Australian Foundation
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30 August 2017

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 2017 Statutory Annual Report, Annual Shareholder Review, Notice of Meeting and Proxy Form being sent to shareholders.

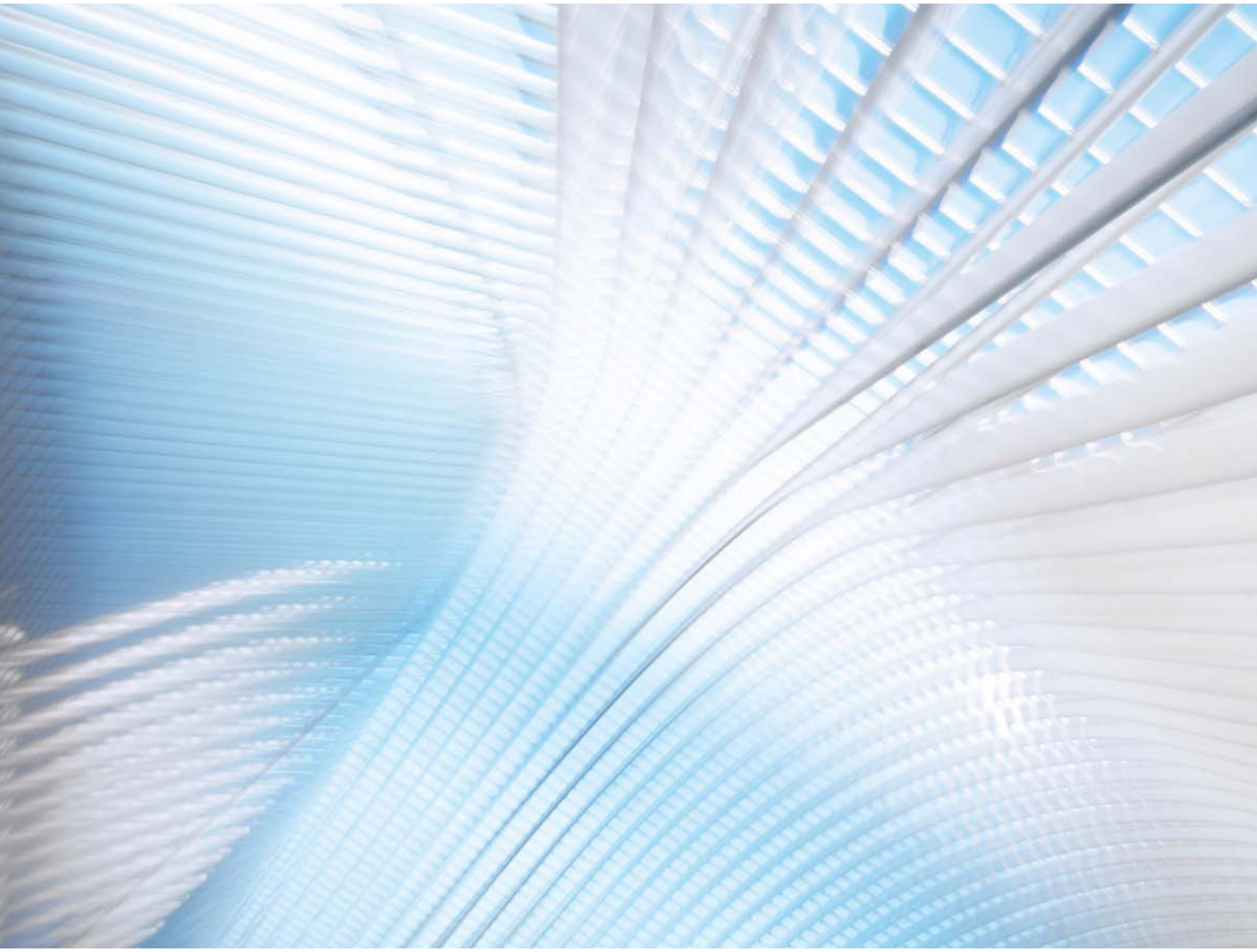
Yours faithfully

Matthew Rowe
Company Secretary

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Report 2017

Contents



Year in Summary

Australian Foundation Investment Company is a listed investment company investing in Australian and New Zealand equities.

Profit for the Year

$245.3m

Down 7.7% from 2016

Fully Franked Dividend

14¢ Final

24¢ Total

Same as 2016

Total Portfolio Return

11.7%

S&P/ASX 200 Accumulation Index +14.1%

Total Shareholder Return

8.0%

Share price plus dividend

Management Expense Ratio

0.14%

0.16% in 2016

Total Portfolio

$6.9b

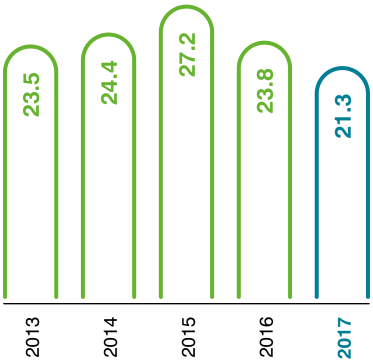
Including cash at 30 June
$6.4 billion in 2016

DIRECTORS' REPORT

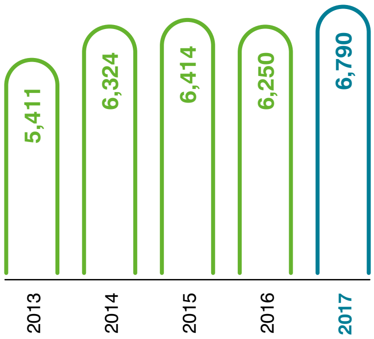
5 Year Summary

Net Profit After Tax ($ Million)

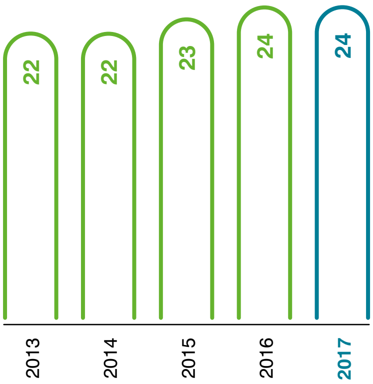
Net Profit Per Share (Cents)



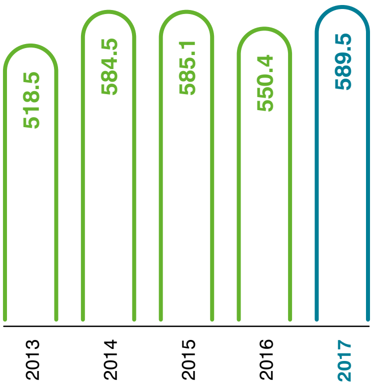
Investments at Market Value ($ Million)[(a)]



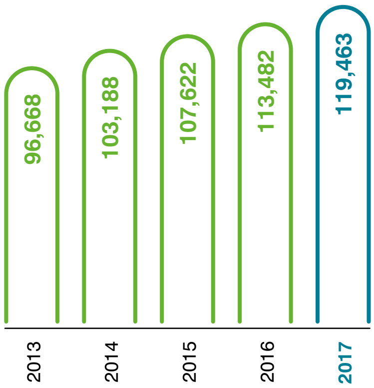
Dividends Per Share (Cents)[(b)]



Net Asset Backing Per Share (Cents)[(c)]



Number of Shareholders (30 June)



Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2017: nil, 2016: 2.1 cents, 2015: 7.1 cents, 2014: nil, 2013: 4.3 cents.

(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 is a listed investment company investing in Australian and New Zealand equities.

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in 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 long-term view on holding positions in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this time frame.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics such as the level of gearing in the balance sheet, product margins and free cash flow. The structure of the industry and a company's competitive position in this industry is also an important indicator of quality.

Linked to this assessment of quality is the ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

Recognising value is also an important aspect of sound long-term investment. Short-term measures such as the price earnings ratio, price to book or price to sales may be of some value but aren't necessarily strong predictors of future performance. Our assessment of value tries to capture the opportunity a business has to prosper and thrive over the medium to long term.

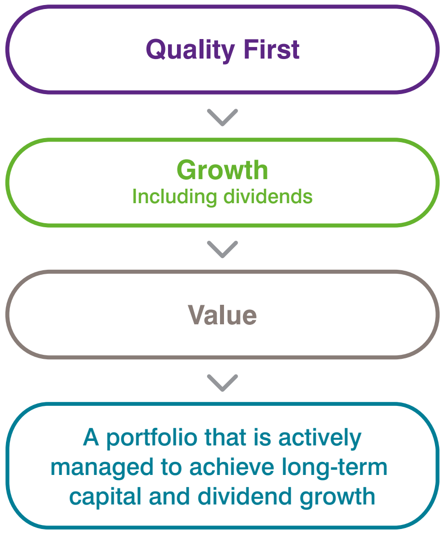
In building the investment portfolio in this way, we believe we can offer investors a well-diversified portfolio across a number of high-quality companies that seek to deliver total returns ahead of the Australian equity market and with less volatility over the long term.

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

From time to time, some borrowings may be used where potential investment returns justify the use of debt. This is managed within very conservative limits, as determined by the Board.

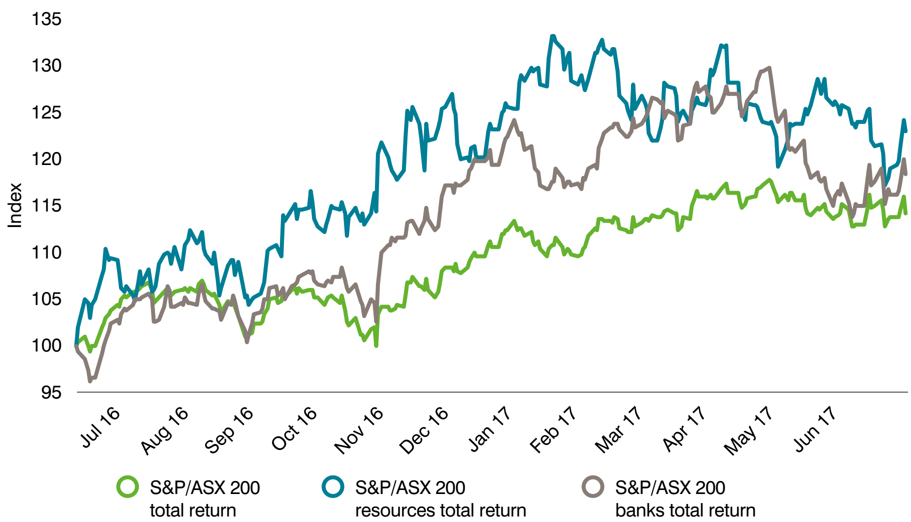
AFIC is managed for the benefit of its shareholders with fees based on the recovery of costs rather than as a fixed percentage of the portfolio. There are no performance fees. As a result the benefit of scale as the portfolio has grown over time results in a very low expense ratio for investors. For 2016/17 this was 0.14 per cent, or 14 cents for each $100 invested.

How AFIC Invests – What We Look For in Companies



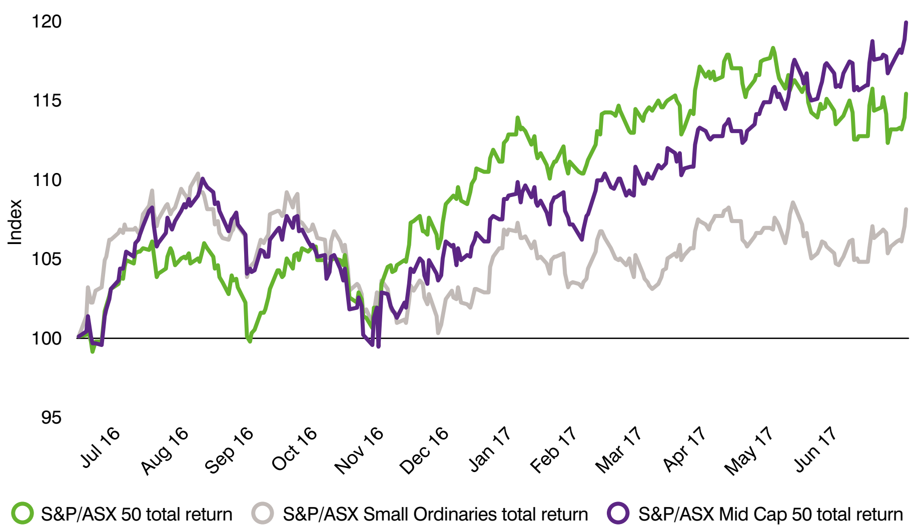
Review of Operations and Activities

Figure 1: Performance of Bank and Resource Sectors Relative to the S&P/ASX 200



Source: FactSet

Figure 2: Performance of Different Sectors of the Market by Size of Company



Source: FactSet

Profit and Dividend

Profit for the year to 30 June 2017 was $245.3 million compared to $265.8 million for the corresponding period last year. The fall was due to the decline in investment income received, primarily as a result of dividend cuts across a range of large companies including resources, energy and supermarkets. The contribution from the trading portfolio was down to $3.1 million (from $12.3 million), as large gains generated in the prior corresponding period were not repeated this year.

The final dividend was maintained at 14 cents per share fully franked, with total dividends for the year 24 cents per share fully franked. This is the same as last year.

Market and Portfolio Performance

The Australian market has risen strongly over the past 12 months as investors embraced a more positive outlook for global growth. In particular this led to rising commodity prices, with the Resources Index up 22.9 per cent over the period after two years of under-performance. The banking sector also enjoyed a strong rebound over the year to produce a return of 18.4 per cent. This was somewhat surprising given the headwinds the sector appears to be facing from regulatory and economic conditions as well as new taxes/levies. However, the dividend yield on offer in this sector remains attractive for income-focused investors.

Poorer performing sectors of the market were Telecommunication Services (down 21.8 per cent), Property Trusts (down 6.3 per cent in response to rising bond yields) and Energy (an increase of 8.0 per cent although in a very strong market).

The mid-cap sector also performed strongly as a result of the performance of the resources sector in this index as well as a number of other companies that enjoyed renewed support such as BlueScope Steel. In AFIC's portfolio a number of companies reflected this, including ALS and Challenger. However, investors displayed more caution toward other smaller companies which had previously been trading at very high share prices. Some experienced significant reductions in value as they lowered their growth expectations.

AFIC's portfolio was up 11.7 per cent for the 12 months to 30 June 2017 compared with the S&P/ASX 200 Accumulation Index, which increased 14.1 per cent. AFIC traditionally invests in the large resource companies such as BHP and Rio Tinto which have globally significant assets, often at the lowest quartile in production costs. As a result, the portfolio was not exposed to the significant rise in the more cyclical, mid-sized resource companies which increased by approximately 76 per cent over the period. In addition, while the portfolio maintains a very strong representation of the four major banks, AFIC's exposure of 24.5 per cent is below the 28 per cent Index exposure to this sector.

The best performing holdings in the investment portfolio by their percentage increase over this period were South 32, Orica, Cover-More Group, Computershare, Challenger and ALS.

The long-term performance of the portfolio for the 10 years to 30 June 2017 (which has a starting point with the Australian market heading toward an all-time high just prior to the GFC) was 4.2 per cent per annum versus the Index return of 3.6 per cent per annum. Including the benefit of the franking credits for those who can fully utilise them, the 10-year return is 6.1 per cent per annum

> *The Australian market has risen strongly over the past 12 months as investors embraced a more positive outlook for global growth.*

whereas the index is 5.2 per cent per annum. AFIC's performance numbers are after expenses and tax paid, whereas the Index does not have expenses or tax.

The share price return did not reflect the portfolio return over the year. The share price to the net asset backing (before tax on unrealised gains) went from a premium of 1.9 per cent to a slight discount of 1.4 per cent by the end the financial year. At the end of February 2017, the five-year convertible notes matured – 94 per cent of all note holders converted their notes, which resulted in an additional 34.3 million shares on issue at that time.

This increase in the number of shares may have contributed to the modest discount which has persisted since the conversion date, although it is pleasing to see this discount has been reducing.

Importantly, over the long term the share price return has performed in line with the longer-term portfolio returns.

Positioning the Portfolio for Long-term Opportunities

Major purchases included Link Administration Holdings which is new to the portfolio. AFIC also added to this holding through participation in its share placement to purchase Capita Asset Services in the United Kingdom. Carsales.com and Isentia Group were also added to the portfolio. Other major additions were to existing holdings in CSL, Brambles (following the recent fall in its share price) and CYBG (Clydesdale Bank).

Major sales included a slight reduction in the AGL and APA Group holdings and the complete disposal of the residual position in Santos early in the year. Cover-More Group and Asciano were sold as a result of the takeovers. The position in Vocus Group, which was added to during the year, was subsequently sold following a marked downturn in its outlook.

Overall purchases in the investment portfolio for the year totalled $257.0 million with sales totalling $217.2 million.

AFIC actively manages the portfolio with 98 holdings currently in the fund. Invariably the portfolio will differ quite markedly from the Index although the Index can provide a useful point of reference for investors. Figure 5 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year and how it differs from the S&P/ASX 200 Index.

AFIC traditionally has not been a large investor in Property Trusts given the observation that over the long term industrial companies have tended to outperform Property Trusts and the distribution from these Trusts do not carry franking credits. AFIC's investment in this sector generally focuses on retail shopping centres with quality assets.

The exposure of the AFIC portfolio by company size is highlighted by the pie chart (Figure 6 on page 7) which shows the percentage of the portfolio invested outside of larger companies. The mid and small-cap company exposure has grown to 23 per cent from 15 per cent two years ago.

How Are We Seeing the Market?

Many sectors in the Australian market are trading at or close to the top of their long-term valuation ranges. While this may be understandable against the backdrop of very low interest rates, the outlook for the Australian economy remains somewhat mixed. The outcome of the current company reporting season is important in providing support for the high share prices of many companies.

On a positive note, global growth may continue to deliver a better than expected outcome for commodity prices. There has also recently been a pickup in non-mining investment. However, as a counter to these trends, high levels of household debt relative to real wages growth is producing a weak outlook for consumption.

Heightened taxation risk from federal and state governments in an environment where budgets are under pressure has unfortunately also become a recent feature of the Australian economy. The latest move to tax the five larger banks is in our view symptomatic of an opportunistic approach to policy. It is not a substitute for a more well-considered comprehensive approach to taxation and budget reform. Reforms are a difficult task for any government, but we believe they are necessary to create a more robust foundation for the Australian economy going forward.

