



ABN. 56 004 147 120.

APPENDIX 4D STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

CONTENTS

- Results for announcement to the market
- Media release
- Appendix 4D Accounts
- Independent Auditors' Review Report

This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Group's 2015 Annual Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2015 with the previous corresponding period being the half-year ended 31 December 2014. The results have been reviewed by the Company's auditors.

Results for announcement to the market

- Revenue from operating activities was \$156.6 million, up \$10.5 million or 7.2% from the previous corresponding period. This excludes capital gains on investments.
- Profit after tax attributable to members was \$145.5 million (up 10.3% on the previous corresponding period's \$131.9 million).
- The interim dividend is 10 cents per share, fully franked, up from 9 cents last year. It will be paid on 19 February 2016 to ordinary shareholders on the register on 5 February 2016 and the shares are expected to commence trading on an ex-dividend basis on 3 February 2016. There is no conduit foreign income component of the dividend.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for which will be set at a **2.5% discount** to the Volume Weighted Average Price of the Company's shares traded on the ASX and Chi-X automated trading systems over the five trading days from when the shares trade ex-dividend. The last date for the receipt of an election notice for participation in the DRP & DSSP is 5.00 pm (Melbourne time) on 8 February 2016.
- The final dividend for the 2015 financial year was 14 cents per share (fully franked), and it was paid to shareholders on 28 August 2015.
- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 31 December 2015 were \$5.63, down from \$5.80 at the end of the previous corresponding period (both before allowing for interim dividends).
- The interest payment on the 6.25% Convertible Notes issued in December 2011 will be \$3.0993 per \$100 Note, payable on 29 February 2016 to note holders on the register on 19 February 2016. The notes are expected to commence trading on an ex-interest basis on 17 February 2016. The last date for the receipt of Exit Notices for the next conversion of Notes into ordinary shares is 15 February 2016.
- Shares issued under the November 2015 Share Purchase Plan ("SPP") are not entitled to the interim dividend and currently trade in Australia under the code "AFINA" and in New Zealand under the code "AFIND". The last day of trading for both AFINA and AFIND shares is 2 February 2016. AFINA shares will merge and trade as AFI shares in Australia with effect from the start of trading on 8 February 2016 and AFIND shares will merge and trade as AFI shares in New Zealand with the start of trading on the NZX on 9 February 2016.

AFIC looking at mid and small cap companies for growth opportunities

RESULT SUMMARY TO 31 DECEMBER 2015

- **AFIC is an investor in a diversified portfolio of Australian equities seeking to deliver income and capital growth over the medium to long term.**
- **Half Year Profit increased 10.3% to \$145.6 million.**
- **Interim Dividend increased 1 cent to 10 cents per share fully franked.**
- **Six month portfolio return was negative 1.3%, including franking it was negative 0.2%.**
- **One year portfolio return was 1.1%, including franking it was 2.8%.**
- **Share Purchase Plan recently raised \$153.3 million for investment opportunities in current volatile markets.**

Portfolio

Market conditions have been volatile over the half year as investors grappled with concerns about growth in China and rapidly falling commodity prices, the effect of the increase in the US Federal Reserve interest rate and uncertainty about corporate earnings growth in a patchy domestic economy. In this environment AFIC took the opportunity to broaden its portfolio exposure, including adding some smaller companies in industries such as healthcare, as well as adjusting away from companies in the portfolio facing a more subdued growth outlook.

During the period small and mid-sized companies outperformed larger companies in the index. We believe this is partly due to global fund managers selling large Australian companies as a proxy for their negative views on China. AFIC's portfolio, which is positioned toward some of these larger companies, was down 1.3% for the 6 months to 31 December 2015 against the S&P/ASX 200 Accumulation Index which was down 0.5%. The stronger performance of mid and small companies over the period was reflected in the AFIC portfolio, with some of the best performing holdings in the investment portfolio by their percentage increase over this period being Treasury Wine Estates, iProperty, Bega Cheese, Freedom Foods, AP Eagers and iCar Asia.

The long term performance of the portfolio, which is more in line with the Company's investment timeframes, was 6.5% per annum for the 10 years to 31 December 2015 versus the Index return of 5.6% per annum. AFIC's performance numbers are after expenses and tax paid whereas the Index does not have expenses or tax.

