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This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Company's 2018 Annual Report.

Australian Foundation Investment Company Limited
ABN 56 004 147 120

**Appendix 4D Statement
for the Half-Year ending
31 December 2018**

RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the half-year ended 31 December 2018 with the previous corresponding period being the half-year ended 31 December 2017. The results have been reviewed by the Company's auditors.

Results for announcement to the market

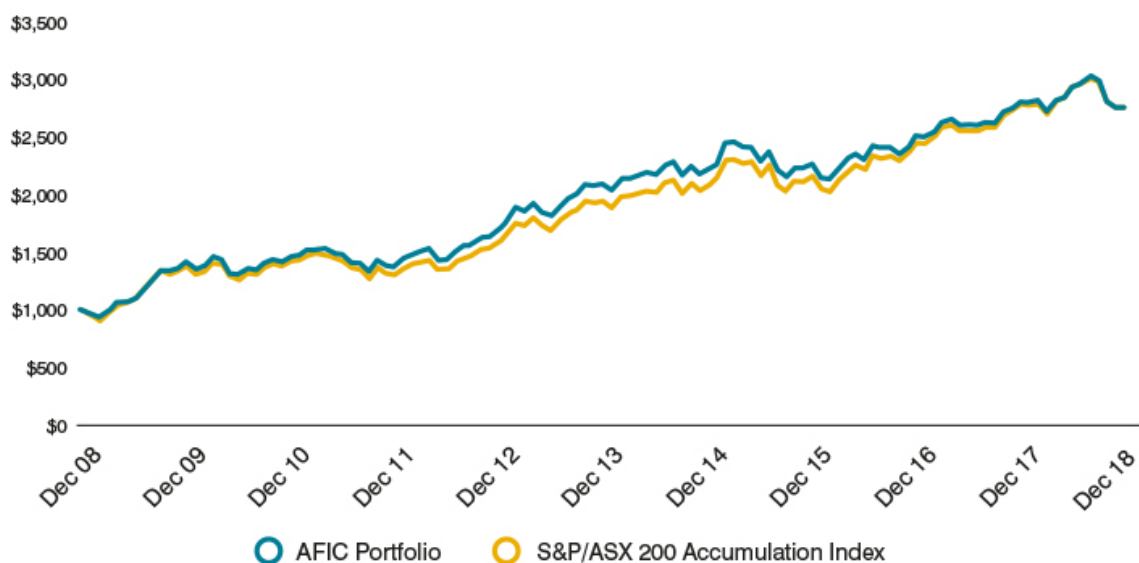
- Revenue from operating activities was \$250.3 million, up \$96.3 million or 62.5% from the previous corresponding period. This excludes capital gains on investments. The increase was predominantly due to a demerger dividend received as a consequence of the Coles demerger from Wesfarmers and participation in the Rio Tinto and BHP off-market buy-backs.
- Profit after tax was \$239.8 million (up 75.4% on the previous corresponding period's \$136.7 million).
- Profit after tax attributable to members was \$239.4 million (up 75.5% on the previous corresponding period's \$136.4 million).
- The interim dividend is 10 cents per share, fully franked, the same as last year. In addition, the Directors have declared a special dividend of 8 cents to distribute the proceeds of the Company's participation in the Rio Tinto and BHP off-market buy-backs. The dividends will be paid on 25 February 2019 to ordinary shareholders on the register on 11 February 2019 and the shares are expected to commence trading on an ex-dividend basis on 8 February 2019. There is no conduit foreign income component of the dividend.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for which will be set at a **2.5% discount** to the Volume Weighted Average Price of the Company's shares traded on the ASX and Chi-X automated trading systems over the five trading days from when the shares trade ex-dividend. The last date for the receipt of an election notice for participation in the DRP & DSSP is 5.00 pm (Melbourne time) on 12 February 2019.
- The final dividend for the 2018 financial year was 14 cents per share (fully franked), and it was paid to shareholders on 31 August 2018.
- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 31 December 2018 were \$5.69, down from \$6.15 at the end of the previous corresponding period (both before allowing for any announced dividends).