Company Position

Capital Changes

The following changes occurred to the Company's share capital during the year.

Under the Company's Dividend Substitution Share Plan, 428,078 new shares were issued at nil cost in August 2016 and 317,206 new shares were issued at nil cost in February 2017.

Figure 3: Portfolio and Share Price Performance Per Annum – to 30 June 2017

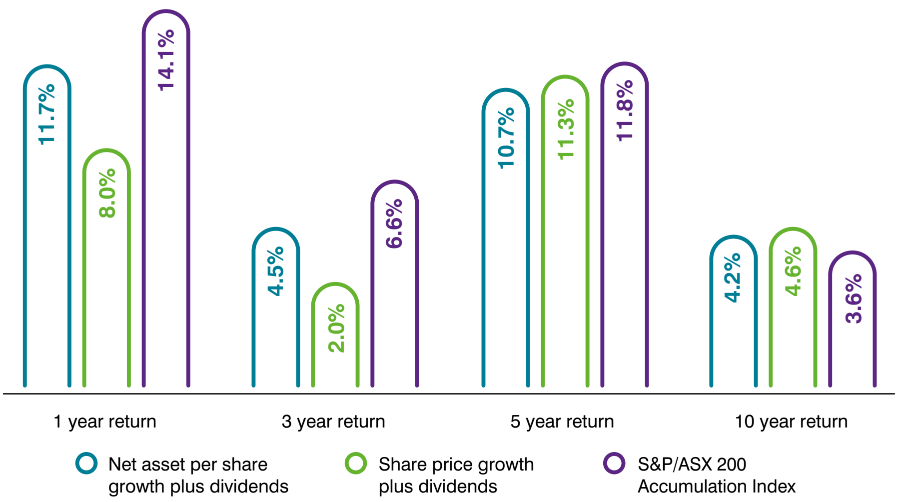
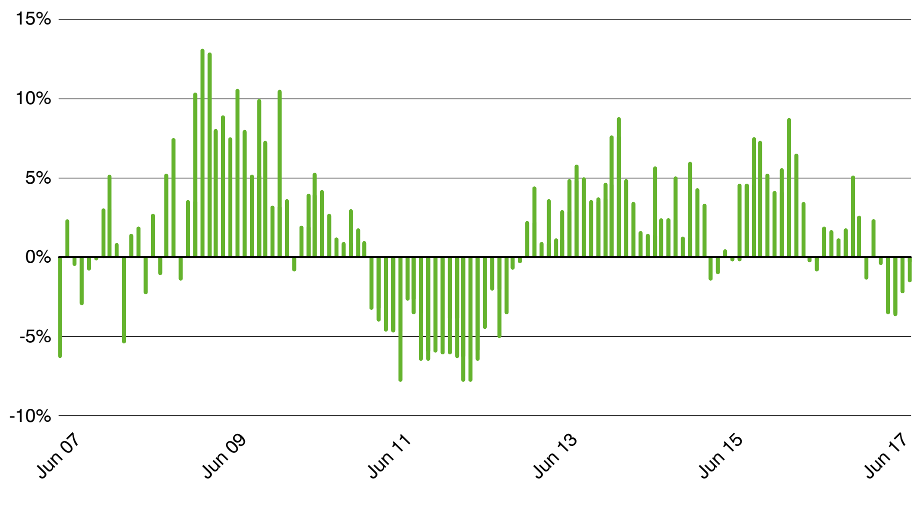


Figure 4: Share Price Premium/Discount to Net Asset Backing



Source: FactSet

Under the Company's Dividend Reinvestment Plan, 5,823,193 new shares were issued at a price of $5.58 in August 2016 and 3,895,311 new shares were issued at a price of $5.84 in February 2017. 1,009,186 new shares were issued at a price of $5.09 per share in August 2016 as a result of the conversion of AFIC convertible notes (AFIC notes).

On 28 February 2017, 34,330,472 new shares were issued at a price of $5.09 per share following the final conversion of 1,746,215 AFIC notes. The remaining 107,221 AFIC notes matured on the 28 February 2017 and the face value of the AFIC notes repaid to those noteholders. 29,233 shares were cancelled due to the non-vesting of these shares under the former Executive Long Term Incentive Plan.

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

The Company's contributed equity, net of share issue costs, rose $234.8 million to $2.8 billion from $2.5 billion. At the close of the year the Company had 1,176 million shares on issue.

Dividends

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

The dividends paid during the year ended 30 June 2017 were as follows:

	$'000
Final dividend for the year ended 30 June 2016 of 14 cents fully franked at 30 per cent, paid 30 August 2016	155,852
Interim dividend for the year ended 30 June 2017 of 10 cents per share fully franked at 30 per cent, paid 24 February 2017	111,899
	267,751

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 listed investment company (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.

Financial Condition

The Company's primary source of funds consists of its shareholders' funds. 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. As at 30 June 2017, the facilities are undrawn.

Figure 5: Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2017

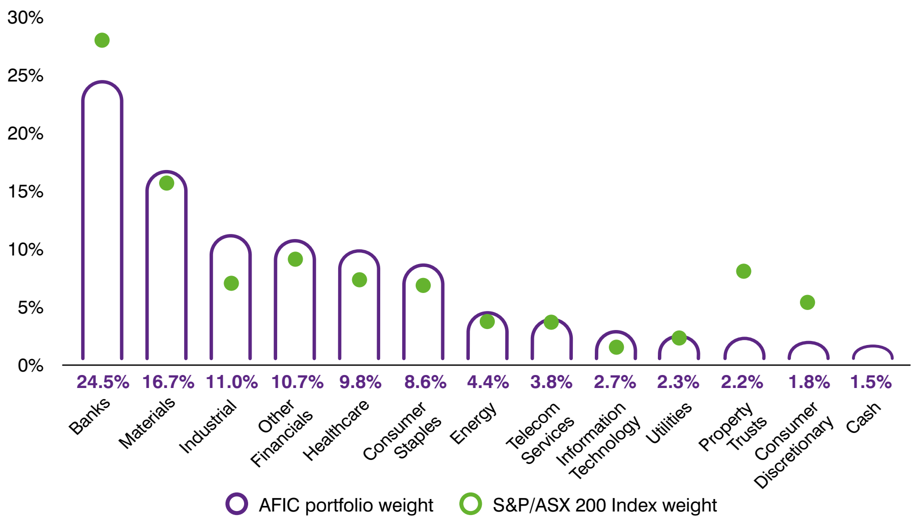


Figure 6: Profile of Portfolio by Size of Company

- Fifty Leaders **77%**
- Mid Cap 50 **12%**
- Small Ordinaries **6%**
- Other (outside of Small Ordinaries) **5%**

Listed Investment Company Capital Gains

Listed investment companies (LIC) which make capital gains on the sale of investments held for more than one year are able to attach to their dividends an LIC capital gains amount which some shareholders are able to use to claim a tax deduction. This is called an 'LIC capital gain attributable part'. The purpose of this is to put shareholders in listed investment companies 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 'listed investment company' 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.

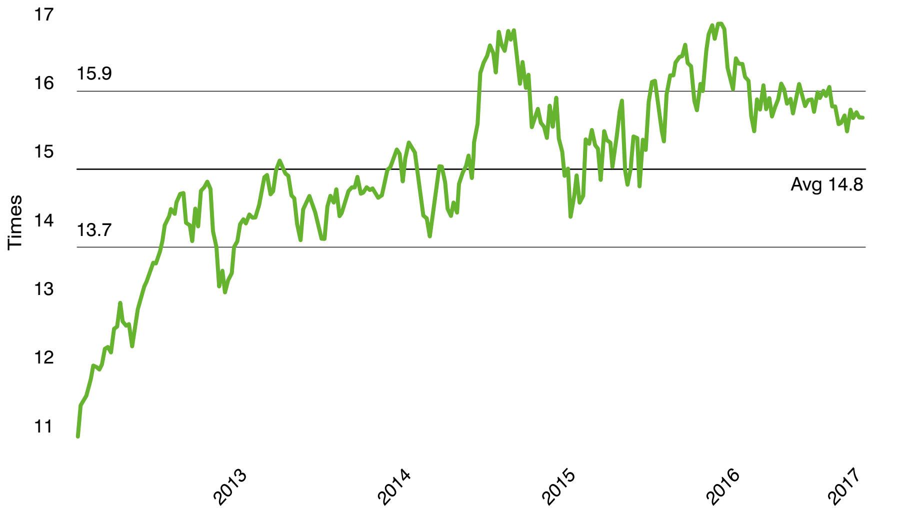
The level of LIC attributable gains are such that no gain was attached to the 2017 final dividend.

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.

Figure 7: ASX 200 Price Earnings Ratio



Source: FactSet

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 which 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 the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Instrument, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Corporate Governance Statement

The Company's Corporate Governance Statement for the financial year ended 30 June 2017 will be found on the Company's website at:

afi.com.au/Corporate-Governance.aspx

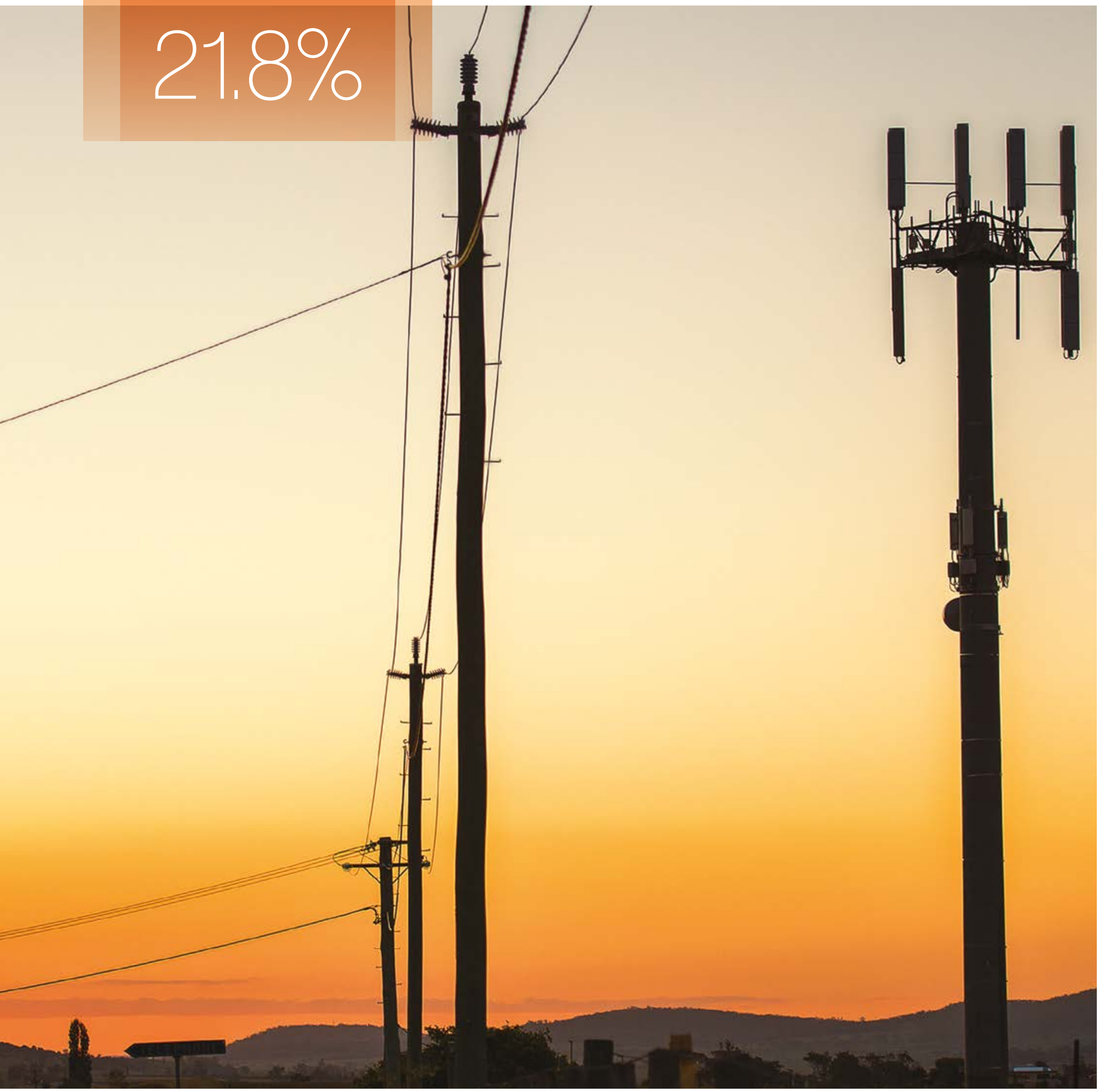
As an overseas listed issuer on the New Zealand Exchange (NZX), the Company is generally deemed to comply with the NZX Listing Rules provided that the Company remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

The ASX governance principles differ from the NZX's corporate governance rules and the principles contained in the NZX corporate governance code. More information about the corporate governance rules and principles of the ASX can be found at asx.com.au and, in respect of the NZX, at nzx.com.

Telecommunications Services down

21.8%

> *Many sectors in the Australian market are trading at or close to the top of their long-term valuation ranges.*



Top 25 Investments

As at 30 June 2017

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 30 June 2017

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	654.2	9.6
2	Westpac Banking Corporation	474.3	7.0
3	BHP*	328.6	4.8
4	National Australia Bank*	294.9	4.3
5	Wesfarmers	269.7	4.0
6	Australia and New Zealand Banking Group	243.8	3.6
7	CSL*	239.7	3.5
8	Rio Tinto	231.0	3.4
9	Telstra Corporation	225.5	3.3
10	Transurban Group	217.3	3.2
11	Amcor	199.4	2.9
12	Brambles*	130.6	1.9
13	Woolworths	129.4	1.9
14	AGL Energy	113.9	1.7
15	Oil Search	112.4	1.7
16	AMP	104.3	1.5
17	Ramsay Health Care	104.1	1.5
18	Woodside Petroleum	98.1	1.4
19	QBE Insurance Group*	93.0	1.4
20	Qube Holdings	91.9	1.4
21	Treasury Wine Estates*	90.3	1.3
22	Incitec Pivot*	76.0	1.1
23	ALS	68.6	1.0
24	Computershare	65.9	1.0
25	James Hardie Industries*	63.8	0.9
Total		4,720.5	

As a percentage of total portfolio value (excludes cash) 69.5%

* 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 Chairman Emeritus Goldman Sachs Australia (formerly Goldman Sachs JBWere) and a former 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.

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.

Jacqueline C Hey B.Com (Melb), Grad Cert (Mgmt). GAICD. Independent Non-Executive Director. Member of the Investment Committee and Nomination Committee.

Ms Hey was appointed to the Board in July 2013. She is a Non-Executive Director of Qantas Limited, Bendigo and Adelaide Bank Limited, AGL, Melbourne Business School Ltd and Cricket Australia. 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 FTSE. 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, a Director of Australia and New Zealand Banking Group Limited, a Director of DuluxGroup 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, Chairman and Director of the Global Foundation and Deputy Chairman of Melbourne Business School Ltd.

John Paterson BCom (Hons) (Melb), CPA, F Fin. Independent Non-Executive Director. Chairman of the Nomination Committee. Member of the Remuneration Committee, Investment Committee and Audit Committee. Chairman of the Company's subsidiary, Australian Investment Company Services Limited (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 is Chairman of Cricket Australia and Brisbane Airport Group Pty Ltd. Mr Peever is a member of the Foreign Investment Review Board. He chaired the Minister of Defence's First Principles Review of Defence and following the acceptance of the review by government now chairs the Oversight Board which helps guide implementation of the Review's recommendations. David is also a Non-Executive Director of Naval Group Australia and Stars Foundation, a not-for-profit body which promotes education of Indigenous girls.

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 to the Board in August 2002. Mrs Walter is Chairman of Melbourne Genomics Health Alliance and the Financial Adviser Standards & Ethics Authority (FASEA) and Deputy Chair of Victorian Funds Management Corporation. Mrs Walter is a Director of the RBA's Payment System Board and a Trustee of the Helen Macpherson Smith Trust. 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 Ltd.

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, Australian Investment Company Services Limited (AICS).

Mr Williams was appointed to the Board in February 2010. He is Chairman of the MIPS Advisory Committee at Fiig Securities Limited. He is a Director of the Australian Baseball Federation Inc., National Australia Trustees Limited (NAB Subsidiary), Foundation for Young Australians Ltd and the Tipping Foundation Ltd and an Advisory Board Member of TLC Aged Care Limited. Mr Williams was formerly Chairman of Olympic Park Sports Medical Centre Pty Ltd, 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.

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 20 years of 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 member of the National Executive of the G100, the peak body for CFOs and was formerly a Non-Executive Director of the Royal Victorian Eye & Ear Hospital.

Matthew Rowe BA (Hons), MSc Corp Gov, FGIA, FCIS. Company Secretary

Mr Rowe joined the Company in July 2016. He is a Chartered Secretary with over 10 years of experience in corporate governance with a particular focus in listed investment companies. He was previously a corporate governance advisor at a professional services firm which included acting as Company Secretary for three ASX-listed companies. Prior to that Matthew was the Company Secretarial Manager for a funds management company based in the United Kingdom.

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 2017 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
TA Campbell	11	11	21	19	-	1*	2	1	1	1
RE Barker	11	10	21	21	-	4*	-	2*	-	-
JC Hey	11	11	21	18	-	2*	-	-	1	1
GR Liebelt	11	11	-	17*	-	2*	2	2	-	-
J Paterson	11	11	21	19	4	4	2	2	1	1
DA Peever	11	11	-	15*	4	4	-	-	-	-
CM Walter	11	11	21	19	4	4	2	2	-	-
PJ Williams	11	11	21	21	4	4	-	1*	1	1

* Attended meetings by invitation.