Largest purchases included CSL, Healthscope, Suncorp, Qube Holdings, James Hardie Industries and Treasury Wine Estates (as a result of the participation in their rights issue). A small number of new companies were also added to the investment portfolio with Mainfreight (a NZ listed company), Challenger and Macquarie Group being the largest of these. AFIC also participated in the IPO of Integral Diagnostics.

Major sales were reflective of some repositioning of the portfolio particularly in banks where AFIC already has a large exposure. As a result positions in Westpac and Commonwealth Bank were reduced. In the supermarket sector, which is facing margin pressure from increased competition, we sold some Woolworths (early in the half) and reduced the overweight position in Wesfarmers.

Outlook

The broad Australian equity index has fallen from close to 5400 at the end of the calendar year to around 4900 as the market reacted negatively to concerns about China. The outlook remains uncertain and market volatility is likely to continue. However, AFIC has taken the opportunity to add to holdings in small and mid-sized companies where we have been looking to invest and long term value has started to emerge through the recent sell off. The long term performance history of AFIC suggests this is a sensible approach despite present uncertainty and the current cash position continues to provide great flexibility in this type of market.

Profit and Dividend

Profit for the half year was \$145.6 million, up 10.3% from the corresponding period last year of \$132.0. There was an increase in dividend income from investments as well as an improved performance from the Trading Portfolio and options which benefited from heightened volatility.

As foreshadowed in the announcement in the financial year result to 30 June 2015, the Board has increased the interim dividend by 1 cent a share to 10 cents per share fully franked.

Please direct any enquiries to:

Ross Barker
Managing Director
(03) 9225 2101

Geoff Driver
General Manager
(03) 9225 2102

20 January 2016

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (above \$10 million)	Cost (\$'000)
CSL	42,790
Healthscope	33,026
Mainfreight ^(a)	26,874
Challenger	25,512
Suncorp Group	24,409
Qube Holdings	23,871
James Hardie Industries	22,824
Treasury Wine Estates (includes \$4.3m participation in 2 for 15 Rights Issue at \$5.60 per share)	19,665
Origin Energy (participation in 4 for 7 Rights Issue at \$4.00 per share)	15,903
Brambles	11,560
Macquarie Group	11,383
QBE Insurance Group	11,341
Insurance Australia Group	11,265
ResMed	10,486
Fisher & Paykel Healthcare Corporation	10,126

Disposals (above \$10 million)	Proceeds (\$'000)
Westpac Banking Corporation	42,457
Woolworths	26,223
Asciano	21,636
Computershare	21,620
Twenty-First Century Fox Inc. ^(b) (complete disposal)	20,424
APA Group	17,777
Wesfarmers	13,290
Commonwealth Bank of Australia	13,189
SAI Global (complete disposal)	10,690

- (a) Listed on the New Zealand Stock Exchange
(b) Listed on the NASDAQ Global Select Market

MAJOR TRANSACTIONS IN THE TRADING PORTFOLIO

Acquisitions (\$2 million and above)	Cost (\$'000)
IDP Education	2,000

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2015

Includes investments held in both the Investment and Trading Portfolios

Valued at closing prices at 31 December 2015

		Total Value \$ million	% of Portfolio
1	Commonwealth Bank of Australia	711.9	11.1%
2	Westpac Banking Corporation	566.3	8.9%
3	* National Australia Bank	304.6	4.8%
4	Wesfarmers	294.9	4.6%
5	Telstra Corporation	294.2	4.6%
6	* BHP Billiton	253.8	4.0%
7	Australia and New Zealand Banking Group	237.1	3.7%
8	Transurban Group	192.0	3.0%
9	* CSL	171.0	2.7%
10	Amcor	165.3	2.6%
11	Rio Tinto	163.3	2.6%
12	* Brambles	141.5	2.2%
13	Woolworths	123.0	1.9%
14	AMP	117.2	1.8%
15	* Oil Search	115.6	1.8%
16	* QBE Insurance Group	115.2	1.8%
17	AGL Energy	110.3	1.7%
18	* Woodside Petroleum	99.0	1.5%
19	* Ramsay Health Care	95.8	1.5%
20	Incitec Pivot	88.2	1.4%
21	APA Group	71.8	1.1%
22	Computershare	69.7	1.1%
23	Milton Corporation	66.0	1.0%
24	Qube Holdings	59.7	0.9%
25	Treasury Wine Estates	54.6	0.9%
		4,681.9	
	As % of Total Portfolio Value (excludes Cash)	73.2%	

