constitution unless renewed by a further special resolution of shareholders.

Reason for proposing the resolution

The Directors consider that inclusion of the proposed Rules is in the interests of all shareholders of the Company. In the Directors' view, shareholders should have the opportunity to vote on a proposed partial takeover bid.

A partial takeover bid for the Company may enable control of the Company to be acquired by a party holding less than a majority interest and without shareholders having the opportunity to dispose of all their shares so that shareholders risk being locked into a minority position in the Company or suffering loss if the bid causes a decrease in the market value of shares.

Rules 79 and 80 will prevent this situation occurring by permitting shareholders to decide whether or not a partial takeover bid should be allowed to proceed.

Present acquisition proposals

As at the date of this notice, the Directors are not aware of any proposal by any person to acquire a substantial interest in the Company.

Advantages and disadvantages

The Corporations Act requires this explanatory statement to discuss the potential advantages and disadvantages of the partial takeover approval rules for both Directors and shareholders.

While the partial takeover approval provisions have been in effect, there have been no takeover bids for the Company either proportional or otherwise. So, there are no actual examples against which to review the advantages and disadvantages of the existing partial takeover provisions (contained in Rules 79 and 80) for the Directors and shareholders of the Company. The Directors are not aware of any potential takeover bid which was discouraged by Rules 79 and 80.

In addition to looking at the provisions retrospectively, the Corporations Act also requires this explanatory statement to discuss the potential future advantages and disadvantages of the proposed rules for both Directors and shareholders.

The Directors consider that there are no advantages or disadvantages for the Directors in renewing the proposed partial takeover approval rules. In particular, there is no restriction on their ability to make a recommendation on whether a partial takeover bid should be accepted.

For shareholders, the potential advantage of renewing the partial takeover approval rules again is that they provide shareholders with the opportunity to consider, discuss in a meeting called specifically for the purpose, and vote on whether a partial takeover bid should be approved. This ensures that shareholders have an opportunity to have a say in the future ownership and control of the Company. The Directors believe that this would encourage any future partial bids to be structured so as to be attractive to a majority of shareholders.

A potential disadvantage for shareholders arising from renewing the partial takeover approval rules again is that they may discourage partial takeover bids being made and may reduce any speculative element in the market price of the Company's shares arising from the possibility of a partial offer being made. As a result, shareholders may not have the opportunity to dispose of their shares at an attractive price where the majority rejects an offer from a party seeking control of the Company. The Directors consider that the potential advantages for shareholders of the proposed partial takeover approval rules outweigh the potential disadvantages.

Shareholder approval

To pass as a special resolution, this item of business requires the support of 75% or more of the votes cast on the resolution.

SHAREHOLDER INFORMATION

Proxies

1. A shareholder entitled to attend and vote at this meeting is entitled to appoint not more than two proxies (who need not be members of the Company) to attend, vote and speak in the shareholder's place and to join in any demand for a poll.
2. Where a shareholder appoints more than one representative, proxy or attorney, those appointees are entitled to vote on a poll but not on a show of hands.
3. A shareholder who appoints two proxies may specify a proportion or number of the shareholder's votes each proxy is appointed to exercise. Where no such specification is made, each proxy may exercise half of the votes (any fractions of votes resulting from this are disregarded).
4. **Proxy forms may be lodged online by visiting www.investorvote.com.au or by scanning the QR Code on the proxy form with a mobile device.**
5. **Relevant custodians may lodge their proxy forms online by visiting www.intermediaryonline.com**
6. Proxy forms and any authorities (or certified copies of those authorities) under which they are signed may be delivered in person, by mail or by fax to the Company's Share Registry (see details below) no later than 48 hours before the meeting, being **10.00am (AEDT) on Monday 5 October 2015.** Further details are on the proxy form.
7. A proxy need not vote in that capacity on a show of hands on any resolution nor (unless the proxy is the Chairman of the meeting) on a poll. However, if the proxy's appointment specifies the way to vote on a resolution, and the proxy decides to vote in that capacity on that resolution, the proxy must vote the way specified (subject to the other provisions of this Notice, including the voting exclusions noted above).
8. If a proxy does not attend the meeting or does not vote on a poll on a resolution, then the Chairman of the meeting will be taken to have been appointed as the proxy of the relevant shareholder in respect of the meeting or the poll on that resolution, as applicable. If the Chairman of the meeting is appointed, or taken to be appointed, as a proxy, but the appointment does not specify the way to vote on a resolution, then the Chairman intends to exercise the relevant shareholder's votes in favour of the relevant resolution (subject to the other provisions of this Notice, including the voting exclusions noted above).