8 cent special dividend from buy backs as profit lifts

Half Year Report to 31 December 2018

- AFIC invests in a diversified portfolio of Australian equities, seeking to provide attractive income and capital growth over the medium to long term at a low cost.
- Half Year Profit was \$239.8 million, up 75.4% from \$136.7 million in the corresponding period last year:
 - A number of one-off factors increased investment income by 62.5% to \$250.3 million. This included participation in the Rio Tinto and BHP off-market share buy-backs and the recognition of a dividend because of the Coles demerger from Wesfarmers.
 - Income from the Trading Portfolio (which includes the marking-to-market of open option positions) was \$4.2 million, whereas in the corresponding period last year, these portfolios incurred a loss of \$6.6 million.
- Interim dividend maintained at 10 cents per share, fully franked.
- A special dividend of 8 cents per share, fully franked has also been declared. This distributes the proceeds of the Company's participation in the recent Rio Tinto and BHP off-market share buy-backs.
- Sharp falls in the market towards the end of the period meant the six-month portfolio return, including franking, was negative 6.4%. For 12 months including franking, it was negative 2.3%. The S&P/ASX 200 Accumulation Index over these periods, including franking, was negative 6.2% and negative 1.4% respectively. AFIC's performance numbers are after costs.

Investment of \$1,000 (including benefit of franking) – 10 Years to 31 December 2018



Note assumes an investor can take full advantage of the franking credits. This chart calculates the benefit of franking credits at the time dividends are paid for both AFIC and the Index. In practice there is a timing difference between receipt of the dividend and the realisation of the franking benefit in the following tax year.

Portfolio Performance

Following a period where the Australian market reached post GFC highs in August, volatility towards the end of the period resulted in negative returns across most of the market. This reversal was a result of concerns arising from ongoing global trade tensions, rising interest rates in the US and large swings in the oil price, which severely tested investor sentiment during the period. As the US market reacted negatively to these issues, large falls were also experienced across the Australian share market. This was particularly evident in smaller companies as they moved back towards more realistic levels from previously very high valuations.

AFIC's portfolio was down 6.4% for the six months to 31 December 2018 compared with the S&P/ASX 200 Accumulation Index, which fell 6.2% over the same period (these figures include the benefit of franking credits).

Companies in the portfolio that contributed positively to relative returns through the six-month period were Mainfreight, Brambles, TPG Telecom, Qube Holdings and Transurban. In contrast, participation in the BHP and Rio Tinto off-market buy-backs, which had the advantage of generating significant franking credits for the Company, provided some headwind to performance as holdings were sold at a 14% discount to the market.

The long-term performance of the portfolio, which is more aligned with the Company's investment timeframes, was 10.6% per annum for the ten years to 31 December 2018, which is in line with the Index return over the same period. These figures include the benefit of franking credits, although AFIC's performance numbers are after costs.

Portfolio Adjustments

Major sales arose because of participation in the Rio Tinto and BHP off-market share buy-backs (AFIC was previously well overweight the index in Rio Tinto). There was also a reduction in holdings of AGL Energy, Washington H. Soul Pattinson and Perpetual. In addition, the Company disposed of its entire position in QBE Insurance Group and Bega Cheese during the period.

More significant purchases included adding to holdings in James Hardie Industries, Transurban Group via participation in its rights issue to fund the WestConnex purchase, Adelaide Brighton, Reliance Worldwide, Woolworths Group and Sydney Airport, all of which have strong positions in their respective market segments. Purchases in Qantas Airways and CYBG plc (Clydesdale Bank) also involved call option strategies to help generate some additional income from these investments.

Going Forward

The significant correction in the market has produced a more conducive environment for long term investing. Valuations have moved towards longer term averages, which make for a sensible starting point to invest. Volatility is likely to persist at least in the short term as the market digests the changing environment, with interest rates likely to increase further in the US and no short-term solution to trade and geopolitical dislocations. In this environment, AFIC will continue to look for opportunities to add positions in companies that have a sustainable competitive advantage, sound balance sheets and, importantly, strong management that can deliver long term benefits to shareholders.

Refundability of Franking Credits Policy Proposal

We continue to receive feedback from our shareholders about the significant negative impact they will experience from the current policy proposal from the Federal Opposition to end the refundability of franking credits. AFIC will continue to advocate for a reassessment of this proposal on our shareholders' behalf. We believe the proposal is more likely to significantly impact our investors who have a low income, and for them we believe it to be both inequitable and very unfair.