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

PORTFOLIO PERFORMANCE TO 31 DECEMBER 2015

PERFORMANCE MEASURES TO 31 DECEMBER 2015	6 MONTHS	1 YEAR	5 YEARS %PA	10 YEARS %PA
<i>AFIC PORTFOLIO RETURN - NET ASSET BACKING INCLUDING DIVIDENDS REINVESTED*</i>	-1.3%	1.1%	7.4%	6.5%
S&P/ASX 200 ACCUMULATION INDEX	-0.5%	2.6%	7.0%	5.6%

<i>NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</i>	-0.2%	2.8%	9.3%	8.4%
S&P/ASX 200 GROSS ACCUMULATION INDEX*	0.3%	4.2%	8.6%	7.2%

*Incorporates the benefit of franking credits for those who can fully utilise them.

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



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2015**

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
Catherine M. Walter AM
Peter J. Williams

Company Secretaries: Simon M. Pordage
Andrew J.B. Porter

Auditor: PricewaterhouseCoopers, Chartered Accountants

Country of incorporation: Australia

Registered office: Level 21
101 Collins Street
Melbourne, Victoria 3000

Contact Details: Mail Address: Level 21, 101 Collins St., Melbourne, Victoria 3000
Telephone : (03) 9650 9911
Facsimile: (03) 9650 9100
Email: invest@afi.com.au
Internet address: www.afi.com.au

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

Telephone: 1800 780 784 (toll free)

Share Registrar: Computershare Investor Services Limited
Mail Address: GPO Box 2975, Melbourne, Victoria 3001
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067
AFIC Shareholder enquiry lines : 1300 662 270 (Aus)
0800 333 501 (NZ)
+613 9415 4373 (from overseas)
Facsimile: (03) 9473 2500
Internet: www.investorcentre.com/contact

For all enquiries relating to shareholdings, dividends and related matters, please contact the share registrar.

Securities Exchange Codes: AFI Ordinary shares (ASX and NZX)
AFINA Ordinary shares (ASX)
AFIND Ordinary shares (NZX)
AFIG 6.25% 2017 Convertible Notes (ASX)

DIRECTORS' REPORT

The Directors present their report in relation to the half-year to 31 December 2015 on the consolidated entity ("the Group") consisting of Australian Foundation Investment Company Limited ("the Company" and "AFIC") and its subsidiary, Australian Investment Company Services Limited ("AICS").

Directors

The following persons were Directors of the Company during the half-year and up to the date of this report:

T.A. Campbell AO (appointed September 1984)
R.E. Barker (appointed September 2001)
J.C. Hey (appointed July 2013)
G.R. Liebelt (appointed June 2012)
J. Paterson (appointed June 2005)
D.A. Peever (appointed November 2013)
F.D. Ryan AO (appointed August 2001, retired October 2015)
C.M. Walter AM (appointed August 2002)
P.J. Williams (appointed February 2010)

Review of the Group's operations and results

Overview

The Company maintains a diversified portfolio of equity and similar securities, predominantly in entities listed on the Australian Securities Exchange. There has been no change in the nature of the Company's activities during the period. Its primary objectives are to pay dividends which, over time, will grow at a faster rate than inflation, and to generate attractive total returns in terms of growth in net asset backing plus dividends.

Profit Performance and Dividend

Profit for the half-year was \$145.6 million, up 10.3% from the previous corresponding period.

The net profit per share for the six months to 31 December 2015 was 13.2 cents per share with an interim dividend declared of 10 cents per share fully-franked, up from 9 cents the year before. As noted in the 2015 Annual Report, this increase is to adjust the disparity between the interim and final dividends.