Retirement, Election and Continuation in Office of Directors

Mrs CM Walter, Mr DA Peever and Mr J Paterson, having been re-elected by shareholders at the 2014 AGM, will retire and, being eligible, will offer themselves for re-election at the forthcoming 2017 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 2017 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year. Shareholders should be aware that AFIC does not bear the total cost of remuneration alone. Due to agreements that the Group's subsidiary, Australian Investment Company Services Limited (AICS) also has with Djerriwarrh Investments Limited, Mirrabooka Investments Limited and AMCIL Limited, a substantial proportion of the total remuneration cost (usually 30 per cent to 40 per cent, depending on the individual), is borne by these other companies. AICS expenses the total amount and recovers the proportion borne by the investment companies through the fees that it charges. This report, therefore, shows the total expense that is borne by AICS and that an individual receives.

The report is structured as follows:

Appendix

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 small proportion of both annual incentives and LTI being dependent on a single year's performance; and
- Executives other than the Chief Investment 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 not required under any of the remuneration schemes to purchase shares in the investment companies, but are encouraged to do so.

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 misstatement of the Company's financial statements.

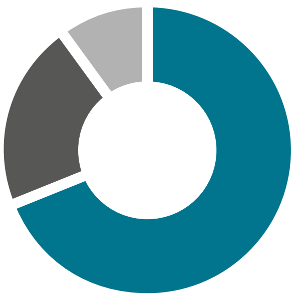
1.2 What is Our Target Remuneration Mix?

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 2017 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 Table 1 on the following page for details of the differences.

Table 1: Actual Executive Remuneration Outcomes

	Total FAR $	Other[1] $	Annual Incentive $	Prior Years' LTI Received[3] $	Dividends on Unvested ELTIP Shares $	Total Remuneration[4] $	Annual Incentive Forfeited $	LTI Forfeited $	Possible Future LTI (to Vest Over Next 4 Years)[5] $
Ross Barker – Managing Director									
2017	**741,837**	**-**	**176,156**	**94,573**	**2,063**	**1,014,629**	**(195,794)**	**(265,639)**	**806,039**
2016	722,227	-	244,826	103,424	6,811	1,077,288	(119,824)	(34,025)	917,069
Mark Freeman – Chief Investment Officer									
2017	**832,000**	**-**	**228,592**	**56,225**	**-**	**1,116,817**	**(187,408)**	**(98,239)**	**501,920**
2016	816,000	-	302,900	126,886	-	1,245,786	(105,100)	(23,810)	539,425
Andrew Porter – Chief Financial Officer									
2017	**637,500**	**-**	**90,576**	**48,637**	**1,125**	**777,838**	**(100,674)**	**(139,188)**	**412,578**
2016	625,000	-	125,888	56,587	3,728	811,203	(61,612)	(18,951)	472,394
Geoff Driver – General Manager – Business Development and Investor Relations									
2017	**525,300**	**-**	**73,689**	**39,146**	**905**	**639,040**	**(83,901)**	**(111,998)**	**337,019**
2016	515,000	-	103,113	44,947	2,958	666,018	(51,387)	(14,107)	382,940
Matthew Rowe – Company Secretary[2]									
2017	**195,513**	**2,000**	**28,056**	**-**	**-**	**225,569**	**(31,944)**	**-**	**32,280**

1. Other relates to a 'sign-on' charge in relation to incentives foregone by Matthew Rowe in joining AFIC.
2. Joined on 11 July 2016.

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 for the old ELTIP. For Mark Freeman, the amount forfeited is the difference between the target amount that would have been paid if all targets were met and the amount paid. For 2017, the amount shown for the other Executives (excluding Mark Freeman and Matthew Rowe who was not eligible for an award under the 2012 LTIP) is the amount that would have been paid to them with respect to the 2012 LTIP should all targets have been achieved. See Table 4.
The value of annual incentive forfeited is the difference between the target amount and the amount awarded. See Table 10.

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

3. 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.
4. Total remuneration in Table 1 includes the amount of dividends paid to Executives in relation to unvested ELTIP shares. For accounting purposes, the dividends are recognised as distributions in equity and not as an expense.
5. 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 estimated amounts payable under the new ELTIP plan 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 Directors' remuneration is provided in Section 5 Non-Executive Directors' of the Remuneration Report.

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 at least annually 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

This section shows:

• How annual incentive measurements are split between AFIC and the other investment companies:

	Executives %	CIO %	Result
AFIC investment performance	24.5	39.75	Table 3
AFIC other metrics	28.5	-	Table 2
AFIC qualitative assessment	-	13.25	n/a
Percentage of annual incentive determined by AFIC performance	53	53	
Other LIC investment performance	12.5	16.67	Table 18
Other LIC other metrics	14.5	-	Table 18
Other LIC qualitative assessment	-	10.33	n/a
Percentage of annual incentive determined by other LICs performance	27	27	
Total percentage of annual incentive determined by AFIC/Other LIC performance	80	80	
Personal metrics	20	20	n/a
	100	100	

See Table 5 for more details on what the measures are.

• The outcomes for the two long term incentive awards (LTI) 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 once again the longer-term targets continue to be met (with the exception of the risk/reward metric), but the short-term and some of the medium-term ones were not. The reasons for this have been set out elsewhere in the Annual Report. This has resulted in under 50 per cent of the target annual incentive being paid to the Executives – due to the slightly different measures used for the investment team, they received slightly over 50 per cent. It should be noted that AFIC's returns are after taxes and expenses and represent the 'net' return to the shareholders, whereas Index returns do not include either. Furthermore, many returns quoted by managed funds exclude either tax or expenses, or both. The use of 'gross returns' mitigates the tax disparity to some extent, as it adds back franking credits to the nominal dividend that the Index pays, and also those that AFIC pays.

With regard to the other investment companies, Djerriwarrh did not meet most of its medium-term benchmarks, although the longer term (10 year) like AFIC were exceeded but also some of the one-year metrics were exceeded. Both AMCIL and Mirrabooka had short-term under-performance this year following on from very strong outperformance figures in recent years, meaning that their medium to long-term performance continued to exceed benchmarks.

The results under the Executive Long Term Incentive Plan in Table 1 are the results of the 2012 award. The four-year Gross Total Share Return at 30 June 2016 exceeded that of the Gross S&P/ASX 200 Gross Accumulation Return (AFI: 14.41 per cent versus 13.43 per cent for the S&P/ASX 200). However, the total portfolio return for the four years was 10.5 per cent which was below the median of the comparator Mercer Index return of 11.6 per cent. Consequently, only 34.1 per cent of the potential award vested, and 65.9 per cent was forfeited. The amounts forfeited also include the last tranche under the former Executive Long Term Incentive Plan which has now ceased.

The 2013 award under the Executive Long Term Incentive Plan was available for vesting as of 30 June 2017. However, the calculations needed to determine how much actually vests are not performed until after the date of the Annual Report. Therefore, the full amount that may vest is shown, and the actual settlement of the 2013 award will take place in the year ended 30 June 2018. The actual amount settled will be reported in the relevant year.

For the investment team whose ELTIP encompasses all of the investment companies (unlike Executives, for which only the AFIC performance is counted) the recent short-term under-performance was reflected in the figures which are measured over four years for both AFIC and Djerriwarrh. Mirrabooka outperformed while AMCIL was in line. 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	14.1%	8.0%	Unfavourable
Share price return – three years	6.6%	2.0%	Unfavourable
Share price return – five years	11.8%	11.3%	Unfavourable
Share price return – eight years	9.5%	8.1%	Unfavourable
Share price return – ten years	3.6%	4.6%	Favourable
Growth in net operating result per share (8.3 per cent)	2.0%	-9.6%	Unfavourable
Management expense ratio compared to base of 0.19 per cent (5.6 per cent)	0.19%	0.14%	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	14.1%	12.3%	Unfavourable
Investment return – three years	6.6%	5.1%	Unfavourable
Investment return – five years	11.8%	11.1%	Unfavourable
Investment return – eight years	9.5%	9.7%	Favourable
Investment return – ten years	3.6%	4.7%	Favourable
Gross return – one year	15.7%	13.7%	Unfavourable
Gross return – three years	8.2%	6.3%	Unfavourable
Gross return – five years	13.5%	12.7%	Unfavourable
Gross return – eight years	11.1%	11.3%	Favourable
Gross return – ten years	5.2%	6.1%	Favourable
Reward to risk – three years	1st qtr	134th/166 4th qtr	Unfavourable
Reward to risk – five years	1st qtr	113th/150 3rd qtr	Unfavourable
Reward to risk – eight years	1st qtr	52nd/119 2nd qtr	Unfavourable
Reward to risk – ten years	1st qtr	33rd/105 2nd qtr	Unfavourable

Outcome

- Achieved
- Partially achieved
- Not achieved

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

Award Date	Assessment Dates	Measure Tested 2017	Benchmark Result	AFIC Result	% Vested	% Forfeited
Old ELTIP – performance shares[1]						
22 August 2011	August 2015 – August 2016	Total portfolio return	10.27%	10.17%	0%	50%
New ELTIP – performance rights[2]						
1 July 2012	30 June 2016	Total gross shareholder return	13.4%	14.4%	34.1%	15.9%
		Total portfolio return	11.6%	10.5%	0%	50%
Investment team LTI						
1 July 2013	30 June 2017	Gross return	10.9%	9.4%	7.7%	92.3%

1. Of the shares awarded in August 2011, 50 per cent vested in prior years as the total shareholder return for the four years to 31 August 2015 was 14.4 per cent, a 47 per cent outperformance of the S&P/ASX 200 Accumulation Index over the same period. The remaining 50 per cent available for vesting under the total portfolio return measure did not meet the required hurdles and were consequently forfeited.
2. Of the rights awarded on 1 July 2012, 34.1 per cent vested as the gross total shareholder return as calculated under the terms of the award was 14.4 per cent against the ASX 200 Gross Return (averaged over 30 days) was 13.4 per cent. The remaining 15.9 per cent did not vest as the out-performance was below the targeted maximum. The 50 per cent eligible to vest under the total portfolio return metric did not vest as the TPR of 10.5 per cent was below the median of the Mercer Wholesale Equity – Australia All Cap Universe which was 11.6 per cent. For the investment team LTI, although nil was awarded for AFIC's performance, the four-year performance of AMCIL and Mirrabooka was such that a small proportion of LTI vested.

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 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 Incentive

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. Measures 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. 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.

Targeted % of FAR	Managing Director 50%	Other Executives 30%	Investment Team 50%
Performance measures	• Company performance (43 per cent) • Investment performance (37 per cent) • Personal objectives (20 per cent) • See Table 11 for details		• See Table 12
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 discretion of the Remuneration Committee
Performance measured in 2017	Some longer-term measures were achieved but shorter-term measures with the exception of the MER were not (see Tables 2 and 3 above).		Some longer-term measures were achieved but shorter-term measures were not (see Tables 2 and 3 above).
Outcomes for 2017 (see Table 10 for details)	47.4 per cent	Average 47.0 per cent	55.0 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. They 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 2017, 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). Table 6 outlines the purpose and the key terms and conditions of each plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executive ELTIP (Performance Rights)	Investment Team LTI Plan
Target	50 per cent of targeted STI	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 outperformance.	
Performance measures	See Table 15 in the Appendix for details.	See Table 15 in the Appendix for details.
Performance for awards tested in 2017 (Table 4)	July 2012: 34.1 per cent vested (see Table 4.)	July 2013: 7.7 per cent vested (see Table 4).

For more detailed information about the LTI plans and their performance conditions, including vesting schedules and outcomes for 2017, please refer to Section C Long Term Incentives: details of outcomes and conditions in the Appendix.

3. Executive Remuneration Expense

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[4] $	Superannuation $
Ross Barker – Managing Director				
2017	**701,436**	**10,401**	**-**	**30,000**
2016	676,826	10,401	-	35,000
Mark Freeman – Chief Investment Officer				
2017	**807,000**	**-**	**-**	**25,000**
2016	791,000	-	-	25,000
Andrew Porter – Chief Financial Officer				
2017	**612,500**	**-**	**-**	**25,000**
2016	600,000	-	-	25,000
Geoff Driver – General Manager – Business Development and Investor Relations				
2017	**495,300**	**-**	**-**	**30,000**
2016	485,000	-	-	30,000
Matthew Rowe – Company Secretary[2]				
2017	**178,377**	**-**	**2,000**	**17,136**

1. Non-cash benefits relate to the provision of a car parking space.
2. Joined effective 11 July 2016.
3. Includes amounts credited for non-vesting.
4. Other relates to 'sign-on' charge in relation to incentives foregone by Matthew Rowe in joining AFIC.

	Short Term	Long-term Share-based Payments				
Total Fixed Remuneration $	Annual Incentives $	LTI Cash-settled[3] $	LTI Equity-settled $	Other Long-term Payments[3] $	Total Remuneration $	% Fixed/ Performance-related
741,837	**176,156**	**38,830**	**-**	**-**	**956,823**	**78%/22%**
722,227	244,826	196,447	2,572	-	1,166,072	62%/38%
832,000	**228,592**	**-**	**-**	**64,161**	**1,124,753**	**74%/26%**
816,000	302,900	-	-	135,606	1,254,506	65%/35%
637,500	**90,576**	**19,386**	**-**	**-**	**747,462**	**85%/15%**
625,000	125,888	100,623	1,402	-	852,913	73%/27%
525,300	**73,689**	**16,901**	**-**	**-**	**615,890**	**85%/15%**
515,000	103,113	81,690	1,128	-	700,931	73%/27%
197,513	**28,056**	**8,070**	**-**	**-**	**233,639**	**85%/15%**

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 Directors' 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 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 Directors' Remuneration

	Primary (Fee/Base Salary) $	Post Employment (Superannuation) $	Total Remuneration $
TA Campbell AO – Chairman			
2017	**164,384**	**15,616**	**180,000**
2016	159,817	15,183	175,000
JC Hey – Non-Executive Director			
2017	**82,192**	**7,808**	**90,000**
2016	79,909	7,591	87,500
GR Liebelt – Non-Executive Director			
2017	**82,192**	**7,808**	**90,000**
2016	79,909	7,591	87,500
J Paterson – Non-Executive Director			
2017	**82,192**	**7,808**	**90,000**
2016	79,909	7,591	87,500
DA Peever – Non-Executive Director			
2017	**82,192**	**7,808**	**90,000**
2016	79,909	7,591	87,500
FD Ryan AO – Non-Executive Director (retired 7 October 2015)			
2017	**-**	**-**	**-**
2016	13,451	9,416	22,867
CM Walter AM – Non-Executive Director			
2017	**82,192**	**7,808**	**90,000**
2016	79,909	7,591	87,500
PJ Williams – Non-Executive Director			
2017	**82,192**	**7,808**	**90,000**
2016	79,909	7,591	87,500
Total Remuneration of Non-Executive Directors			
2017	**657,536**	**62,464**	**720,000**
2016	652,722	70,145	722,867

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.

Table 9: Non-Executive Directors' Retirement Allowance

	Amount Payable on Retirement $
TA Campbell AO	114,500
CM Walter AM	42,385
Total	156,885

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
- monitoring the Group's compliance with 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 appointed Ernst & Young to provide it with advice about Executive Remuneration. The Remuneration Committee uses Ernst & Young from time to time, as it sees fit, to independently test management's recommendations.

Specifically, Ernst & Young would provide advice 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; and

(c) proposed remuneration levels of NEDs.

The Remuneration Committee has not thought it necessary to engage Ernst & Young to provide advice in these areas this year. During the year ended 30 June 2016, Ernst & Young provided general advice on movements in the remuneration levels of Non-Executive Directors in Australia.

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 are 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 KMP.

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 were paid $3,965 during the year ended 30 June 2017 for general remuneration advice including confirmation of vesting calculations (2016: $21,017) and during the year the Group also paid $115,880 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice (2016: $117,150) (all including GST).

Ernst & Young were 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	47.4%	$176,156	52.6%	$195,794
Andrew Porter	47.4%	$90,576	52.6%	$100,674
Geoff Driver	46.8%	$73,689	53.2%	$83,901
Mark Freeman	55.0%	$228,592	45.0%	$187,408
Matthew Rowe	46.8%	$28,056	53.2%	$31,944

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 1, 3, 5, 8 and 10-year periods (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • Growth in net profit per share: measured against CPI. • Management expense ratio (MER): measured against prior years' results or, in the case of AFIC, measured against a base of 0.19 per cent.	• TSR: This is a direct measure of the increase in shareholder's wealth against the performance of the Index. • 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'. • 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 1, 3, 5, 8 and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined S&P/ ASX Mid Cap 50 and Small Ordinaries for Mirrabooka). • 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 1, 3, 5, 8 and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined S&P/ ASX Mid Cap 50 and Small Ordinaries for Mirrabooka). • Risk/reward return: This is a measure over 3, 5, 8 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).	• 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): 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: 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.

Performance Areas and Relative Weighting	Performance Measures	Objectives these Measures Aim to Achieve
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 outperformance 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 1, 3, 5, 8 and 10 years. Measured relative to the S&P/ASX 200 Accumulation Index (Combined S&P/ASX 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 1, 3, 5, 8 & 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined S&P/ASX 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 3, 5, 8 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. 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.

Performance Areas and Relative Weighting	Performance Measures	Objectives these Measures Aim to Achieve
Income generation	• This is relevant for measuring Djerriwarrh Investments Limited's operating earnings as a percentage 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 interaction with staff and presentation skills.	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.	• Personal objectives are included in incentive calculations to encourage outperformance 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*	Value Vested in Current Year*	Maximum Value Yet To Vest
Ross Barker – Managing Director									
2012	$123,470	29,472	14,736	-	14,736	-	$83,258	-	-
Andrew Porter – Chief Financial Officer									
2012	$67,319	16,069	8,035	-	8,035	-	$45,398	-	-
Geoff Driver – General Manager – Business Development and Investor Relations									
2012	$54,144	12,924	6,462	-	6,462	-	$36,510	-	-

* The dollar amounts shown are the market value of the shares at the last possible day of vesting i.e. 31 August 2016 ($5.65) for those forfeited.