Corporate representatives

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. Unless it has previously been given to the Company, the representative should bring evidence of their appointment to the meeting, together with any authority under which it is signed. The appointment must comply with section 250D of the Corporations Act 2001.

Attorneys

A shareholder may appoint an attorney to vote on their behalf. To be effective for the meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the deadline for the receipt of proxy forms (see above), being no later than 48 hours before the meeting.

Share Registry

The Company's Share Registry details are as follows:

Computershare Investor Services Pty Limited

Street address: Yarra Falls 452 Johnston Street Abbotsford VIC 3067	Postal address: GPO Box 242 Melbourne VIC 3001
Telephone:	1300 662 270 (within Australia) 0800 333 501 (within New Zealand) +61 3 9415 4373 (outside Australia)
Facsimile:	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)
Internet:	www.investorcentre.com/contact

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

Lodge your proxy:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

In Person:
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online users only (Custodians)
www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 662 270
(within New Zealand) 0800 333 501
(outside Australia) +61 3 9415 4373

Proxy Form

Appoint your proxy and view the Annual Report online

Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
Follow the instructions on the secure website to appoint your proxy.

Your access information that you will need to appoint your proxy online:

Control Number:

SRN/HIN:

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential. Please dispose of this form carefully if you appoint your proxy online.

For your proxy form to be effective it must be received by 10.00am (AEDT) on Monday 5 October 2015

How to direct your proxy to vote

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.
Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.
Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Step 1 overleaf.

A proxy need not be a shareholder of the Company.

Lodgement of proxy form

This proxy form (and any authority under which it is signed or a certified copy of it) must be received at an address given above by 10.00am (AEDT) on Monday 5 October 2015, being not later than 48 hours before the commencement of the meeting. Any proxy form received after that time will not be valid for the scheduled meeting.

Signing instructions for postal forms

Individual: Where the holding is in one name, the shareholder or attorney must sign.
Joint Holding: Where the holding is in more than one name, all of the shareholders or attorneys should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the meeting

If a representative of a corporate shareholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at **www.investorcentre.com** under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the Company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO APPOINT YOUR PROXY, or turn over to complete the form →

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☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Shareholders sponsored by a broker (reference number commences with '**X**') should advise their broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a proxy to vote on your behalf

I/We being a shareholder/s of AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED hereby appoint

☐ **the Chairman of the meeting** **OR** ______________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the meeting. Do not insert your own name(s).

or failing the individual or body corporate named in relation to the meeting generally or in relation to a poll on a given resolution, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to act generally at the meeting or in relation to a poll on the given resolution (as applicable) on my/our behalf, including to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit), at the Annual General Meeting of **Australian Foundation Investment Company Limited** to be held at **RACV City Club, 501 Bourke Street, Melbourne, Victoria at 10.00am (AEDT) on Wednesday 7 October 2015** and at any adjournment or postponement of that meeting.

Chairman to vote undirected proxies as follows: I/We acknowledge that the Chairman of the meeting intends to vote undirected proxies in favour of each item of business, to the extent permitted by law.

Chairman authorised to exercise proxies on remuneration related matters: If I/we have appointed the Chairman of the meeting as my/our proxy (or the Chairman of the meeting becomes my/our proxy by default), I/we expressly authorise the Chairman of the meeting, to the extent permitted by law, to exercise my/our proxy in respect of item 2 even though the item is connected directly or indirectly with the remuneration of a member of key management personnel of Australian Foundation Investment Company Limited and its consolidated group, which includes the Chairman of the meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority

Board recommendations and undirected proxies: To fully inform shareholders in exercising their right to vote, the Board recommends that shareholders vote, and the Chairman of the Meeting intends to vote undirected proxies (to the extent permitted by law), in the manner set out beside each item of business.

Board recommendations			For	Against	Abstain
For	Item 2	Adoption of Remuneration Report	☐	☐	☐
For	Item 3	Re-election of Director – Mr Graeme Liebelt	☐	☐	☐
For	Item 4	Re-election of Director – Mr Terrence Campbell AO	☐	☐	☐
For	Item 5	Renewal of partial takeover approval rules in the Constitution for a further three years (special resolution)	☐	☐	☐

SIGN Signature of Shareholder(s) *This section must be completed.*

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______________________ Contact Daytime Telephone ______________________ Date ____ / ____ / ____

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