The portfolio return for the 6 months (measured by change in net asset backing per share plus dividends reinvested) was -1.3% compared to the return of the S&P/ASX 200 Accumulation Index for the same period which was -0.5%. AFIC's portfolio return is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits or LIC credits attached to the dividends. Index returns for the market do not include the impact of management expenses and tax on their performance.

During the half-year 35.3 million shares were issued under the DRP, DSSP, the conversion of Convertible Notes and a Share Purchase Plan, resulting in an additional \$194.1 million of capital (after costs).

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

Rounding of amounts to nearest thousand dollars

The Group is of a kind referred to in Class Order 98/100 issued by the Australian Securities & 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.

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

A handwritten signature in blue ink, appearing to read 'T. Campbell', is positioned above the printed name and title.

T.A. Campbell AO
Chairman
Melbourne
20 January 2016



Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Charles Christie'.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
20 January 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	Half-year 2015 \$'000	Half-year 2014 \$'000
Dividends and distributions		153,065	142,273
Revenue from deposits and bank bills		1,170	1,632
Other revenue		2,327	2,187
Total revenue		156,562	146,092
Net gains on trading portfolio and non-equity investments		9,384	5,747
Income from operating activities	3	165,946	151,839
Finance & related costs		(6,961)	(8,491)
Administration expenses		(7,327)	(7,615)
Profit before income tax expense		151,658	135,733
Income tax expense		(6,018)	(3,743)
Profit for the half-year		145,640	131,990
Profit is attributable to :			
Equity holders (members) of Australian Foundation Investment Company Ltd		145,534	131,920
Minority Interest		106	70
		145,640	131,990
		Cents	Cents
Basic earnings per share	9	13.23	12.35
Diluted earnings per share	9	13.17	12.31

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Half-Year to 31 December 2015			Half-Year to 31 December 2014		
	Revenue \$'000	Capital \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
Net Profit for the half-year	145,686	(46)	145,640	131,972	18	131,990
Other Comprehensive Income						
<i>Items that will not be recycled through the Income Statement</i>						
Losses for the period on equity securities in the investment portfolio	-	(214,784)	(214,784)	-	(33,007)	(33,007)
Deferred tax on above	-	62,580	62,580	-	9,301	9,301
<i>Items that may be recycled through the Income Statement</i>						
Net movement in fair value for interest rate swap	-	-	-	-	281	281
Total other comprehensive income ¹	-	(152,204)	(152,204)	-	(23,425)	(23,425)
Total comprehensive income ²	145,686	(152,250)	(6,564)	131,972	(23,407)	108,565

¹ Net capital losses not accounted for through the Income Statement

² This is the company's Net Return for the half-year, which includes the Net Profit plus the net realised and unrealised gains or losses on the Company's investment portfolio.

	Half-Year to 31 December 2015			Half-Year to 31 December 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	145,580	(152,250)	(6,670)	131,902	(23,407)	108,495
Minority Interest	106	-	106	70	-	70
	145,686	(152,250)	(6,564)	131,972	(23,407)	108,565

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	31 Dec 2015 \$'000	30 June 2015 \$'000
Current assets			
Cash		156,657	163,840
Receivables		8,615	46,059
Trading portfolio	4	1,385	1,930
Total current assets		166,657	211,829
Non-current assets			
Investment portfolio		6,390,371	6,412,242
Deferred tax assets		1,368	527
Total non-current assets		6,391,739	6,412,769
Total assets		6,558,396	6,624,598
Current liabilities			
Payables		5,167	10,783
Tax payable		16,946	30,050
Provisions		3,076	3,409
Total current liabilities		25,189	44,242
Non-current liabilities			
Provisions		1,007	1,508
Convertible Notes	5	193,149	202,252
Deferred tax liabilities - investment portfolio	6	855,426	930,152
Total non-current liabilities		1,049,582	1,133,912
Total liabilities		1,074,771	1,178,154
Net Assets		5,483,625	5,446,444
Shareholders' equity			
Share Capital	7	2,495,349	2,301,232
Revaluation Reserve		1,933,015	2,152,455
Realised Capital Gains Reserve		405,259	391,773
General Reserve		23,637	23,637
Retained Profits		625,294	576,382
Parent Entity Interest		5,482,554	5,445,479
Minority Interest		1,071	965
Total equity		5,483,625	5,446,444