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	Award Vested for the Year No of Rights/%	Value Yet to Vest 30 June 2017 $
Ross Barker – Managing Director						
1 July 2012	30 June 2016	$173,000	42,126	$4.107	14,385/34.1%	-
1 July 2013	30 June 2017	$182,000	33,562	$5.423	-	$227,181
1 July 2014	30 June 2018	$178,750	29,707	$6.017	-	$193,679
1 July 2015	30 June 2019	$182,325	29,459	$6.189	-	$185,070
1 July 2016	30 June 2020	$185,975	33,205	$5.601	-	$200,109
Andrew Porter – Chief Financial Officer						
1 July 2012	30 June 2016	$88,970	21,664	$4.107	7,398/34.1%	-
1 July 2013	30 June 2017	$92,000	16,965	$5.423	-	$114,839
1 July 2014	30 June 2018	$92,000	15,290	$6.017	-	$99,684
1 July 2015	30 June 2019	$93,750	15,148	$6.189	-	$95,162
1 July 2016	30 June 2020	$95,625	17,074	$5.601	-	$102,893
Geoff Driver – General Manager – Business Development and Investor Relations						
1 July 2012	30 June 2016	$71,610	17,437	$4.107	5,955/34.1%	-
1 July 2013	30 June 2017	$73,500	13,554	$5.423	-	$91,746
1 July 2014	30 June 2018	$75,750	12,589	$6.017	-	$82,077
1 July 2015	30 June 2019	$77,250	12,482	$6.189	-	$78,413
1 July 2016	30 June 2020	$78,795	14,069	$5.601	-	$84,783
Matthew Rowe – Company Secretary (Joined 11 July 2016)						
11 July 2016	30 June 2020	$30,000	5,356	$5.601	-	$32,280

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount $	Award Vested for the Year $	Award Vested for the Year %	Value Yet to Vest 30 June 2017 $
Mark Freeman – Chief Investment Officer (Investment team LTI)					
1 July 2013	30 June 2017	$160,000	$12,320	7.7%	-
1 July 2014	30 June 2018	$160,000	-	-	$160,000
1 July 2015	30 June 2019	$163,200	-	-	$163,200
1 July 2016	30 June 2020	$166,400	-	-	$166,400

See Table 1 for actual amounts vested and Table 4 for details of vesting calculations.

The value of the outstanding ELTIP performance rights as at 30 June 2017 was estimated using TSR. (The TSR for AFI at 30 June 2017 was 5.8 per cent p.a. for four years, 2.0 per cent p.a. for three years, 1.6 per cent for two years and 8.0 per cent for one year). The after-tax amounts that vested were used in the 2017 year to purchase AFI shares in accordance with the terms of the plan. 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 2017 will be paid to Mark Freeman in the 2018 financial year. During the year ended 30 June 2017, Mark Freeman received $56,225 in respect of the four years ended 30 June 2016, which was 36.4 per cent of the target amount of $154,464. The benchmark annualised return for the period was 13.0 per cent while AFIC's return was 12.4 per cent. As noted last year, Mirrabooka and AMCIL's performance was such that although AFIC narrowly under-performed, a proportion of the award still vested.

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 AFIC 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 outperformance is rewarded. Outperformance 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 period), so that only outperformance 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 outperformance	Straight line between 25 per cent and 50 per cent
	> 20 per cent outperformance	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 which 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

For details of the old ELTIP see the Group's 2016 Annual Report or the website afi.com.au.

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
TA Campbell	396,639	12,623	409,262
RE Barker	890,804	6,450	897,254
JC Hey	18,404	785	19,189
GR Liebelt	152,089	84,804	236,893
J Paterson	435,835	121,402	557,237
DA Peever	19,003	4,811	23,814
CM Walter	180,366	130,803	311,169
PJ Williams	67,431	-	67,431
GN Driver	124,800	5,152	129,952
RM Freeman	133,777	5,445	139,222
MJ Rowe	n/a	3	197
AJB Porter	143,002	32,568	175,570

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	5,875	(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, for John Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable, excluding GST, by the Group during the year was:

	Rental Income Received/Receivable $
J Paterson	25,777
CM Walter	14,169

E. Detailed Performance Measures for AFIC and the Other Investment Companies

Table 18 below shows the performance of AFIC and the other investment companies over the past five years, including details of total shareholder return (TSR), total portfolio return (TPR) and gross return (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	2017	2016	2015	2014	2013
Comparative returns										
S&P/ASX 200 Accumulation Return	3.6%	9.5%	11.8%	9.2%	6.6%	14.1%	0.6%	5.7%	17.4%	22.8%
Gross S&P/ASX 200 Accumulation Return	5.2%	11.1%	13.5%	10.9%	8.2%	15.7%	2.2%	6.8%	19.2%	24.6%
Combined S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	0.9%	8.1%	11.1%	12.7%	11.3%	12.7%	16.1%	5.6%	16.9%	4.8%
Gross Combined S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	1.8%	9.2%	12.2%	13.8%	12.4%	13.8%	17.2%	6.3%	18.0%	5.9%
AFIC										
Total shareholder return	4.6%	8.1%	11.3%	5.8%	2.0%	8.0%	-4.4%	2.8%	17.9%	36.7%
Total portfolio return	4.2%	9.3%	10.7%	7.6%	4.5%	11.7%	-1.6%	3.9%	17.3%	24.4%
Growth in net operating result per share	-0.9%	0.6%	1.5%	-1.2%	-4.2%	-9.6%	-12.4%	11.8%	7.5%	13.2%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.14%	0.16%	0.16%	0.17%	0.18%
Risk/reward return	33rd/105	52nd/119	113th/150	122nd/159	134th/166	119th/169	n/a	139th/176	36th/177	90th/175
Gross return	6.1%	11.3%	12.7%	9.4%	6.3%	13.7%	0.2%	5.6%	19.2%	26.5%

Year Ending 30 June	10-year Return	8-year Return	5-year Return	4-year Return	3-year Return	2017	2016	2015	2014	2013
Investment Return	4.7%	9.7%	11.1%	8.0%	5.1%	12.3%	-1.0%	4.6%	17.0%	24.4%
Djerriwarrh Investments Limited										
Total shareholder return	3.2%	6.0%	5.9%	2.3%	-2.2%	-3.8%	-7.7%	5.2%	17.4%	21.2%
Total portfolio return	2.5%	7.4%	8.3%	5.7%	2.6%	13.0%	-4.5%	0.2%	15.6%	19.0%
Growth in net operating profit per share	-5.8%	-6.7%	-2.5%	-1.0%	-7.8%	-19.9%	-10.0%	10.8%	20.7%	-8.4%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.46%	0.46%	0.41%	0.39%	0.39%
Gross return	5.6%	10.8%	11.7%	9.1%	6.0%	16.6%	-1.1%	3.2%	19.1%	22.5%
Investment return	4.4%	9.0%	9.8%	7.1%	4.2%	13.0%	-2.7%	2.8%	16.3%	21.1%
Operating earnings as a percentage of available investable assets	n/a	n/a	n/a	n/a	n/a	7.1%	8.7%	7.9%	7.6%	6.9%
Mirrabooka Investments Limited										
Total shareholder return	7.0%	14.4%	15.0%	10.2%	6.7%	3.0%	13.1%	4.3%	21.2%	36.6%
Total portfolio return	5.1%	13.0%	12.5%	11.0%	7.3%	7.1%	12.0%	3.1%	22.8%	18.9%
Growth in net operating result per share	-5.5%	-4.1%	-4.6%	-5.4%	-5.0%	-17.8%	16.6%	-10.0%	-7.0%	-1.6%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.62%	0.65%	0.67%	0.64%	0.70%
Gross return	7.8%	16.1%	15.8%	14.4%	10.7%	9.9%	15.4%	6.8%	26.4%	21.2%
Investment return	8.0%	15.5%	15.8%	14.0%	10.1%	9.3%	14.8%	6.5%	26.5%	23.1%
AMCIL Limited										
Total shareholder return	7.3%	12.1%	10.7%	7.7%	3.1%	-1.2%	11.8%	-0.9%	22.7%	23.6%
Total portfolio return	6.3%	10.8%	10.0%	7.4%	5.0%	5.3%	7.6%	2.2%	14.7%	21.1%
Growth in net operating result per share	-4.4%	-0.4%	-5.1%	-9.5%	-10.4%	-32.6%	4.8%	4.3%	-9.6%	14.8%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.68%	0.65%	0.67%	0.65%	0.77%
Gross return	8.5%	13.0%	12.4%	10.0%	7.2%	7.0%	9.7%	5.1%	18.8%	22.5%
Investment return	8.4%	13.1%	12.4%	9.4%	6.7%	7.1%	9.3%	3.9%	17.9%	25.3%

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
24 July 2017

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 2017, 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 entity it controlled during the period.

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
24 July 2017

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FINANCIAL STATEMENTS

Consolidated Income Statement

For the Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Dividends and distributions	A3	270,887	286,128
Revenue from deposits and bank bills	A3	1,659	2,754
Other revenue	A3	5,105	4,742
Total revenue		**277,651**	**293,624**
Net gains on trading portfolio and non-equity investments	A3	3,065	12,297
Income from operating activities		**280,716**	**305,921**
Finance costs		(8,969)	(13,758)
Administration expenses	B1	(14,483)	(14,654)
Profit before income tax expense		**257,264**	**277,509**
Income tax expense	B2, E2	(11,964)	(11,753)
Profit for the year		**245,300**	**265,756**
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		245,029	265,573
Minority interest		271	183
		245,300	**265,756**
		Cents	**Cents**
Basic earnings per share	A5	21.32	23.83
Diluted earnings per share	A5	21.32	23.80

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

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2017

	Year to 30 June 2017			Year to 30 June 2016		
	Revenue[1] $'000	**Capital[1] $'000**	**Total $'000**	Revenue $'000	Capital $'000	Total $'000
Profit for the year	**245,300**	**-**	**245,300**	265,801	(45)	265,756
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains/(losses) for the period	-	500,389	**500,389**	-	(376,045)	**(376,045)**
Tax on above	-	(154,791)	**(154,791)**	-	110,787	**110,787**
Total other comprehensive income	-	**345,598**	**345,598**	-	(265,258)	(265,258)
Total comprehensive income	**245,300**	**345,598**	**590,898**	265,801	(265,303)	498

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'.

	Year to 30 June 2017			Year to 30 June 2016		
	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	245,029	345,598	590,627	265,618	(265,303)	315
Minority interests	271	-	271	183	-	183
	245,300	345,598	590,898	265,801	(265,303)	498

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

Consolidated Balance Sheet

As at 30 June 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash	D1	105,125	155,903
Receivables		52,011	45,358
Trading portfolio		-	-
Total current assets		**157,136**	201,261
Non-current assets			
Investment portfolio	A2	6,790,368	6,250,233
Deferred tax assets		349	1,034
Total non-current assets		**6,790,717**	6,251,267
Total assets		**6,947,853**	6,452,528
Current liabilities			
Payables		6,953	20,932
Tax payable		1,980	14,393
Convertible notes	D3	-	190,057
Trading portfolio		546	226
Provisions		4,448	3,636
Total current liabilities		**13,927**	229,244
Non-current liabilities			
Provisions		1,332	1,796
Deferred tax liabilities – investment portfolio	B2	967,091	812,947
Total non-current liabilities		**968,423**	814,743
Total liabilities		**982,350**	1,043,987
Net assets		**5,965,503**	5,408,541
Shareholders' equity			
Share capital	A1, D7	2,756,256	2,521,441
Revaluation reserve	A1, D4	2,123,209	1,767,628
Realised capital gains reserve	A1, D5	430,912	457,593
General reserve	A1	23,637	23,637
Retained profits	A1, D6	631,070	637,094
Parent entity interest		**5,965,084**	5,407,393
Minority interest		**419**	1,148
Total equity		**5,965,503**	5,408,541

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2017

Year Ended 30 June 2017	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		2,521,441	1,767,628
Dividends paid to shareholders	A4	-	-
Shares issued – Dividend Reinvestment Plan	D7	55,242	-
Shares issued – conversion of notes	D7	179,755	-
Other share capital adjustments		(182)	-
Total transactions with shareholders		234,815	-
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	345,598
Other comprehensive income for the year		-	345,598
Transfer to realised capital gains of cumulative losses on investments sold		-	9,983
Dividend paid to minority interests by AICS		-	-
Total equity at the end of the year		2,756,256	2,123,209

Year Ended 30 June 2016	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		2,301,232	2,152,455
Dividends paid	A4	-	-
Shares issued – Dividend Reinvestment Plan	D7	54,324	-
Shares issued – Share Purchase Plan	D7	153,340	-
Shares issued – conversion of notes	D7	13,091	-
Other share capital adjustments		(546)	-
Total transactions with shareholders		220,209	-
Profit for the year		-	(45)
Other comprehensive income (net of tax)			
Net losses for the period		-	(265,258)
Other comprehensive income for the year		-	(265,258)
Transfer to realised capital gains of cumulative gains on investments sold		-	(119,524)
Total equity at the end of the year		2,521,441	1,767,628

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

	Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
	457,593	**23,637**	**637,094**	**5,407,393**	**1,148**	**5,408,541**
	(16,698)	-	(251,053)	**(267,751)**	**-**	**(267,751)**
	-	-	-	**55,242**	**-**	**55,242**
	-	-	-	**179,755**		**179,755**
	-	-	-	**(182)**	**-**	**(182)**
	(16,698)	-	**(251,053)**	**(32,936)**	**-**	**(32,936)**
	-	-	245,029	**245,029**	**271**	**245,300**
	-	-	-	**345,598**	**-**	**345,598**
	-	-	-	**345,598**	**-**	**345,598**
	(9,983)	-	-	**-**	**-**	**-**
	-	-	-	**-**	**(1,000)**	**(1,000)**
	430,912	**23,637**	**631,070**	**5,965,084**	**419**	**5,965,503**

	Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
	391,773	23,637	576,382	5,445,479	965	5,446,444
	(53,704)	-	(204,906)	(258,610)	-	(258,610)
	-	-	-	54,324	-	54,324
	-	-	-	153,340	-	153,340
	-	-	-	13,091	-	13,091
	-	-	-	(546)	-	(546)
	(53,704)	-	(204,906)	(38,401)	-	(38,401)
	-	-	265,618	265,573	183	265,756
	-	-	-	(265,258)	-	(265,258)
	-	-	-	(265,258)	-	(265,258)
	119,524	-	-	-	-	-
	457,593	23,637	637,094	5,407,393	1,148	5,408,541

Consolidated Cash Flow Statement

For the Year Ended 30 June 2017

	Note	2017 $'000 Inflows/ (Outflows)	2016 $'000 Inflows/ (Outflows)
Cash flows from operating activities			
Sales from trading portfolio		29,002	116,331
Purchases for trading portfolio		(18,305)	(71,428)
Interest received		1,668	3,187
Dividends and distributions received		259,553	244,660
		271,918	292,750
Other receipts		5,111	4,749
Administration expenses		(14,173)	(14,307)
Finance costs paid		(12,550)	(13,125)
Taxes paid		(23,645)	(34,141)
Net cash inflow/(outflow) from operating activities	E1	**226,661**	235,926
Cash flows from investing activities			
Sales from investment portfolio		216,497	610,811
Purchases for investment portfolio		(269,443)	(803,331)
Net cash inflow/(outflow) from investing activities		**(52,946)**	(192,520)
Cash flows from financing activities			
Redeeming of convertible notes		(10,722)	-
Proceeds from share issues		-	153,264
Share issue transaction costs		(59)	(476)
Dividends paid		(213,712)	(204,131)
Net cash inflow/(outflow) from financing activities		**(224,493)**	(51,343)
Net increase/(decrease) in cash held		(50,778)	(7,937)
Cash at the beginning of the year		155,903	163,840
Cash at the end of the year	D1	**105,125**	155,903

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

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

NOTES TO THE FINANCIAL STATEMENTS

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 growing 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.

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

	2017 $'000	2016 $'000
Share capital	2,756,256	2,521,441
Revaluation reserve	2,123,209	1,767,628
Realised capital gains reserve	430,912	457,593
General reserve	23,637	23,637
Retained profits	631,070	637,094
	5,965,084	5,407,393

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, relates to past profits which can be distributed and has had no movement).

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 which 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 consist of securities that are held for short-term trading only, including call option contracts written over securities that are held in the specific sub-component of the investment portfolio and on occasion put options and is relatively small in size. The Board has therefore focused the information in this section on the investment portfolio. Details of all holdings (except for the specific option holdings) as at the end of the reporting period can be found at the end of the Annual Report.

The balance and composition of the investment portfolio was:

	2017 $'000	2016 $'000
Equity instruments (excluding below) at market value	6,495,320	6,039,563
Equity instruments (over which options may be written)	282,754	198,825
Hybrids	12,294	11,845
Convertible notes that are classified as debt	-	-
	6,790,368	6,250,233

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 Board 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 2017 and 30 June 2016 were as follows:

	30 June 2017 $	30 June 2016 $
Net tangible asset backing per share		
Before tax	**5.89**	5.50
After tax	5.07	4.79

Equity Investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' (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

Where securities are sold, any difference between the sale price and the cost 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 'listed investment company' (LIC) gain as part of the dividend, which conveys certain taxation benefits to many of AFIC's shareholders.

During the period, $217.2 million (2016: $598.0 million) of equity securities were sold. The cumulative loss on the sale of securities was $10.0 million for the period after tax (2016: $119.5 million gain). 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.

A3. Operating Income

The total income received from AFIC's investments in 2017 is set out below.

	2017 $'000	2016 $'000
Dividends from securities held in investment portfolio at 30 June	264,658	272,530
Income from investment securities sold during the year	6,120	13,251
Dividends from securities held in trading portfolio at 30 June	109	99
Interest income from securities in investment portfolio	-	-
Income from trading and non-equity securities sold during the year	-	248
	270,887	**286,128**
Interest income		
Income from cash investments	1,659	2,754
Other income		
Administration fees	5,022	4,600
Other income	83	142
	5,105	**4,742**

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.