Please direct any enquiries to:

Mark Freeman
Managing Director
(03) 9225 2122

Geoff Driver
General Manager
(03) 9225 2102

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions	Cost (\$'000)
Coles Group (Demerger from Wesfarmers)	73,544
James Hardie Industries	37,665
Transurban Group (10 for 57 share issue at \$10.80 per share)	37,557
Adelaide Brighton	35,208
Qantas Airways*	34,841
CYBG plc (Clydesdale Bank)*	27,025
Reliance Worldwide	25,633
Woolworths Group	22,027
Sydney Airport	20,167

*Subject to call options during the period

Disposals	Proceeds (\$'000)
Rio Tinto (participation in off-market share buy-back)	105,737
QBE Insurance Group [#]	42,603
AGL Energy	37,371
Washington H. Soul Pattinson	31,516
Bega Cheese [#]	21,191
Perpetual	18,387
BHP (participation in off-market share buy-back)	15,970

[#] Complete disposal from the portfolio.

TOP 25 INVESTMENTS AS AT 31 DECEMBER 2018

Includes investments held in both the Investment and Trading Portfolios.

Valued at closing prices at 31 December 2018

		Total Value \$ million	% of Portfolio
1	Commonwealth Bank of Australia	571.9	8.6%
2 *	BHP	462.6	7.0%
3	Westpac Banking Corporation	389.2	5.9%
4	CSL	355.5	5.4%
5 *	Transurban Group	270.6	4.1%
6	National Australia Bank	234.3	3.5%
7	Wesfarmers	216.6	3.3%
8	Australia and New Zealand Banking Group	207.6	3.1%
9	Macquarie Group	193.7	2.9%
10 *	Woolworths Group	178.1	2.7%
11	Ancor	166.0	2.5%
12	Rio Tinto	152.7	2.3%
13 *	Woodside Petroleum	131.6	2.0%
14	Brambles	123.2	1.9%
15 *	Sydney Airport	120.4	1.8%
16	Oil Search	118.0	1.8%
17	Telstra Corporation	114.5	1.7%
18	James Hardie Industries	91.7	1.4%
19	Qube Holdings	88.8	1.3%
20	Mainfreight	87.7	1.3%
21 *	Ramsay Health Care	86.9	1.3%
22 *	Sonic Healthcare	81.7	1.2%
23	Treasury Wine Estates	80.7	1.2%
24	Computershare	80.1	1.2%
25	Coles Group	78.9	1.2%
		<hr/> 4,683.0 <hr/>	

As % of Total Portfolio Value (excludes Cash)	70.8%
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* Indicates that options were outstanding against part of the holding

PORTFOLIO PERFORMANCE TO 31 DECEMBER 2018

PERFORMANCE MEASURES TO 31 DECEMBER 2018	6 MONTHS	1 YEAR	5 YEARS % PA	10 YEARS % PA
<i>PORTFOLIO RETURN – NET ASSET BACKING RETURN INCLUDING DIVIDENDS REINVESTED</i>	-7.3%	-3.9%	3.8%	8.6%
S&P/ASX 200 ACCUMULATION INDEX	-6.8%	-2.8%	5.6%	9.0%

<i>PORTFOLIO RETURN – NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</i>	-6.4%	-2.3%	5.5%	10.6%
S&P/ASX 200 GROSS ACCUMULATION INDEX*	-6.2%	-1.4%	7.2%	10.6%

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

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



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY
LIMITED**

ABN 56 004 147 120

**HALF-YEAR REPORT
31 DECEMBER 2018**

COMPANY PARTICULARS

Australian Foundation Investment Company Limited (“AFIC”)

ABN 56 004 147 120

AFIC is a Listed Investment Company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

Directors: John Paterson, Chairman
Ross E. Barker
Graeme R. Liebelt
David A. Peever
Catherine M. Walter AM
Peter J. Williams
R. Mark Freeman, Managing Director

Company Secretaries: Matthew J. Rowe
Andrew J.B. Porter

Auditor: PricewaterhouseCoopers, Chartered Accountants

Country of incorporation: Australia

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

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

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

Telephone: 1800 780 784 (toll free)

Share Registrar: Computershare Investor Services Limited

Mail Address: GPO Box 2975, Melbourne, Victoria 3001
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067

AFIC Shareholder enquiry lines : 1300 662 270 (Aus)
0800 333 501 (NZ)
+613 9415 4373 (from overseas)

Facsimile: (03) 9473 2500
Internet: www.investorcentre.com/contact

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

Securities Exchange Codes:

AFI Ordinary shares (ASX and NZX)

DIRECTORS' REPORT

The Directors present their report in relation to the half-year to 31 December 2018 on the consolidated entity ("the Group") consisting of Australian Foundation Investment Company Limited ("the Company" and "AFIC") and its subsidiary, Australian Investment Company Services Limited ("AICS").