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Attributable to members of Australian Foundation Investment Company Ltd									
Half-Year to 31 December 2015	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,301,232	2,152,455	391,773	23,637	576,382	5,445,479	965	5,446,444
Dividends paid	8	-	-	(53,704)	-	(96,668)	(150,372)	-	(150,372)
Shares issued - Dividend Reinvestment Plan	7	31,670	-	-	-	-	31,670	-	31,670
- Convertible Note Conversion	7	9,551	-	-	-	-	9,551	-	9,551
- Share Purchase Plan	7	153,340	-	-	-	-	153,340	-	153,340
Other Share Capital Adjustments	7	(444)	-	-	-	-	(444)	-	(444)
Total transactions with shareholders		194,117	-	(53,704)	-	(96,668)	43,745	-	43,745
Profit for the half-year		-	(46)	-	-	145,580	145,534	106	145,640
<i>Other Comprehensive Income for the half-year</i>									
Net losses for the period on equity securities in the investment portfolio		-	(152,204)	-	-	-	(152,204)	-	(152,204)
Other Comprehensive Income for the half-year		-	(152,204)	-	-	-	(152,204)	-	(152,204)
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(67,190)	67,190	-	-	-	-	-
Total equity at the end of the half-year		2,495,349	1,933,015	405,259	23,637	625,294	5,482,554	1,071	5,483,625

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DEC. 2015 (CONT)

Attributable to members of Australian Foundation Investment Company Ltd

Half-Year to 31 December 2014	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Interest-Rate Hedging \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,064,936	2,253,053	317,624	23,637	(281)	524,319	5,183,288	864	5,184,152
Dividends paid		-	-	-	-	-	(145,077)	(145,077)	-	(145,077)
Shares issued - Dividend Reinvestment Plan		29,549	-	-	-	-	-	29,549	-	29,549
- Convertible Note Conversion		1,558	-	-	-	-	-	1,558	-	1,558
- Share Purchase Plan		184,671	-	-	-	-	-	184,671	-	184,671
Other Share Capital Adjustments		(446)	-	-	-	-	-	(446)	-	(446)
Total transactions with shareholders		215,332	-	-	-	-	(145,077)	70,255	-	70,255
Profit for the half-year		-	18	-	-	-	131,902	131,920	70	131,990
<i>Other Comprehensive Income for the half-year</i>										
Net losses for the period on equity securities in the investment portfolio		-	(23,706)	-	-	-	-	(23,706)	-	(23,706)
Net movement in fair value of swap contracts		-	-	-	-	281	-	281	-	281
Other Comprehensive Income for the half-year		-	(23,706)	-	-	281	-	(23,425)	-	(23,425)
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(9,610)	9,610	-	-	-	-	-	-
Total equity at the end of the half-year		2,280,268	2,219,755	327,234	23,637	-	511,144	5,362,038	934	5,362,972

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Half-year 2015 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2014 \$'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	103,152	32,792
Purchases for trading portfolio	(65,871)	(27,106)
Interest received	1,481	1,697
Dividends and distributions received	158,047	174,164
	<u>196,809</u>	<u>181,547</u>
Other receipts	2,330	2,193
Administration expenses	(8,153)	(9,075)
Finance costs paid	(6,769)	(8,232)
Taxes paid	(11,192)	(3,732)
Net cash inflow/(outflow) from operating activities	<u>173,025</u>	<u>162,701</u>
Cash flows from investing activities		
Sales from investment portfolio	251,953	120,320
Purchases for investment portfolio	(445,787)	(158,746)
Taxes paid on capital gains	(20,821)	(7,886)
Net cash inflow/(outflow) from investing activities	<u>(214,655)</u>	<u>(46,312)</u>
Cash flows from financing activities		
Repayment of borrowings	-	(100,000)
Share issues	153,281	184,671
Share issue costs	(391)	(486)
Dividends paid	(118,443)	(115,220)
Net cash inflow/(outflow) from financing activities	<u>34,447</u>	<u>(31,035)</u>
Net increase/(decrease) in cash held	(7,183)	85,354
Cash at the beginning of the half-year	<u>163,840</u>	<u>69,084</u>
Cash at the end of the half-year	<u>156,657</u>	<u>154,438</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

1. Basis of preparation of half-year financial report

This general purpose half-year financial report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. This report should be read in conjunction with the 2015 Annual Report and public announcements made by the Group during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities

2. Financial reporting by segments

The Group consists of a Listed Investment Company and a subsidiary which provides administration services to it and to other Listed Investment Companies in Australia. It has no reportable business or geographic segments.