Net gains		2017 $'000	2016 $'000
Net realised gains from trading portfolio	– shares	470	9,403
	– options	1,912	3,700
Unrealised gains/(losses) from trading portfolio	– shares	496	(364)
	– options	187	(377)
Losses from non-equity investments		-	(65)
		3,065	12,297

$112.9 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2016: $99.8 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 $82.4 million worth of securities at an agreed price – the 'exposure' (2016: $78.0 million). If all put options were exercised, this would lead to the purchase of $18.4 million of securities at an agreed price (2016: $1.2 million)

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2017 are shown below:

(a) Dividends Paid During the Year	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 14 cents fully franked at 30 per cent paid 30 August 2016 (2016: 14 cents fully franked at 30 per cent paid on 28 August 2015).	155,852	150,372
Interim dividend for the year ended 30 June 2017 of 10 cents per share fully franked at 30 per cent, paid 24 February 2017 (2016: 10 cents fully franked at 30 per cent paid 19 February 2016).	111,899	108,238
	267,751	**258,610**
Dividends paid in cash	212,509	204,286
Dividends reinvested in shares	55,242	54,324
	267,751	**258,610**
Dividends forgone via DSSP	**4,241**	3,699
(b) Franking Credits		
Opening balance of franking account at 1 July	159,869	137,698
Franking credits on dividends received	92,267	100,883
Tax paid during the year	23,164	33,707
Franking credits paid on ordinary dividends paid	(114,750)	(110,832)
Franking credits deducted on DSSP shares issued	(1,820)	(1,587)
Closing balance of franking account	**158,730**	159,869
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	16,008	28,674
Adjusted closing balance	**174,738**	188,543
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(70,565)	(67,818)
Net available	**104,173**	120,725
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	243,070	281,692

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

	2017 $'000	2016 $'000
(Figures in A$ at year-end exchange rate: 2017: $NZX1.047:$A1; 2016: $NZ1.045: $A1)		
Opening balance	7,660	13,485
Imputation credits on dividends received	6,284	6,182
Imputation credits on dividends paid	-	(11,991)
Closing balance	**13,944**	**7,676**

Three New Zealand cents per share of the dividend to be paid on 30 August 2017 will have a New Zealand imputation credit attached. This will utilise, at the above exchange rates, $13.1 million of the above balance.

(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 2017 to be paid on 30 August 2017, but not recognised as a liability at the end of the financial year is:	164,651	

(e) Listed Investment Company Capital Gain Account

	2017 $'000	2016 $'000
Balance of the listed investment company (LIC) capital gain account:	9,883	19,854
This equates to an attributable amount of:	14,118	28,363

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. No LIC gain is attached to the final dividend to be paid on 30 August 2017.

A5. Earnings Per Share

The table below shows the earnings per share based on the profit for the year:	2017	2016
Basic earnings per share	**Number**	Number
Weighted average number of ordinary shares used as the denominator	1,149,255,591	1,114,522,875
	$'000	$'000
Profit for the year	245,029	265,573
	Cents	Cents
Basic earnings per share	21.32	23.83
Diluted earnings per share	**Number**	Number
Weighted average number of ordinary shares attributable to members of the Company	1,149,255,591	1,114,522,875
Weighted maximum number of potential shares as a result of possible conversion	-	38,947,258
	1,149,255,591	**1,153,470,133**
	$'000	$'000
Profit after tax for the year attributable to members of the Company	245,029	265,573
Interest and costs on convertible notes (after tax)	-	8,982
Adjusted profit after tax attributable to members of the Company	**245,029**	**274,555**
	Cents	Cents
Diluted earnings per share	21.32	23.80

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2017 $'000	2016 $'000
Rental expense relating to non-cancellable leases	(636)	(574)
Employee benefit expenses	(9,138)	(9,382)
Depreciation charge	-	-
Other administration expenses	(4,709)	(4,698)

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 $	Total $
2017					
Non-Executive Directors	657,536	-	62,464	-	720,000
Executives	3,404,083	64,161	127,136	83,187	3,678,567
Total	**4,061,619**	**64,161**	**189,600**	**83,187**	**4,398,567**
2016					
Non-Executive Directors	652,722	-	70,145	-	722,867
Executives	3,657,197	135,606	131,090	384,593	4,308,486
Total	4,309,919	135,606	201,235	384,593	5,031,353

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:

(a) Reconciliation of Income Tax Expense to Prima Facie Tax Payable

	2017 $'000	2016 $'000
Profit before income tax expense	257,264	277,509
Tax at the Australian tax rate of 30 per cent (2016: 30 per cent)	77,179	83,253
Tax offset for franked dividends received	(63,495)	(69,764)
Tax effect of sundry items taxable in current year but not included in income	322	344
	14,006	13,833
Over provision in prior years	(2,042)	(2,080)
Total tax expense	11,964	11,753

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.

	2017 $'000	2016 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	967,091	812,947
Opening balance at 1 July	812,947	930,152
Charged to Income Statement for puttable instruments/non-equity investments	-	(20)
Tax on realised gains	(647)	(6,398)
(Credited) Charged to OCI for ordinary securities on gains or losses for the period	154,791	(110,787)
	967,091	812,947

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 have led to a reduction in AFIC's comprehensive income of $237.7 million and $475.3 million respectively, at a tax rate of 30 per cent (2016: $218.8 million and $437.5 million). The revaluation reserve at 30 June 2017 was $2.12 billion (2016: $1.77 billion). It would require a fall in the value of the investment portfolio of 45 per cent after tax to fully deplete this (2016: 40 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 total investment exposure by sector is as below:

	2017 %	2016 %
Energy	4.37	4.60
Materials	16.73	14.73
Industrials	10.96	11.18
Consumer discretionary	1.80	1.80
Consumer staples	8.64	8.25
Banks	24.52	23.71
Other financials	10.69	10.07
Property trusts	2.18	2.79
Telecommunications	3.79	6.01
Health care	9.80	10.35
Information technology	2.67	1.47
Utilities	2.33	2.61
Cash	1.52	2.43
Securities representing over 5 per cent of the investment portfolio at 30 June were:		
Commonwealth Bank	9.6	9.5
Westpac	7.0	7.3

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.

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short term for a fixed interest rate.

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 in cash management trusts which invest predominantly in securities with an A1+ rating. 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 two 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.

30 June 2017	**Less than 6 Months $'000**	**6–12 Months $'000**	**Greater than 1 Year $'000**	**Total Contractual Cash Flows $'000**	**Carrying Amount $'000**
Non-derivatives					
Payables	6,953	-	-	6,953	6,953
	6,953	**-**	**-**	**6,953**	**6,953**
Derivatives					
Options in trading portfolio*	18,352	-	-	18,352	3,839
	18,352	**-**	**-**	**18,352**	**3,839**

30 June 2016	Less than 6 Months $'000	6–12 Months $'000	Greater than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
Non-derivatives					
Payables	20,932	-	-	20,932	20,932
Convertible notes	-	190,477	-	190,477	190,057
	20,932	190,477	-	211,409	210,989
Derivatives					
Options in trading portfolio*	1,200	-	-	1,200	3,022
	1,200	-	-	1,200	3,022

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

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 further information about the basis of calculation of line items in the financial statements.

D1. Current Assets – Cash

	2017 $'000	2016 $'000
Cash at bank and in hand (including on-call)	103,125	149,403
Fixed term deposits	2,000	6,500
	105,125	155,903

Cash holdings yielded an average floating interest rate of 1.93 per cent (2016: 2.25 per cent). All cash investments are held in a transactional account or an over-night 'at call' account invested in cash management trusts which invest predominantly in securities with an A1+ rating.

D2. Credit Facilities

	2017 $'000	2016 $'000
Commonwealth Bank of Australia – cash advance facilities	140,000	140,000
Amount drawn down	0	0
Undrawn facilities	**140,000**	140,000
Westpac Bank – cash advance facilities	10,000	10,000
Amount drawn down	0	0
Undrawn facilities	**10,000**	10,000
Total short-term loan facilities	150,000	150,000
Amount drawn down	0	0
Undrawn facilities	**150,000**	150,000

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

D3. Convertible Notes

	2017 $'000	2016 $'000
Current unsecured – convertible notes at amortised cost	-	190,057

All notes not converted were redeemed at their face value on 28 February 2017.

D4. Revaluation Reserve

	2017 $'000	2016 $'000
Opening balance at 1 July	1,767,628	2,152,455
Gains/(losses) on investment portfolio		
– Equity instruments	500,389	(376,045)
– Puttable/debt instruments (transferred from retained profits)	-	(65)
Provision for tax on above	(154,791)	110,807
Cumulative taxable realised (gains)/losses (net of tax)	9,983	(119,524)
	2,123,209	**1,767,628**

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

	2017 $'000	2016 $'000
Opening balance at 1 July	457,593	391,773
Dividends paid	(16,698)	(53,704)
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	(9,983)	119,524
	430,912	**457,593**

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

	2017 $'000	2016 $'000
Opening balance at 1 July	637,094	576,382
Dividends paid	(251,053)	(204,906)
Profit for the year	245,029	265,573
Transfer to revaluation reserve (puttable instruments and non-equity investments) (net of tax)	-	45
	631,070	**637,094**

This reserve relates to past profits.

D7. Share Capital

Movements in Share Capital

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/07/2015	Balance		1,089,844		2,301,238
28/08/2015	Dividend Reinvestment Plan	(i)	5,252	6.03	31,670
28/08/2015	Dividend Substitution Share Plan	(ii)	366	6.03	n/a
31/08/2015	Convertible note conversion	(iv)	1,878	5.09	9,551
25/11/2015	Share Purchase Plan	(v)	27,839	5.51	153,340
19/02/2016	Dividend Reinvestment Plan	(i)	4,172	5.43	22,654
19/02/2016	Dividend Substitution Share Plan	(ii)	275	5.43	n/a
28/02/2016	Convertible note conversion	(iv)	696	5.09	3,540
Various	Cancellation of ELTIP shares not vested		(17)	n/a	(71)
Various	Costs of issue		-	-	(481)
30/6/2016	Balance		1,130,305		2,521,441
30/08/2016	Dividend Reinvestment Plan	(i)	5,823	5.58	32,493
30/08/2016	Dividend Substitution Share Plan	(ii)	428	5.58	n/a
31/08/2016	Convertible note conversion	(iv)	1,009	5.09	5,133
24/02/2017	Dividend Reinvestment Plan	(i)	3,895	5.84	22,749
24/02/2017	Dividend Substitution Share Plan	(ii)	317	5.84	n/a
28/02/2017	Convertible note conversion	(iv)	34,331	5.09	174,622
Various	Cancellation of ELTIP shares not vested		(29)	n/a	(123)
Various	Costs of issue		-	-	(59)
30/6/2017	Balance		1,176,079		2,756,256

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

(ii) The Group has a Dividend Substitution Share Plan (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 (2016: nil).

(iv) See Note D3. 1,797,547 Feb 2017 convertible notes were converted into shares during the year (2016: 130,908).

(v) During the year ended 30 June 2016, the Group had a Share Purchase Plan. Shareholders were invited to subscribe for $15,000 worth of new shares. Pricing was set at a 5.0 per cent discount to the Volume Weighted Average Price of the shares traded on the five days up to and including the closing date of the offer. Shares issued under the SPP were not entitled to the interim dividend paid on 19 February 2016.

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

	2017 $'000	2016 $'000
Profit for the year	245,300	265,756
Fair value movement in puttable instruments	-	45
Net decrease/(increase) in trading portfolio	320	2,156
Dividends received as securities under DRP investments	(1,870)	(10,906)
Decrease/(increase) in current receivables	(6,653)	701
– Less increase/(decrease) in receivables for investment portfolio	5,129	(179)
Increase/(decrease) in deferred tax liabilities	154,829	(117,712)
– Less (increase)/decrease in deferred tax liability on investment portfolio	(154,144)	117,205
Increase/(decrease) in current payables	(13,979)	10,149
– Less decrease/(increase) in payables for investment portfolio	9,943	(10,496)
– Less (increase)/decrease in dividends payable	80	(153)
Increase/(decrease) in provision for tax payable	(12,413)	(15,657)
Movement in ELTIP account	-	6
Capital gains tax charge taken through equity	(647)	(6,398)
Increase/(decrease) in other provisions/non-cash items (including convertible note expenses)	766	1,409
Net cash flows from operating activities	**226,661**	235,926

E2. Tax Reconciliations

Tax Expense Composition

	2017 $'000	2016 $'000
Charge for tax payable relating to the current year	13,321	14,360
Over provision in prior years	(2,042)	(2,080)
Charged to Income Statement for puttable instruments/non-equity investments	-	(20)
(Increase)/decrease in deferred tax assets	685	(507)
	11,964	11,753

Amounts Recognised Directly through Other Comprehensive Income

Net (decrease)/increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	154,791	(110,787)
	154,791	(110,787)

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2017 $'000	2016 $'000
(a) Tax on unrealised gains or losses in the trading portfolio	(100)	219
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,740	1,862
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(1,291)	(1,047)
	349	1,034
Movements:		
Opening asset balance at 1 July	1,034	527
Credited/(charged) to Income Statement	(685)	507
	349	1,034

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 $1.4 million (2016: $0.8 million). This relates primarily to items described in items (a) and (c) above plus current provisions regarding employee entitlements.

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 J Paterson and C Walter have rented office space and, for J Paterson, 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, excluding GST, during the year was $39,945 (2016: $41,243).

(b) AICS Transactions with Minority Interests

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

	2017 $'000	2016 $'000
Administration expenses charged for the year	2,437	2,412

(c) AICS Transactions with Other Listed Investment Companies

AICS had the following transactions with other listed investment companies to which it provides services:

	2017 $'000	2016 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,481	1,433
Administration expenses charged for the year to AMCIL Ltd	918	780

F2. Remuneration of Auditors

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

	2017 $	2016 $
PricewaterhouseCoopers		
Audit or review of Financial Reports	248,256	205,247
AFSL compliance audit and review	9,925	9,925
Non-audit Services		
Taxation compliance services	81,444	38,819
Total remuneration	**339,625**	253,991

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 two investments comprising more than 10 per cent of AFIC's income, including realised income from the trading and options written portfolios – Commonwealth Bank (11.8 per cent) and Westpac Bank (10.4 per cent).

F4. Summary of Other Accounting Policies

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board (AASB) 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 2017 ('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 Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30-day VWAP price to determine the number of performance shares that may vest at the vesting point in 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 1, 50 per cent of the total estimated cost in Year 2 less the expense charged in Year 1, 75 per cent of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100 per cent of the total estimated cost in Year 4 less the expense charged in Years 1, 2 and 3.

Shares are no longer awarded under the previous Senior Executive Long Term Incentive Plan. Shares acquired to satisfy obligations under the old Senior Executive Long Term Incentive plans were 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 was 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 did not complete the period of service, the cumulative expense was reversed. The fair value of the shares was determined at the award date and was based on:

- the market price of the shares at award date;
- allowance for the impact of the holding restriction between award date and vesting date; and
- the expected performance of the Group in meeting the market hurdles which determine vesting.

Any shares that did not ultimately vest were cancelled by offsetting the relevant component of the ELTIP shares adjustment account against share capital. The reduction in share capital was 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 was 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 listed investment companies. The associated fees are recognised on an accruals basis as income throughout the year. Any amounts outstanding at balance date are recognised as receivable, subject to the assessment of recoverability by the Directors.

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 the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Instrument, 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 Australian Securities and Investments Commission (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

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.

14,331 shares (2016: 19,648 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $80,048 (2016: $121,411).

(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 vested between four and five years after grant date, entirely dependent on the achievement of set quantitative measures, the total shareholder return (TSR) and the total portfolio return (TPR), which reflect the movement in the share price of the Company (TSR) and in the portfolio of investments in which the Company has invested shareholders' funds (TPR). The number of shares that vested was based on the highest cumulative performance level achieved under each category. Shares that did not vest were transferred back to the Group for no consideration and were cancelled.

Should an Executive cease employment prior to the shares vesting, then all unvested shares may have been 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 Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this 30-day VWAP price to determine the number of Performance Rights that may vest at the vesting point in 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 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.

69,704 rights were awarded under the plan during the year ended 30 June 2017 (2016: 66,784). An expense of $437,634 (2016: $267,351) was incurred for the 2013/14, 2014/15, 2015/16 and 2016/17 plans. 53,489 rights under the 2012/13 plan were forfeited during the year.

Set out below is a summary of AFIC shares awarded under the old Executive Long Term Incentive Plan:

2017 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 2011	August 2015 – August 2016	**29,233**	**-**	**-**	**(29,233)**	**-**

2016 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	18,266	-	(6,088)	(12,178)	-
August 2011	August 2015 – August 2016	66,845	-	(33,422)	(4,190)	29,233
		85,111	-	(39,510)	(16,368)	29,233

(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.

$140,114 under this plan vested in the period (2016: $314,564) 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 need to be held for three years. After three years, or the departure of the employee from employment with the Group, the shares come out of the holding lock.

In addition, each employee is eligible for an additional award of up to $5,000. 50 per cent of the amount awarded is used to buy shares in one of the other LICs that AICS provides services to. The amount that is awarded is dependent on the metrics used for the vesting of the investment team's Short Term Incentive (excluding personal measures). During the year, 71 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in Mirrabooka Investments Limited.

(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 any reversals and the Investment Team Long Term Incentive Plan) were as follows:

	2017 $'000	2016 $'000
Share-based payment expense	498	306

(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 seven years. Current commitment relating to leases at balance date, for the current lease (including GST), is:

	2017 $'000	2016 $'000
Due within one year	667	667
Later than one year but less than five	2,669	2,669
Greater than five years	-	667
	3,336	4,003

F8. Principles of Consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent, and its subsidiary, Australian Investment Company Services Ltd (AICS). 25 per cent of AICS is owned by Djerriwarrh Investments Ltd, another investment company for which AICS performs operational and investment administration 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 F10 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:

			Equity Holding	
Name of Entity	Country of Incorporation	Class of Shares	2017	2016
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:

	2017 $'000	2016 $'000
Balance sheet		
Current assets	150,696	192,774
Total assets	**6,941,111**	**6,442,443**
Current liabilities	8,612	226,466
Total liabilities	**977,124**	**1,038,344**
Shareholders' equity		
Issued capital	2,756,256	2,521,441
Reserves		
Revaluation reserve	2,123,209	1,767,628
Realised capital gains reserve	430,912	457,593
General reserve	23,637	23,637
Retained earnings	629,973	633,800
	3,207,731	**2,882,658**
Total shareholders' equity	**5,963,987**	**5,404,099**
Profit or loss for the year	**247,216**	**265,024**
Total comprehensive income	**592,814**	**(235)**

DIRECTORS’ DECLARATION

In the Directors’ opinion:

(1) the financial statements and notes set out on pages 37 to 61 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 2017 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 2017. 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.