Directors

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

J. Paterson (appointed June 2005)
R.E. Barker (appointed September 2001)
T.A. Campbell AO (appointed September 1984, retired October 2018)
J.C. Hey (appointed July 2013, retired January 2019)
G.R. Liebelt (appointed June 2012)
D.A. Peever (appointed November 2013)
C.M. Walter AM (appointed August 2002)
P.J. Williams (appointed February 2010)
R.M. Freeman (appointed January 2018)

Review of the Group's operations and results

Overview

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

Profit Performance and Dividend

Profit for the half-year was \$239.8 million, up 75.4% from the previous corresponding period. The increase was predominantly due to a demerger dividend received as a consequence of the Coles demerger from Wesfarmers and participation in the Rio Tinto and BHP off-market buy-backs.

The net profit per share for the six months to 31 December 2018 was 20.1 cents per share with an interim dividend declared of 10 cents per share fully-franked, the same as last year and an additional 8 cents per share fully-franked special dividend, as a consequence of the participation in the aforementioned buy-backs.

The portfolio return for the 6 months (measured by change in net asset backing per share plus dividends reinvested) was -7.3% compared to the return of the S&P/ASX 200 Accumulation Index for the same period which was -6.8%. AFIC's portfolio return is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits or LIC credits attached to the dividends. Index returns for the market do not include the impact of management expenses and tax on their performance.

During the half-year 5.9 million shares were issued under the DRP and the DSSP resulting in an additional \$33.0 million of capital (after costs).

Auditors' independence declaration

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

Rounding of amounts to nearest thousand dollars

The Group is of a kind referred to in the ASIC Corporations' (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the directors' report and financial report. Unless specifically stated otherwise, amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Instrument.

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

A handwritten signature in black ink, appearing to be 'J. Paterson', with a long horizontal stroke extending to the right.

J. Paterson
Chairman
Melbourne
21 January 2019



Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in blue ink, appearing to read 'Nadia Carlin', with a stylized flourish at the end.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
21 January 2019

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

CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Half-year 2018 \$'000	Half-year 2017 \$'000
Dividends and distributions		246,708	150,792
Revenue from deposits and bank bills		1,136	810
Other revenue		2,430	2,380
Total revenue		250,274	153,982
Net gains/(losses) on trading portfolio and non-equity investments		4,187	(6,553)
Income from operating activities	3	254,461	147,429
Finance & related costs		(400)	(425)
Administration expenses		(6,280)	(6,240)
Profit before income tax expense		247,781	140,764
Income tax expense		(7,977)	(4,023)
Profit for the half-year		239,804	136,741
Profit is attributable to :			
Equity holders (members) of Australian Foundation Investment Company Ltd		239,430	136,402
Minority Interest		374	339
		239,804	136,741
		Cents	Cents
Basic earnings per share	8	20.11	11.56

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Half-Year to 31 December 2018			Half-Year to 31 December 2017		
	Revenue	Capital	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit for the half-year	239,804	-	239,804	136,741	-	136,741
Other Comprehensive Income						
<i>Items that will not be recycled through the Income Statement</i>						
Gains/(losses) for the period on equity securities in the investment portfolio	-	(745,125)	(745,125)	-	317,183	317,183
Deferred tax on above	-	215,197	215,197	-	(95,707)	(95,707)
Total other comprehensive income ¹	-	(529,928)	(529,928)	-	221,476	221,476
Total comprehensive income ²	239,804	(529,928)	(290,124)	136,741	221,476	358,217

¹ Net capital income not accounted for through the Income Statement

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

	Half-Year to 31 December 2018			Half-Year to 31 December 2017		
	Revenue	Capital	Total	Revenue	Capital	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total Comprehensive Income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	239,430	(529,928)	(290,498)	136,402	221,476	357,878
Minority Interest	374	-	374	339	-	339
	239,804	(529,928)	(290,124)	136,741	221,476	358,217