(a) Segment information provided to the Board

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

The relevant amounts as at 31 December 2015 and 31 December 2014 were as follows:

	2015	2014
	\$	\$
Net tangible asset backing per share		
Before Tax	5.63	5.80
After Tax	4.87	4.94

(b) Other segment information

Segment Revenue

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

The Company is domiciled in Australia and the Group's dividend and distribution income is predominantly from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group's investment in Commonwealth Bank : 12.3% and Westpac Bank : 11.9% comprising more than 10% of the Group's income (including trading

portfolio) for the half-year ending 31 December 2015 (2014 : Commonwealth Bank : 12.2%, Westpac Bank 11.0%).

3. Income from operating activities

	Half-year 2015 \$'000	Half-year 2014 \$'000
Income from operating activities is comprised of the following:		
Dividends & distributions		
• securities held in investment portfolio	152,842	142,149
• securities held in trading portfolio	99	-
	<u>152,941</u>	<u>142,149</u>
Interest income		
• securities held in investment portfolio	124	124
• deposits and income from bank bills	1,170	1,632
	<u>1,294</u>	<u>1,756</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	9,286	6,021
• unrealised gains/(losses) in trading portfolio	163	(300)
• gains/(losses) on non-equity investments	(65)	26
	<u>9,384</u>	<u>5,747</u>
Administration fees received from other Listed Investment Companies	2,185	2,101
Expenses recovered from other Listed Investment Companies	7	12
Other expenses recovered	52	58
Other income	83	16
	<u>165,946</u>	<u>151,839</u>

4. Current assets – trading portfolio

The Company enters into option contracts in the trading portfolio for the purpose of enhancing returns, offsetting risk or providing opportunities to acquire or sell securities at advantageous prices.

As at balance date there were call options outstanding which, if they were all exercised, would require the Company to deliver securities to the value of \$119.4 million (30 June 2015: \$60.7 million).

As at balance date the Company had outstanding put options which at the option of the purchaser may have required the Company to buy \$21.5 million worth of securities prior to the respective expiry dates if they were all exercised (30 June 2015 : Nil).

5. Non-current liabilities – convertible notes

	31 December 2015 \$'000	30 June 2015 \$'000
Non-current unsecured – convertible notes at amortised cost	193,149	202,252

There were 1,940,169 convertible notes outstanding at 31 December 2015 each with a face value of \$100 which were issued on 19 December 2011 (30 June 2015: 2,035,676). 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 31 December 2015, the face value of the convertible notes was \$194.0 million (30 June 2015 : \$203.6 million). Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd. As per the 2015 Annual Report, at issuance the residual value of the equity component of the convertible notes was calculated as nil.

6. Deferred tax liabilities – investment portfolio

In accordance with AASB 112 *Income Taxes*, deferred tax liabilities have been recognised for Capital Gains Tax on the unrealised gain in the investment portfolio at current tax rates (30%) totalling \$855.4 million (30 June 2015 : \$930.2 million). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

7. Shareholders' equity – share capital

	31 Dec 2015 Shares '000	31 Dec 2015 \$'000	30 June 2015 Shares '000	30 June 2015 \$'000
(a) Share Capital				
Ordinary shares – fully paid	1,125,166	2,495,349	1,089,844	2,301,238
Less ELTIP shares adjustment	-	-	-	(6)
	<u>1,125,166</u>	<u>2,495,349</u>	<u>1,089,844</u>	<u>2,301,232</u>

ELTIP is the Executive Long Term Incentive Plan

(b) Movements in Share Capital of the Company during the half-year were as follows:

Date	Details	Notes	Number of shares '000	Issue price \$	Paid-up Capital \$'000
01/07/2015	Opening Balance		1,089,844		2,301,232
28/08/2015	Dividend Reinvestment Plan	i	5,252	6.03	31,670
28/08/2015	Dividend Substitution Share Plan	ii	366	n/a	-
31/08/2015	Convertible Note conversion	iii	1,878	5.09	9,551
25/11/2015	Share Purchase Plan	v	27,839	5.51	153,340
Various	Unvested LTIP Share cancellation		(13)	n/a	(59)
Various	Other Share Capital adjustments		-		(385)
31/12/2015	Balance		<u>1,125,166</u>		<u>2,495,349</u>

- i The Company has a Dividend Reinvestment Plan under which some shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares was based on the average selling price of shares traded on the Australian Securities Exchange & Chi-X automated trading systems in the five days from the day the shares begin trading on an ex-dividend basis.
- ii The Company has a Dividend Substitution Share Plan under which some shareholders elected to forego all or part of their dividend payment and receive shares instead. Pricing of the new DSSP shares was done on the same basis as the DRP.
- iii During the period, 95,507 6.25% February 2017 convertible notes were converted into ordinary shares.
- iv The Company introduced an on-market Buy-Back Programme in December 2000. This plan remains active. No shares were bought back during the period.
- v The Group had a Share Purchase Plan during the period. Under this plan, shareholders were invited to purchase up to \$15,000 of new shares at a price set at the lower of the DRP price for the previous final dividend or a 5% discount to the 5-day VWAP up to and including the closing date of the offer. 27,839,301 shares were issued at a price of \$5.51. These shares are not entitled to the interim dividend, and are traded separately (under AFINA or AFIND in New Zealand). They will rank equally with the AFI shares after the shares trade ex-dividend for the interim dividend.

(c) Movements in ELTIP shares adjustment during the half-year were as follows (\$):

Date	Opening balance	Acquired on market	Expense recognised	Cancelled	Closing balance
01/07/2015	5,834	0	(5,834)	0	0

8. Dividends	Half-year 2015 \$'000	Half-year 2014 \$'000
Dividends (fully franked) paid during the period (excluding DSSP shares)	150,372 (14 cents per share)	145,077 (14 cents per share)

Dividends not recognised at period end

Since the end of the half-year the Directors have declared an interim dividend of 10 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 19 February 2016, but not recognised as a liability at the end of the half-year is

109,733

9. Earnings per Share	Half-year 2015	Half-year 2014
	Number	Number
Weighted average number of ordinary shares used as the denominator	1,100,344,692	1,067,507,238
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the Company	145,534	131,920
	Cents	Cents
Basic earnings per share	13.23	12.35
Diluted*		
	Number	Number
Weighted average number of ordinary shares attributable to members of the Company	1,100,344,692	1,067,507,238
Weighted maximum number of potential shares as a result of possible conversion	39,813,839	40,261,212
	<hr/> 1,140,158,531	<hr/> 1,107,768,450
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the Company	145,534	131,920
Interest & fees on convertible notes (after tax)	4,568	4,483
Adjusted profit after tax attributable to members of the Company	<hr/> 150,102	<hr/> 136,403
	Cents	Cents
Diluted earnings per share	13.17	12.31

*The calculation of diluted earnings per share for the half-year ended 31 December 2015 adjusts the profit or the net operating result attributable to ordinary equity holders and the weighted average number of shares on issue for the effect of the convertible notes on issue at 31 December 2015.

10. Events subsequent to balance date

Since 31 December 2015 to the date of this report there has been no event specific to the Company of which the Directors are aware which has had a material effect on the Group or its financial position.

11. Contingencies

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

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 23 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance, as represented by the results of the operations, changes in equity and cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



T.A. Campbell AO
Chairman
Melbourne
20 January 2016



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Foundation Investment Company Limited, which comprises the consolidated balance sheet as at 31 December 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, selected 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 during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Foundation Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Foundation Investment Company Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Charles Christie', written in a cursive style.

Charles Christie
Partner

Melbourne
20 January 2016