Terry Campbell

Terrence Campbell AO
Chairman

Melbourne
24 July 2017

pwc

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

Report on the audit of the financial report

Our opinion

In our opinion the accompanying financial report of Australian Foundation Investment Company Limited (the Company) and its controlled entity (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

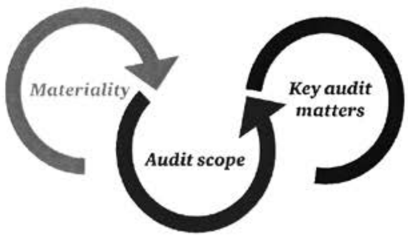
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



Materiality

- For the purpose of our audit we used overall group materiality of 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.We chose net assets as the benchmark because, in our view, net assets is;
  - the metric against which the performance of the group is most commonly measured; and
  - the key driver of the business and determinant of the Group's value.
- We selected 1% based on our professional judgement, noting that it is within the range of commonly acceptable net asset related thresholds.

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
- Our audit focused on where subjective judgements were made; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group operates entirely out of its Melbourne office and we perform our audit procedures predominantly at that office.
- The administration and investment operations for the Group are conducted by the Company's subsidiary, Australian Investment Company Services Limited. In addition to our audit procedures, we obtained a report from other auditors that the controls over administration and investment operations operating at Australia Investment Company Services Limited were suitably designed and operated effectively for the year. We assessed the report by considering the other auditor's independence, competency and results of procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of the investment portfolios *(Refer to note A2) $6,790m* Investments mostly consist of listed Australian equities and exchange traded options which are valued by multiplying the quantity held by market price. Whilst there is no significant judgement in determining the valuation of the Group's investments, investments represent a key measure of the Group's performance and comprise a significant proportion of total assets in the balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the statement of comprehensive income which also affects the deferred tax provisions. Given the pervasive nature investments have on the Group's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.	1) Performed an investment reconciliation of the investments balance from the opening investment balance, addition/subtraction of purchases, sales and other relevant transactions and agreeing back to the 30 June 2017 balance. 2) Agreed all the investment quantity holdings at 30 June 2017 to independent third party sources. 3) Agreed all the listed equities investment prices to independent market pricing sources. 4) Agreed all the exchange traded options prices to independent market pricing confirmations. 5) Obtained a report on whether the controls over investment purchase and sales transactions were suitably designed and operated effectively for the year and assessed the report.

Other information

The directors are responsible for the other information. The other information comprises the Director's Report, Additional Information section and Other Information section included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar2.pdf This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Australian Foundation Investment Company limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

PricewaterhouseCoopers

Charles Christie
Partner

24 July 2017

OTHER INFORMATION

Information About Shareholders and Noteholders

At 20 July 2017 there were 119,865 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings
1 to 1,000	31,939
1,001 to 5,000	41,279
5,001 to 10,000	19,960
10,001 to 100,000	25,620
100,000 and over	1,067
Total	**119,865**

Percentage held by the 20 largest holders	5.41%
Average shareholding	9,820

There were 2,609 shareholdings of less than a marketable parcel of $500 (84 shares).

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.

Major Shareholders

The 20 largest registered holdings of ordinary shares as at 20 July 2017 are listed below:

Ordinary Shares	Shares Held	%
HSBC Custody Nominees (Australia) Limited	7,658,438	0.65
IOOF Investment Management Limited <IPS Super A/C>	6,186,150	0.53
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,801,037	0.49
Bougainville Copper Limited	5,367,734	0.46
Navigator Australia Ltd <MLC Investment Sett A/C>	4,190,450	0.36
Citicorp Nominees Pty Limited	4,016,438	0.34
Custodial Services Limited <Beneficiaries Holding A/C>	3,269,316	0.28
Trustees of the Redemptorist Fathers	2,878,000	0.24
Investment Custodial Services Limited <C A/C>	2,636,477	0.22
Bushways Pty Ltd	2,570,592	0.22
Netwealth Investments Limited <Wrap Services A/C>	2,501,597	0.21
J P Morgan Nominees Australia Limited	2,300,254	0.20
Investment Custodial Services Limited <C A/C>	2,290,914	0.19
National Nominees Limited	2,042,771	0.17
Kalymna Pty Ltd	1,852,186	0.16
Peter & Lyndy White Foundation Pty Ltd <P & L White Foundation A/C>	1,725,072	0.15
Ioof Investment Management Limited <IPS IDPS A/C>	1,698,200	0.14
Invia Custodian Pty Limited < RISF A/C >	1,577,377	0.13
Australian Executor Trustees Limited <No 1 Account>	1,514,816	0.13
Netwealth Investments Limited <Super Services A/C>	1,506,059	0.13

Major Transactions in the Investment Portfolio

Acquisitions	Cost $'000
Link Administration Holdings (including $6.11 million in 4 for 11 issue at $6.75 per share)	26,867
CSL	19,701
Carsales.com	18,537
Brambles	16,063
CYBG	12,103
Isentia Group	12,065
Vocus Group (subsequently sold)	11,831
Cochlear	11,551

Disposals	Proceeds $'000
AGL Energy	24,835
Cover-More Group (takeover by Zurich Insurance)	21,568
Vocus Group#	17,154
Asciano (takeover by Qube/Brookfield Infrastructure consortium)	16,280
Santos#	12,385
APA Group	12,107

Complete disposal from the portfolio.

New Companies Added to the Investment Portfolio

Link Administration Holdings

Carsales.com

Isentia Group

Altium

Sub-underwriting

The Company did not participate as a sub-underwriter in any transactions during the year.

Substantial Shareholders

The Company has not been notified of any substantial shareholders.

Transactions in Securities

During the year ended 30 June 2017, the Company recorded 942 transactions in securities. $1,275,891 in brokerage (including GST) was paid or accrued for the year.

Holdings of Securities

At 30 June 2017

Individual investments for the combined investment and trading portfolios as at 30 June 2017 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 which 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 2016 '000	**Number Held 2017 '000**	**Market Value 2017 $'000**
AAC	Australian Agricultural Company	9,764	9,764	18,113
ACX	Aconex	884	1,084	4,044
AGL	AGL Energy	5,590	4,465	113,858
AIA	Auckland International Airport	1,770	1,770	11,983
ALQ	ALS	9,205	9,205	68,581
ALU	Altium	0	625	5,356
AMC	Amcor	12,300	12,300	199,383
AMP	AMP	20,100	20,100	104,321
ANN	Ansell	1,284	1,284	30,466
ANZ	Australia and New Zealand Banking Group	8,488	8,488	243,767
APA	APA Group	6,450	5,075	46,538
APE	AP Eagers	769	1,404	11,737
ARB	ARB Corporation	1,198	1,198	18,822
ASX	ASX	709	709	37,993
AWC	Alumina	5,513	5,513	10,585
AZJ	Aurizon Holdings	4,380	2,315	12,408
BGA	Bega Cheese	2,203	2,873	18,702
BHP	BHP*	13,991	14,118	328,598
BKW	Brickworks	1,503	1,503	20,726
BLD	Boral	4,008	4,008	27,859
BXB	Brambles*	11,930	13,442	130,599
CAR	Carsales.com*	0	1,520	17,100
CBA	Commonwealth Bank of Australia	7,965	7,900	654,199
CCL	Coca-Cola Amatil	5,160	5,160	47,627
CGF	Challenger*	4,065	4,265	56,492
COH	Cochlear	75	124	19,276
CPU	Computershare	4,660	4,660	65,892
CSL	CSL*	1,649	1,739	239,668
CSR	CSR	3,109	3,109	13,153
CTX	Caltex Australia	579	669	21,150
CVW	Clearview Wealth	4,547	6,179	8,960
CYB	CYBG PLC*	2,524	5,124	24,009
DJW	Djerriwarrh Investments	7,505	7,505	27,620
DLX	DuluxGroup	2,556	2,556	17,739

Holdings of Securities continued

At 30 June 2017

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2016 '000	Number Held 2017 '000	Market Value 2017 $'000
DUI	Diversified United Investment	12,030	12,030	44,752
EQT	EQT Holdings	1,303	1,303	23,080
EVT	Event Hospitality & Entertainment	1,030	1,030	13,775
FLT	Flight Centre Travel Group	241	241	9,228
FNP	Freedom Foods Group	4,507	4,507	21,632
FPH	Fisher & Paykel Healthcare Corporation	5,008	5,008	54,337
HSO	Healthscope	29,000	26,700	59,007
IAG	Insurance Australia Group*	5,226	6,066	40,599
ICQ	iCar Asia	4,555	22,030	5,838
IEL	IDP Education	880	880	4,478
ILU	Iluka Resources*	3,142	3,642	30,841
INM	Iron Mountain	202	202	8,892
IPL	Incitec Pivot*	22,280	22,280	75,973
IRE	IRESS	3,124	3,737	47,427
ISD	Isentia Group	0	3,800	8,170
IVC	InvoCare	1,150	1,150	16,905
JHC	Japara Healthcare	14,007	14,007	29,416
JHX	James Hardie Industries*	3,001	3,111	63,759
LIC	Lifestyle Communities	5,470	5,470	22,155
LNK	Link Administration	0	3,396	25,790
MFT	Mainfreight	2,550	2,840	63,701
MIR	Mirrabooka Investments	8,728	8,728	23,565
MLT	Milton Corporation	11,841	10,841	48,895
MPL	Medibank Private	2,000	2,000	5,600
MQG	Macquarie Group*	583	700	61,616
MYX	Mayne Pharma Group	20,361	20,361	22,092
NAB	National Australia Bank*	9,994	9,969	294,897
NVT	Navitas	3,678	3,678	17,836
OFX	OzForex Group	4,470	4,250	6,843
ORA	Orora	12,864	12,864	36,791
ORG	Origin Energy	6,000	6,000	41,160
ORI	Orica	2,712	2,712	56,076
OSH	Oil Search	16,483	16,483	112,411
PPT	Perpetual	1,061	1,061	59,284
QBE	QBE Insurance Group*	7,874	7,874	92,970
QUB	Qube Holdings	31,759	34,962	91,950

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2016 '000	Number Held 2017 '000	Market Value 2017 $'000
REA	Realestate.com.au	344	384	25,495
REG	Regis Healthcare	5,355	5,355	21,045
REH	Reece	318	318	13,368
RHC	Ramsay Health Care	1,520	1,415	104,144
RIO	Rio Tinto	3,652	3,652	231,046
RMD	ResMed	3,900	3,935	39,507
RWC	Reliance Worldwide Corporation	2,400	2,400	8,016
S32	South32	17,721	15,241	40,846
SCG	Scentre Group	12,950	12,950	52,448
SEK	Seek*	3,315	3,315	56,011
SHL	Sonic Healthcare*	1,966	1,841	44,405
SOL	Washington H Soul Pattinson	1,709	1,709	28,482
SUN	Suncorp Group	3,640	3,770	55,871
SYD	Sydney Airport*	8,700	8,500	60,176
TCL	Transurban Group	18,335	18,335	217,273
TGG	Templeton Global Growth Fund	12,106	12,106	16,464
TLS	Telstra Corporation	52,445	52,445	225,514
TOX	Tox Free Solutions	8,645	9,046	21,711
TPM	TPG Telecom	5,340	6,228	35,502
TWE	Treasury Wine Estates*	6,882	6,882	90,323
VCX	Vicinity Centres*	15,628	16,378	42,086
WBC	Westpac Banking Corporation	15,545	15,545	474,278
WES	Wesfarmers	6,723	6,723	269,707
WFD	Westfield Corporation	4,933	5,823	46,755
WOW	Woolworths	5,020	5,065	129,360
WPL	Woodside Petroleum	3,283	3,283	98,060
XRO	Xero	437	437	10,570
Total				**6,777,528**

* 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 2016 '000	Number Held 2017 '000	Market Value 2017 $'000
RHCPA	Ramsay Health Care Convertible Adjustable Rate Equity Securities	115	115	12,294
Total				**12,294**

Issues of Securities

Date of Issue	Type	Price	Remarks
24 February 2017	DRP/DSSP*	$5.84	
30 August 2016	DRP/DSSP*	$5.58	2.5 per cent discount
19 February 2016	DRP/DSSP*	$5.43	2.5 per cent discount
25 November 2015	SPP	$5.51	5.0 per cent discount
28 August 2015	DRP/DSSP*	$6.03	2.5 per cent discount
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	

Date of Issue	Type	Price	Remarks
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.

* Note that for the shares issued under the DSSP, the price shown is the indicative price used to determine the number of shares issued to participants. Shares issued under the DSSP are issued at nil cost. Shareholders who sell shares issued under the DSSP should consult their tax adviser as to the correct treatment of such sales for taxation purposes.

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
Catherine M Walter AM
Peter J Williams

Company Secretaries
Matthew J Rowe
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
Website	afi.com.au
Email	invest@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 Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder Enquiry Line	1300 662 270
	+61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com/contact

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

Australian and New Zealnd Securities Exchange Codes

AFI	Ordinary shares (ASX and NZX)

Shareholder Meetings

Australia

Annual General Meeting
Time 10.00am
Date Thursday 12 October 2017
Venue RACV City Club
Location 501 Bourke Street
Melbourne

Adelaide Meeting
Time 10.00am
Date Friday 20 October 2017
Venue Adelaide Convention Centre
Location Panorama Rooms, North Terrace
Adelaide

Brisbane Meeting
Time 10.00am
Date Monday 23 October 2017
Venue Hilton Hotel
Location 190 Elizabeth Street
Brisbane

Sydney Meeting
Time 10.00am
Date Friday 27 October 2017
Venue Four Seasons Hotel
Location 199 George Street
Sydney

New Zealand

Tauranga Meeting
Time 10.00am
Date Friday 1 December 2017
Venue Trinity Wharf
Location 51 Dive Crescent
Tauranga

Auckland Meeting
Time 10.00am
Date Monday 4 December 2017
Venue Hilton Hotel
Location 147 Quay Street
Auckland

Christchurch Meeting
Time 10.00am
Date Tuesday 5 December 2017
Venue The George Hotel
Location 50 Park Terrace
Christchurch

Wellington Meeting
Time 10.00am
Date Wednesday 6 December 2017
Venue Intercontinental Hotel
Location 2 Grey Street
Wellington

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Review 2017

Contents

Australian Foundation Investment Company is a listed investment company investing in Australian and New Zealand equities.

Year in Summary

Profit for the Year

$245.3m

Down 7.7% from 2016

Total Shareholder Return

8.0%

Share price plus dividend

Fully Franked Dividend

14¢ Final

24¢ Total

Same as 2016

Management Expense Ratio

0.14%

0.16% in 2016

Total Portfolio Return

11.7%

S&P/ASX 200 Accumulation Index +14.1%

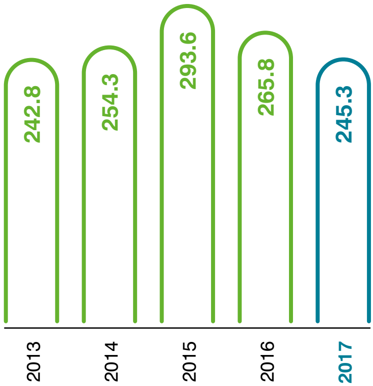
Total Portfolio

$6.9b

Including cash at 30 June
$6.4 billion in 2016

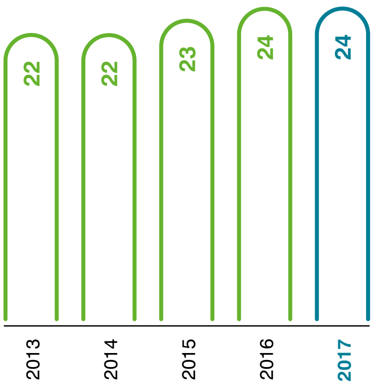
5 Year Summary

Net Profit After Tax ($ Million)

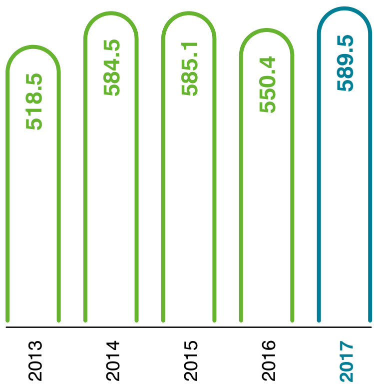


Net Profit Per Share (Cents)

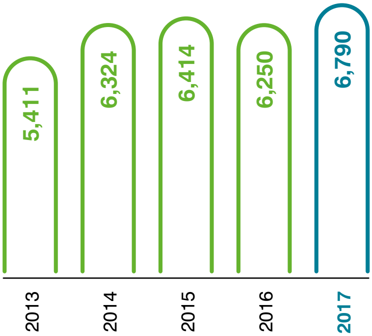
Dividends Per Share (Cents)[b]



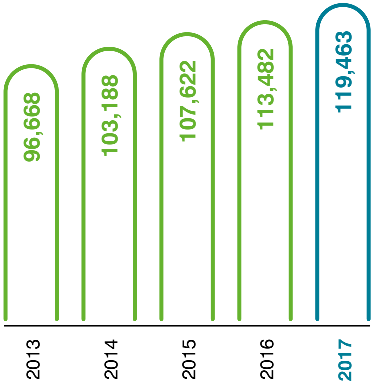
Net Asset Backing Per Share (Cents)[c]



Investments at Market Value ($ Million)[(a)]



Number of Shareholders (30 June)



Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2017: nil, 2016: 2.1 cents, 2015: 7.1 cents, 2014: nil, 2013: 4.3 cents.

(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 is a listed investment company investing in Australian and New Zealand equities.

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in 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 long-term view on holding positions in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this time frame.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics such as the level of gearing in the balance sheet, product margins and free cash flow. The structure of the industry and a company's competitive position in this industry is also an important indicator of quality.

Linked to this assessment of quality is the ability of companies to grow earnings over time which ultimately should produce good dividend growth.