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

		31 Dec 2018 \$'000	30 June 2018 \$'000
	Note		
Current assets			
Cash		178,266	99,183
Receivables		14,379	77,234
Total current assets		192,645	176,417
Non-current assets			
Investment portfolio		6,617,237	7,280,706
Deferred tax assets		1,241	1,257
Total non-current assets		6,618,478	7,281,963
Total assets		6,811,123	7,458,380
Current liabilities			
Payables		1,346	712
Tax payable		24,522	8,245
Borrowings – bank debt		-	100
Trading portfolio	4	4,164	6,757
Provisions		3,145	4,385
Total current liabilities		33,177	20,199
Non-current liabilities			
Provisions		1,049	1,394
Deferred tax liabilities - investment portfolio	5	857,527	1,097,527
Total non-current liabilities		858,576	1,098,921
Total liabilities		891,753	1,119,120
Net Assets		5,919,370	6,339,260
Shareholders' equity			
Share Capital	6	2,844,755	2,811,721
Revaluation Reserve		1,845,981	2,422,568
Realised Capital Gains Reserve		472,294	448,892
General Reserve		23,637	23,637
Retained Profits		731,612	631,725
Parent Entity Interest		5,918,279	6,338,543
Minority Interest		1,091	717
Total equity		5,919,370	6,339,260

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Attributable to members of Australian Foundation Investment Company
Ltd

Half-Year to 31 December 2018	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,811,721	2,422,568	448,892	23,637	631,725	6,338,543	717	6,339,260
Dividends paid	7	-	-	(23,257)	-	(139,543)	(162,800)	-	(162,800)
Shares issued - Dividend Reinvestment Plan	6	33,099	-	-	-	-	33,099	-	33,099
Other Share Capital Adjustments	6	(65)	-	-	-	-	(65)	-	(65)
Total transactions with shareholders		33,034	-	(23,257)	-	(139,543)	(129,766)	-	(129,766)
Profit for the half-year		-	-	-	-	239,430	239,430	374	239,804
Net losses for the period on equity securities in the investment portfolio		-	(529,928)	-	-	-	(529,928)	-	(529,928)
Other Comprehensive Income for the half-year		-	(529,928)	-	-	-	(529,928)	-	(529,928)
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(46,659)	46,659	-	-	-	-	-
Total equity at the end of the half-year		2,844,755	1,845,981	472,294	23,637	731,612	5,918,279	1,091	5,919,370

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DEC. 2018 (CONT)

Attributable to members of Australian Foundation Investment Company Ltd									
Half-Year to 31 December 2017	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,756,256	2,123,209	430,912	23,637	631,070	5,965,084	419	5,965,503
Dividends paid	7	-	-	-	-	(161,955)	(161,955)	-	(161,955)
Shares issued - Dividend Reinvestment Plan		32,249	-	-	-	-	32,249	-	32,249
Other Share Capital Adjustments		(69)	-	-	-	-	(69)	-	(69)
Total transactions with shareholders		32,180	-	-	-	(161,955)	(129,775)	-	(129,775)
Profit for the half-year		-	-	-	-	136,402	136,402	339	136,741
<i>Other Comprehensive Income for the half-year</i>									
Net gains for the period on equity securities in the investment portfolio		-	221,476	-	-	-	221,476	-	221,476
Other Comprehensive Income for the half-year		-	221,476	-	-	-	221,476	-	221,476
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(1,856)	1,856	-	-	-	-	-
Total equity at the end of the half-year		2,788,436	2,342,829	432,768	23,637	605,517	6,193,187	758	6,193,945