How AFIC Invests – What We Look For in Companies

Quality First

Growth
Including dividends

Value

A portfolio that is actively managed to achieve long-term capital and dividend growth

Recognising value is also an important aspect of sound long-term investment. Short-term measures such as the price earnings ratio, price to book or price to sales may be of some value but aren't necessarily strong predictors of future performance. Our assessment of value tries to capture the opportunity a business has to prosper and thrive over the medium to long term

In building the investment portfolio in this way, we believe we can offer investors a well-diversified portfolio across a number of high-quality companies that seeks to deliver total returns ahead of the Australian equity market and with less volatility over the long term.

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

From time to time some borrowings may be used where potential investment returns justify the use of debt. This is managed within very conservative limits, as determined by the Board.

AFIC is managed for the benefit of its shareholders with fees based on the recovery of costs rather than as a fixed percentage of the portfolio. There are no performance fees. As a result, the benefit of scale as the portfolio has grown over time results in a very low expense ratio for investors. For 2016/17 this was 0.14 per cent, or 14 cents for each $100 invested.

Review of Operations and Activities

Profit and Dividend

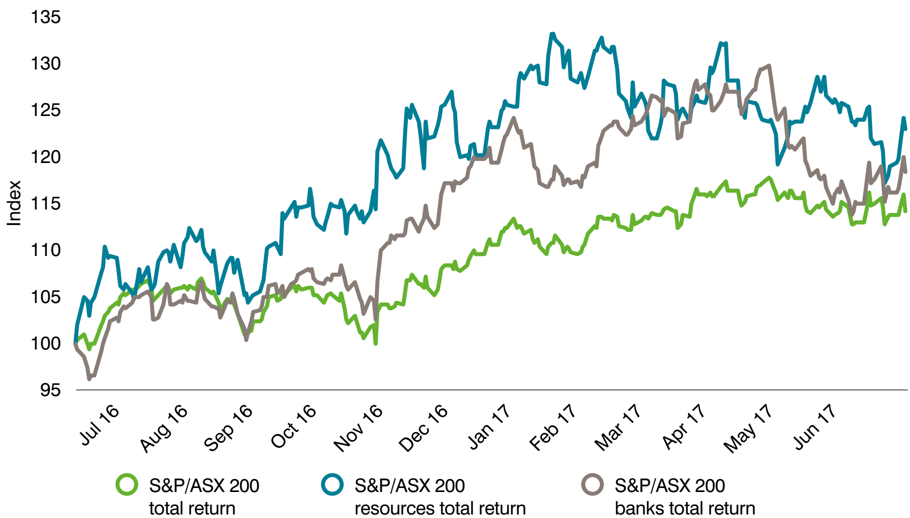
Profit for the year to 30 June 2017 was $245.3 million compared to $265.8 million for the corresponding period last year. The fall was due to the decline in investment income received, primarily as a result of dividend cuts across a range of large companies including resources, energy and supermarkets. The contribution from the trading portfolio was down to $3.1 million (from $12.3 million), as large gains generated in the prior corresponding period were not repeated this year.

The final dividend was maintained at 14 cents per share fully franked, with total dividends for the year 24 cents per share fully franked. This is the same as last year.

Market and Portfolio Performance

The Australian market has risen strongly over the past 12 months as investors embraced a more positive outlook for global growth. In particular, this led to rising commodity prices, with the Resources Index up 22.9 per cent over the period after two years of under-performance. The banking sector also enjoyed a strong rebound over

Figure 1: Performance of Bank and Resource Sectors Relative to the S&P/ASX 200



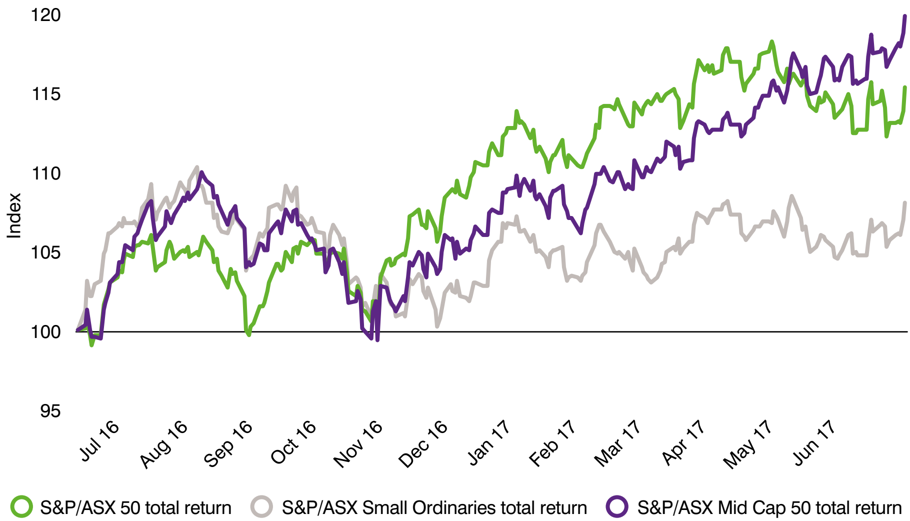
Source: FactSet

the year to produce a return of 18.4 per cent. This was somewhat surprising given the headwinds the sector appears to be facing from regulatory and economic conditions as well as new taxes/levies. However the dividend yield on offer in this sector remains attractive for income-focused investors.

Poorer performing sectors of the market were Telecommunication Services (down 21.8 per cent), Property Trusts (down 6.3 per cent in response to rising bond yields) and Energy (an increase of 8.0 per cent although in a very strong market).

The mid-cap sector also performed strongly as a result of the performance of the resources sector in this index as well as a number of other companies that enjoyed renewed support such as BlueScope Steel. In AFIC's portfolio a number of companies reflected this, including ALS and Challenger. However, investors displayed more caution toward other smaller companies which had previously been trading at very high share prices. Some experienced significant reductions in value as they lowered their growth expectations.

Figure 2: Performance of Different Sectors of the Market by Size of Company



Source: FactSet

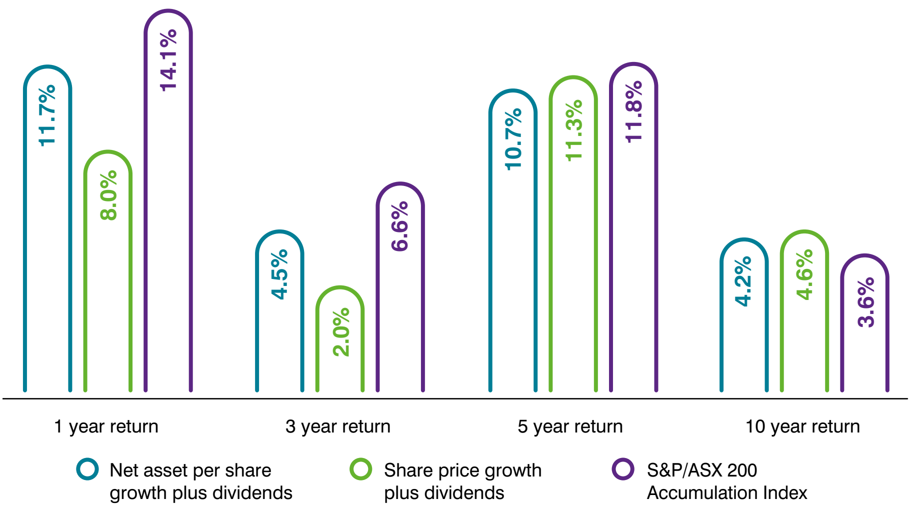
Review of Operations and Activities continued

AFIC's portfolio was up 11.7 per cent for the 12 months to 30 June 2017 compared with the S&P/ASX 200 Accumulation Index, which increased 14.1 per cent. AFIC traditionally invests in the large resource companies such as BHP and Rio Tinto which have globally significant assets, often at the lowest quartile in production costs. As a result, the portfolio was not exposed to the significant rise in the more cyclical, mid-sized resource companies which increased by approximately 76 per cent over the period. In addition, while the portfolio maintains a very strong representation of the four major banks, AFIC's exposure of 24.5 per cent is below the 28 per cent Index exposure to this sector.

The best performing holdings in the investment portfolio by their percentage increase over this period were South 32, Orica, Cover-More Group, Computershare, Challenger and ALS.

The long-term performance of the portfolio for the 10 years to 30 June 2017 (which has a starting point with the Australian market heading toward an all-time high just prior to the GFC) was 4.2 per cent per annum versus the Index's return of 3.6 per cent per annum. Including the benefit of the franking credits for those who can fully utilise them, the 10-year return is 6.1 per cent per annum whereas the index is 5.2 per cent per annum. AFIC's performance numbers are after expenses and tax paid whereas the Index does not have expenses or tax.

Figure 3: Portfolio and Share Price Performance Per Annum – to 30 June 2017



Resources Index up

22.9%

"The Australian market has risen strongly over the past 12 months as investors embraced a more positive outlook for global growth."

The share price return did not reflect the portfolio return over the year. The share price to the net asset backing (before tax on unrealised gains) went from a premium of 1.9 per cent to a slight discount of 1.4 per cent by the end the financial year. At the end of February 2017, the five-year convertible notes matured – 94 per cent of all note holders converted their notes, which resulted in an additional 34.3 million shares on issue at that time. This increase in the number of shares may have contributed to the modest discount which has persisted since the conversion date, although it is pleasing to see this discount has been reducing.

Importantly over the long term the share price return has performed in line with the longer-term portfolio returns.

Positioning the Portfolio for Long-term Opportunities

Major purchases included Link Administration Holdings which is new to the portfolio. AFIC also added to this holding through participation in its share placement to purchase Capita Asset Services in the United Kingdom. Carsales.com and Isentia Group were also added to the portfolio. Other major additions were to existing holdings in CSL, Brambles (following the recent fall in its share price) and CYBG (Clydesdale Bank).

Major sales included a slight reduction in the AGL and APA Group holdings and the complete disposal of the residual position in Santos early in the year. Cover-More Group and Asciano were sold as a result of the takeovers. The position in Vocus Group, which was added to during the year, was subsequently sold following a marked downturn in its outlook.

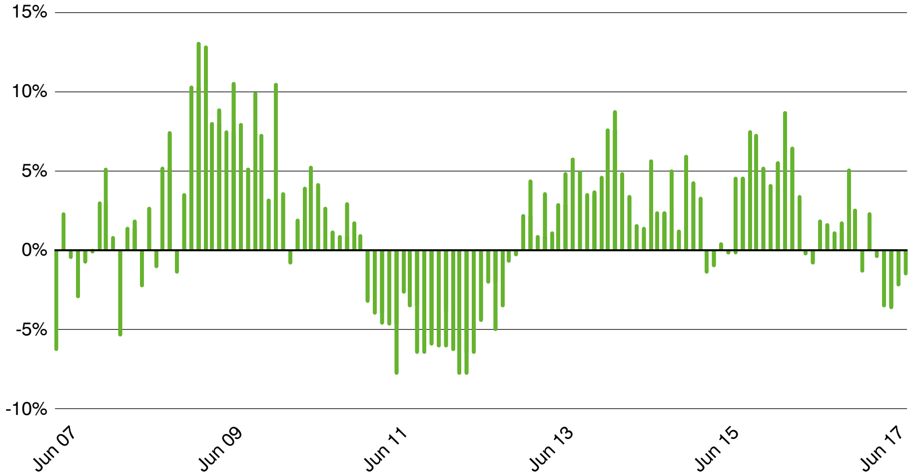
Overall purchases in the investment portfolio for the year totalled $257.0 million with sales totalling $217.2 million.

AFIC actively manages the portfolio with 98 holdings currently in the fund. Invariably the portfolio will differ quite markedly from the Index although the Index can provide a useful point of reference for investors. Figure 5 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year and how it differs from the S&P/ASX 200 Index.

AFIC traditionally has not been a large investor in Property Trusts given the observation that over the long term industrial companies have tended to outperform Property Trusts and the distribution from these Trusts do not carry franking credits. AFIC's investment in this sector generally focuses on retail shopping centres with quality assets.

The exposure of the AFIC portfolio by company size is highlighted by the pie chart (Figure 6 on page 12) which shows the percentage of the portfolio invested outside of larger companies. The mid and small-cap company exposure has grown to 23 per cent from 15 per cent two years ago.

Figure 4: Share Price Premium/Discount to Net Asset Backing



Source: FactSet

Figure 5: Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2017

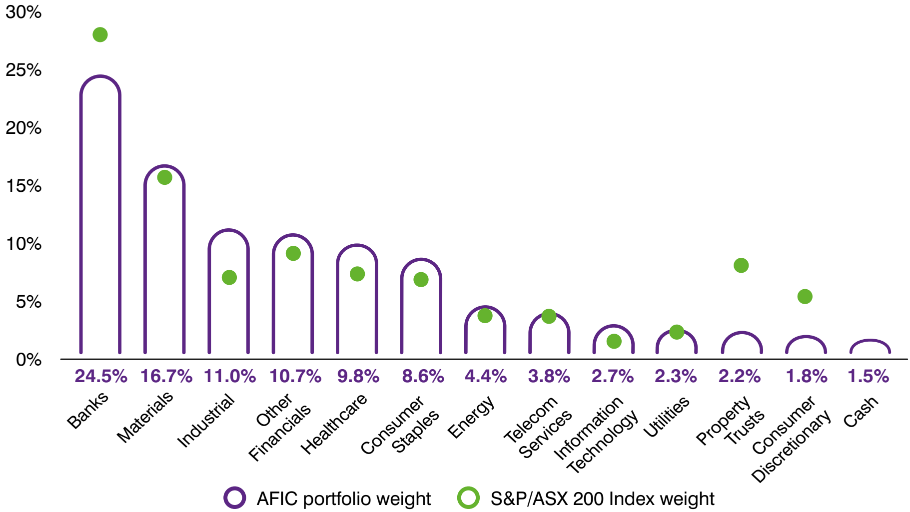
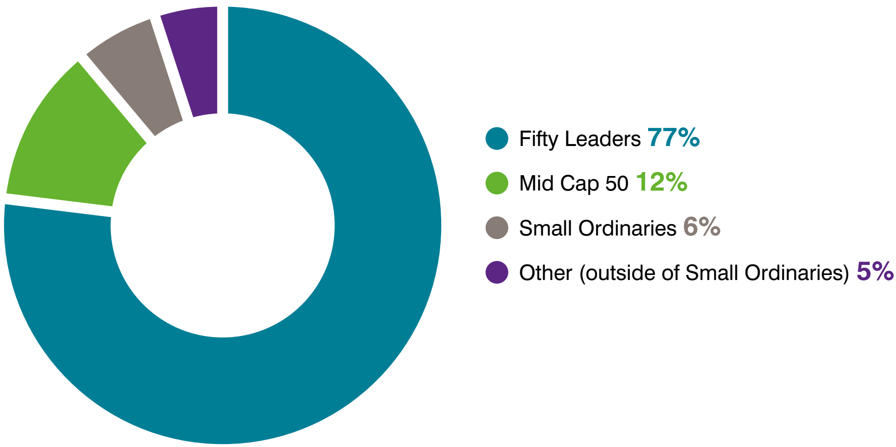


Figure 6: Profile of Portfolio by Size of Company



How Are We Seeing the Market?

Many sectors in the Australian market are trading at or close to the top of their long-term valuation ranges. While this may be understandable against the backdrop of very low interest rates, the outlook for the Australian economy remains somewhat mixed. The outcome of the current company reporting season is important in providing support for the high share prices of many companies.

On a positive note, global growth may continue to deliver a better than expected outcome for commodity prices. There has also recently been a pickup in non-mining investment. However, as a counter to these trends, high levels of household debt relative to real wages growth is producing a weak outlook for consumption.

Heightened taxation risk from federal and state governments in an environment where budgets are under pressure has unfortunately also become a recent feature of the Australian economy. The latest move to tax the five larger banks is in our view symptomatic of an opportunistic approach to policy. It is not a substitute for a more well-considered comprehensive approach to taxation and budget reform. Reforms are a difficult task for any government, but we believe they are necessary to create a more robust foundation for the Australian economy going forward.

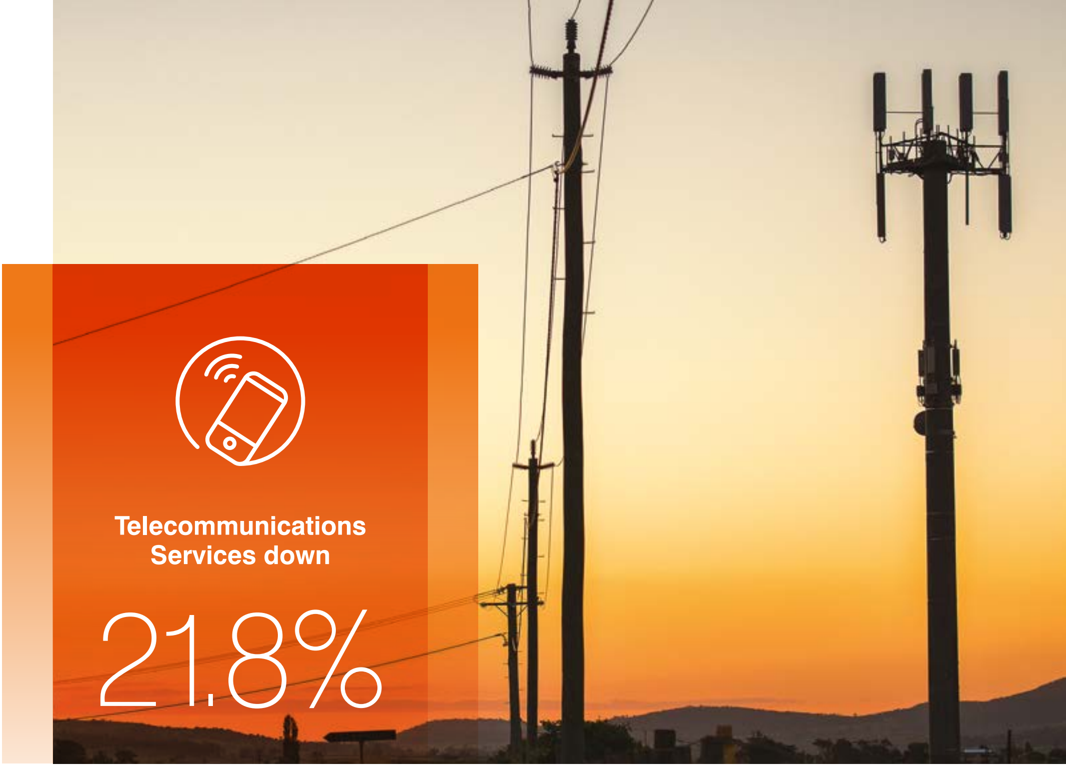
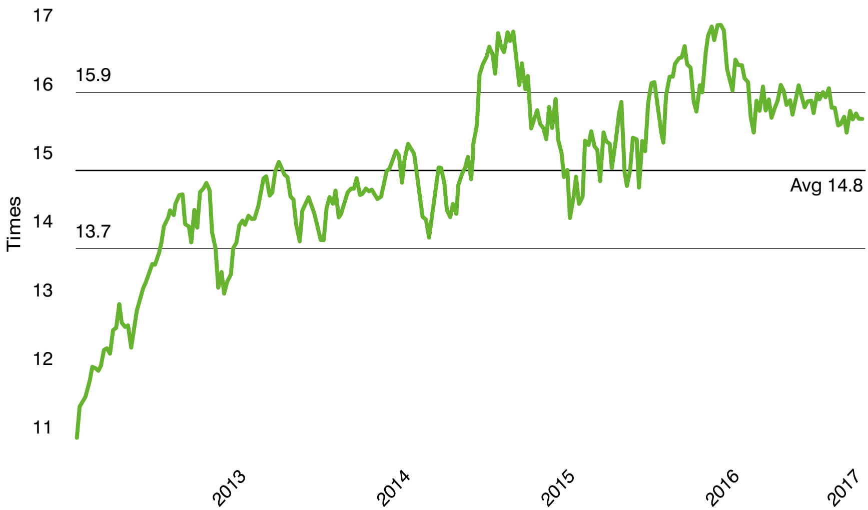


Figure 7: ASX 200 Price Earnings Ratio



Source: FactSet

Top 25 Investments

As at 30 June 2017

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 30 June 2017

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	654.2	9.6
2	Westpac Banking Corporation	474.3	7.0
3	BHP*	328.6	4.8
4	National Australia Bank*	294.9	4.3
5	Wesfarmers	269.7	4.0
6	Australia and New Zealand Banking Group	243.8	3.6
7	CSL*	239.7	3.5
8	Rio Tinto	231.0	3.4
9	Telstra Corporation	225.5	3.3
10	Transurban Group	217.3	3.2
11	Amcor	199.4	2.9
12	Brambles*	130.6	1.9
13	Woolworths	129.4	1.9
14	AGL Energy	113.9	1.7
15	Oil Search	112.4	1.7
16	AMP	104.3	1.5
17	Ramsay Health Care	104.1	1.5
18	Woodside Petroleum	98.1	1.4
19	QBE Insurance Group*	93.0	1.4
20	Qube Holdings	91.9	1.4
21	Treasury Wine Estates*	90.3	1.3
22	Incitec Pivot*	76.0	1.1
23	ALS	68.6	1.0
24	Computershare	65.9	1.0
25	James Hardie Industries*	63.8	0.9
Total		**4,720.5**	

As a percentage of total portfolio value (excludes cash)	69.5%

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

Income Statement

For the Year Ended 30 June 2017

	2017 $'000	2016 $'000
Dividends and distributions	270,887	286,128
Revenue from deposits and bank bills	1,659	2,754
Other revenue	83	143
Net gains on trading portfolio (including unrealised gains or losses)	3,065	12,297
Total income	**275,694**	301,322
Finance costs	(8,969)	(13,758)
Administration expenses (net of recoveries)	(9,461)	(10,055)
Profit before income tax	**257,264**	277,509
Income tax	(11,964)	(11,753)
Net profit	**245,300**	265,756
	Cents	Cents
Net profit per share	**21.32**	23.83

Balance Sheet

As at 30 June 2017

	2017 $'000	2016 $'000
Current assets		
Cash	105,125	155,903
Receivables	52,011	45,358
Trading portfolio	-	-
Total current assets	**157,136**	**201,261**
Non-current assets		
Investment portfolio	6,790,368	6,250,233
Deferred tax assets	349	1,034
Total non-current assets	**6,790,717**	**6,251,267**
Total assets	**6,947,853**	**6,452,528**
Current liabilities		
Payables	6,953	20,932
Tax payable	1,980	14,393
Convertible notes	-	190,057
Trading portfolio	546	226
Provisions	4,448	3,636
Total current liabilities	**13,927**	**229,244**
Non-current liabilities		
Provisions	1,332	1,796
Deferred tax liabilities – investment portfolio	967,091	812,947
Total non-current liabilities	**968,423**	**814,743**
Total liabilities	**982,350**	**1,043,987**
Net assets	**5,965,503**	**5,408,541**
Shareholders' equity		
Share capital	2,756,306	2,521,491
Revaluation reserve	2,123,209	1,767,628
Realised capital gains reserve	430,912	457,593
General reserve	23,637	23,637
Retained profits	631,439	638,192
Total shareholders' equity (including minority interests)	**5,965,503**	**5,408,541**

Summarised Statement of Changes in Equity

For the Year Ended 30 June 2017

	2017 $'000	2016 $'000
Total equity at the beginning of the year	**5,408,541**	5,446,444
Dividends paid	(267,751)	(258,610)
Shares issued – Dividend Reinvestment Plan	55,242	54,324
– Conversion of Convertible Notes	179,755	13,091
– Share Purchase Plan	-	153,340
Other share capital adjustments	(182)	(546)
Total transactions with shareholders	**(32,936)**	**(38,401)**
Profit for the year	245,300	265,756
Revaluation of investment portfolio	500,389	(376,045)
Provision for tax on revaluation	(154,791)	110,787
Revaluation of investment portfolio (after tax)	345,598	(265,258)
Total comprehensive income for the year	**590,898**	498
Realised gains/(losses) on securities sold	(9,336)	125,922
Tax expense on realised gains on securities sold	(647)	(6,398)
Net realised gains/(losses) on securities sold	(9,983)	119,524
Transfer from revaluation reserve to realised gains reserve	9,983	(119,524)
Dividends paid to minority interests by AICS	**(1,000)**	-
Total equity at the end of the year	**5,965,503**	5,408,541

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

Holdings of Securities

At 30 June 2017

Individual investments for the combined Investment and Trading portfolios as at 30 June 2017 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 which 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 2016 '000	Number Held 2017 '000	Market Value 2017 $'000
AAC	Australian Agricultural Company	9,764	9,764	18,113
ACX	Aconex	884	1,084	4,044
AGL	AGL Energy	5,590	4,465	113,858
AIA	Auckland International Airport	1,770	1,770	11,983
ALQ	ALS	9,205	9,205	68,581
ALU	Altium	0	625	5,356
AMC	Amcor	12,300	12,300	199,383
AMP	AMP	20,100	20,100	104,321
ANN	Ansell	1,284	1,284	30,466
ANZ	Australia and New Zealand Banking Group	8,488	8,488	243,767
APA	APA Group	6,450	5,075	46,538
APE	AP Eagers	769	1,404	11,737
ARB	ARB Corporation	1,198	1,198	18,822
ASX	ASX	709	709	37,993
AWC	Alumina	5,513	5,513	10,585
AZJ	Aurizon Holdings	4,380	2,315	12,408
BGA	Bega Cheese	2,203	2,873	18,702
BHP	BHP*	13,991	14,118	328,598
BKW	Brickworks	1,503	1,503	20,726
BLD	Boral	4,008	4,008	27,859
BXB	Brambles*	11,930	13,442	130,599
CAR	Carsales.com*	0	1,520	17,100
CBA	Commonwealth Bank of Australia	7,965	7,900	654,199

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2016 '000	Number Held 2017 '000	Market Value 2017 $'000
CCL	Coca-Cola Amatil	5,160	5,160	47,627
CGF	Challenger*	4,065	4,265	56,492
COH	Cochlear	75	124	19,276
CPU	Computershare	4,660	4,660	65,892
CSL	CSL*	1,649	1,739	239,668
CSR	CSR	3,109	3,109	13,153
CTX	Caltex Australia	579	669	21,150
CVW	Clearview Wealth	4,547	6,179	8,960
CYB	CYBG PLC*	2,524	5,124	24,009
DJW	Djerriwarrh Investments	7,505	7,505	27,620
DLX	DuluxGroup	2,556	2,556	17,739
DUI	Diversified United Investment	12,030	12,030	44,752
EQT	EQT Holdings	1,303	1,303	23,080
EVT	Event Hospitality & Entertainment	1,030	1,030	13,775
FLT	Flight Centre Travel Group	241	241	9,228
FNP	Freedom Foods Group	4,507	4,507	21,632
FPH	Fisher & Paykel Healthcare Corporation	5,008	5,008	54,337
HSO	Healthscope	29,000	26,700	59,007
IAG	Insurance Australia Group*	5,226	6,066	40,599
ICQ	iCar Asia	4,555	22,030	5,838
IEL	IDP Education	880	880	4,478
ILU	Iluka Resources*	3,142	3,642	30,841
INM	Iron Mountain	202	202	8,892
IPL	Incitec Pivot*	22,280	22,280	75,973
IRE	IRESS	3,124	3,737	47,427
ISD	Isentia Group	0	3,800	8,170
IVC	InvoCare	1,150	1,150	16,905
JHC	Japara Healthcare	14,007	14,007	29,416
JHX	James Hardie Industries*	3,001	3,111	63,759
LIC	Lifestyle Communities	5,470	5,470	22,155
LNK	Link Administration	0	3,396	25,790
MFT	Mainfreight	2,550	2,840	63,701

Holdings of Securities continued

At 30 June 2017

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2016 '000	**Number Held 2017 '000**	**Market Value 2017 $'000**
MIR	Mirrabooka Investments	8,728	8,728	23,565
MLT	Milton Corporation	11,841	10,841	48,895
MPL	Medibank Private	2,000	2,000	5,600
MQG	Macquarie Group*	583	700	61,616
MYX	Mayne Pharma Group	20,361	20,361	22,092
NAB	National Australia Bank*	9,994	9,969	294,897
NVT	Navitas	3,678	3,678	17,836
OFX	OzForex Group	4,470	4,250	6,843
ORA	Orora	12,864	12,864	36,791
ORG	Origin Energy	6,000	6,000	41,160
ORI	Orica	2,712	2,712	56,076
OSH	Oil Search	16,483	16,483	112,411
PPT	Perpetual	1,061	1,061	59,284
QBE	QBE Insurance Group*	7,874	7,874	92,970
QUB	Qube Holdings	31,759	34,962	91,950
REA	Realestate.com.au	344	384	25,495
REG	Regis Healthcare	5,355	5,355	21,045
REH	Reece	318	318	13,368
RHC	Ramsay Health Care	1,520	1,415	104,144
RIO	Rio Tinto	3,652	3,652	231,046
RMD	ResMed	3,900	3,935	39,507
RWC	Reliance Worldwide Corporation	2,400	2,400	8,016
S32	South32	17,721	15,241	40,846
SCG	Scentre Group	12,950	12,950	52,448
SEK	Seek*	3,315	3,315	56,011
SHL	Sonic Healthcare*	1,966	1,841	44,405

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2016 '000	**Number Held 2017 '000**	**Market Value 2017 $'000**
SOL	Washington H Soul Pattinson	1,709	1,709	28,482
SUN	Suncorp Group	3,640	3,770	55,871
SYD	Sydney Airport*	8,700	8,500	60,176
TCL	Transurban Group	18,335	18,335	217,273
TGG	Templeton Global Growth Fund	12,106	12,106	16,464
TLS	Telstra Corporation	52,445	52,445	225,514
TOX	Tox Free Solutions	8,645	9,046	21,711
TPM	TPG Telecom	5,340	6,228	35,502
TWE	Treasury Wine Estates*	6,882	6,882	90,323
VCX	Vicinity Centres*	15,628	16,378	42,086
WBC	Westpac Banking Corporation	15,545	15,545	474,278
WES	Wesfarmers	6,723	6,723	269,707
WFD	Westfield Corporation	4,933	5,823	46,755
WOW	Woolworths	5,020	5,065	129,360
WPL	Woodside Petroleum	3,283	3,283	98,060
XRO	Xero	437	437	10,570
Total				**6,777,528**

* 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 2016 '000	**Number Held 2017 '000**	**Market Value 2017 $'000**
RHCPA	Ramsay Health Care Convertible Adjustable Rate Equity Securities	115	115	12,294
Total				**12,294**

Major Transactions in the Investment Portfolio

Acquisitions	Cost $'000
Link Administration Holdings (including $6.11 million in 4 for 11 issue at $6.75 per share)	26,867
CSL	19,701
Carsales.com	18,537
Brambles	16,063
CYBG	12,103
Isentia Group	12,065
Vocus Group (subsequently sold)	11,831
Cochlear	11,551

Disposals	Proceeds $'000
AGL Energy	24,835
Cover-More Group (Takeover by Zurich Insurance)*	21,568
Vocus Group*	17,154
Asciano (Takeover by Qube/Brookfield Infrastructure consortium)*	16,280
Santos*	12,385
APA Group	12,107

* Complete disposal from the portfolio.

New Companies Added to the Investment Portfolio

Link Administration Holdings
Carsales.com
Isentia Group
Altium

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
Catherine M Walter AM
Peter J Williams

Company Secretaries
Matthew J Rowe
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
Website	afi.com.au
Email	invest@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 Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder Enquiry Line	1300 662 270 +61 3 9415 4373 (from overseas)
Facsimile	(03) 9473 2500
Website	investorcentre.com/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)

Shareholder Meetings

Australia

Annual General Meeting
Time 10.00am
Date Thursday 12 October 2017
Venue RACV City Club
Location 501 Bourke Street
Melbourne

Adelaide Meeting
Time 10.00am
Date Friday 20 October 2017
Venue Adelaide Convention Centre
Location Panorama Rooms, North Terrace
Adelaide

Brisbane Meeting
Time 10.00am
Date Monday 23 October 2017
Venue Hilton Hotel
Location 190 Elizabeth Street
Brisbane

Sydney Meeting
Time 10.00am
Date Friday 27 October 2017
Venue Four Seasons Hotel
Location 199 George Street
Sydney

New Zealand

Tauranga Meeting
Time 10.00am
Date Friday 1 December 2017
Venue Trinity Wharf
Location 51 Dive Crescent
Tauranga

Auckland Meeting
Time 10.00am
Date Monday 4 December 2017
Venue Hilton Hotel
Location 147 Quay Street
Auckland

Christchurch Meeting
Time 10.00am
Date Tuesday 5 December 2017
Venue The George Hotel
Location 50 Park Terrace
Christchurch

Wellington Meeting
Time 10.00am
Date Wednesday 6 December 2017
Venue Intercontinental Hotel
Location 2 Grey Street
Wellington

The Annual Report for 2017 is available on AFIC's website afi.com.au or by contacting the Company on (03) 9650 9911.

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

Notice of Annual General Meeting 2017

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 Thursday 12 October 2017.

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 Tuesday 10 October 2017.

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 2017.

(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 2017 be adopted."

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

3. Re-election of Director

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

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

4. Re-election of Director

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

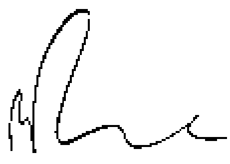
"That David Peever, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."

5. Re-election of Director

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

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

By Order of the Board



Matthew Rowe
Company Secretary
29 August 2017

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 Tuesday 10 October 2017.

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 2017. 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 2017 Annual Report can view or download it from the Company's website at:

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 2017 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 to 5 Re-election of Directors

Board recommendation and undirected proxies: The Board (with the exception of each Director in relation to their own re-election) recommends that shareholders vote **in FAVOUR of Items 3 to 5. The Chairman of the meeting intends to vote undirected proxies in FAVOUR of Items 3 to 5.**

John Paterson, David Peever and Catherine Walter were re-elected as Directors by shareholders at the 2014 AGM. As such they are required to seek re-election by shareholders at this AGM. Their biographical details are set out below:

John Paterson
BCom (Hons) (Melb), CPA, F Fin
Independent Non-Executive Director. Chairman of the Nomination Committee. Member of the Remuneration Committee, Investment Committee and Audit 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 is Chairman of Cricket Australia and Brisbane Airport Group Pty Ltd. Mr Peever is a member of the Foreign Investment Review Board. He chaired Minister of Defence's First Principles Review of Defence and following the acceptance of the review by government now chairs the Oversight Board which helps guide implementation of the Review's recommendations. David is also a Non-Executive Director of Naval Group Australia and Stars Foundation, a not for profit body which promotes education of Indigenous girls.

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 to the Board in August 2002. Mrs Walter is Chairman of Melbourne Genomics Health Alliance and the Financial Adviser Standards & Ethics Authority (FASEA) and Deputy Chair of Victorian Funds Management Corporation. Mrs Walter is a Director of the RBA's Payment System Board and a Trustee of the Helen Macpherson Smith Trust. 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.

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

afi.com.au/Corporate-Governance.aspx

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 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 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 Tuesday 10 October 2017. 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 decide 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. In certain circumstances 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 even if the shareholder has not expressly appointed the Chairman of the meeting as their proxy. This will occur where:
   - an appointment of a proxy specifies the way the proxy is to vote on a particular resolution; and
   - the appointed proxy is not the Chairman of the meeting; and
   - at the meeting, a poll is called on the resolution; and
   - either of the following apply:
     - if a record of attendance is made for the AGM – the proxy is not recorded as attending
     - the proxy does not vote on the resolution.

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 Victoria 3067

Postal Address
GPO Box 242
Melbourne Victoria 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
investorcentre.com/contact

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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

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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 Tuesday 10 October 2017

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 Tuesday 10 October 2017, 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 Thursday 12 October 2017** 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

		For	Against	Abstain
Item 2	Adoption of Remuneration Report	☐	☐	☐
Item 3	Re-election of Director – Mr John Paterson	☐	☐	☐
Item 4	Re-election of Director – Mr David Peever	☐	☐	☐
Item 5	Re-election of Director – Mrs Catherine Walter	☐	☐	☐

Board recommendations and undirected proxies: The board recommends shareholders vote in favour of each item of business. The Chairman of the meeting intends to vote undirected proxies in favour of each item of business, to the extent permitted by law.

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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