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Half-year 2018 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2017 \$'000 INFLOWS/ (OUTFLOWS)
Cash flows from operating activities		
Sales from trading portfolio	11,511	52,731
Purchases for trading portfolio	(9,485)	(6,253)
Interest received	1,184	800
Dividends and distributions received	222,626	141,036
	<u>225,836</u>	<u>188,314</u>
Other receipts	2,434	2,380
Administration expenses	(7,792)	(7,692)
Finance costs paid	(400)	(425)
Taxes paid	(9,272)	(9,410)
Net cash inflow/(outflow) from operating activities	<u>210,806</u>	<u>173,167</u>
Cash flows from investing activities		
Sales from investment portfolio	434,560	181,877
Purchases for investment portfolio	(430,281)	(228,247)
Taxes paid on capital gains	(6,653)	-
Net cash inflow/(outflow) from investing activities	<u>(2,374)</u>	<u>(46,370)</u>
Cash flows from financing activities		
Share issue costs	(65)	(69)
Repayment of borrowings	(100)	-
Dividends paid	(129,184)	(129,497)
Net cash inflow/(outflow) from financing activities	<u>(129,349)</u>	<u>(129,566)</u>
Net increase/(decrease) in cash held	79,083	(2,769)
Cash at the beginning of the half-year	99,183	105,125
Cash at the end of the half-year	<u>178,266</u>	<u>102,356</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1. Basis of preparation of half-year financial report

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

This interim financial report does not include all the notes of the type normally included in an annual financial report. This report should be read in conjunction with the 2018 Annual Report and public announcements made by the Group during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

In the interests of transparency in its reporting, the Group uses the phrase “market value” in place of the AASB terminology “fair value for actively traded securities.” The Company’s investments in listed securities are valued at the closing price on the ASX on the last trading day before the period end.

2. Financial reporting by segments

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

(a) Segment information provided to the Board

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

The relevant amounts as at 31 December 2018 and 31 December 2017 were as follows:

	2018	2017
	\$	\$
Net tangible asset backing per share		
Before Tax	5.69	6.15
After Tax	4.97	5.24

(b) Other segment information

Segment Revenue

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

The Company is domiciled in Australia and the Group’s dividend and distribution income is predominantly from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group’s investment in Wesfarmers (as a consequence of the demerger of Coles Group) : 20.3% and Rio Tinto (as a consequence of the off-market buy-back) : 17.9% comprising more than 10% of the Group’s income (including trading portfolio) for the half-year ending 31 December 2018 (2017 : Commonwealth Bank : 12.5% and Westpac: 10.0%).

3. Income from operating activities

Half-year 2018 \$'000	Half-year 2017 \$'000
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Income from operating activities is comprised of the following:

Dividends & distributions		
• securities held in investment portfolio	246,597	150,683
• securities held in trading portfolio	111	109
	<u>246,708</u>	<u>150,792</u>
Interest income		
• deposits and income from bank bills	1,136	810
	<u>1,136</u>	<u>810</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	4,166	49
• unrealised gains/(losses) in trading portfolio	21	(6,602)
	<u>4,187</u>	<u>(6,553)</u>
Administration fees received from other Listed Investment Companies	2,179	2,180
Expenses recovered from other Listed Investment Companies	189	147
Other expenses recovered	62	53
	<u>254,461</u>	<u>147,429</u>

4. Current liabilities – trading portfolio

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

As at balance date there were call options outstanding which, if they were all exercised, would require the Company to deliver securities to the value of \$167.1 million (30 June 2018: \$61.7 million).

As at balance date the Company had outstanding put options which at the option of the purchaser may have required the Company to buy \$17.4 million worth of securities prior to the respective expiry dates if they were all exercised (30 June 2018 :\$19.7 million).

5. Deferred tax liabilities – investment portfolio

In accordance with AASB 112 *Income Taxes*, deferred tax liabilities have been recognised for Capital Gains Tax on the unrealised gain in the investment portfolio at current tax rates (30%) totalling \$857.5 million (30 June 2018 : \$1,097.5 million). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

6. Shareholders' equity – share capital

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

Date	Details	Notes	Number of shares '000	Issue price \$	Paid-up Capital \$'000
01/07/2018	Opening Balance		1,186,147		2,811,721
31/08/2018	Dividend Reinvestment Plan	i	5,355	6.18	33,099
31/08/2018	Dividend Substitution Share Plan	ii	527	6.18	-
Various	Other Share Capital adjustments		-		(65)
31/12/2018	Balance		<u>1,192,029</u>		<u>2,844,755</u>

- i The Company has a Dividend Reinvestment Plan under which some shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares was based on the average selling price of shares traded on the Australian Securities Exchange & Chi-X automated trading systems in the five days from the day the shares begin trading on an ex-dividend basis.
- ii The Company has a Dividend Substitution Share Plan under which some shareholders elected to forego all or part of their dividend payment and receive shares instead. Pricing of the new DSSP shares was done on the same basis as the DRP.
- iii The Company introduced an on-market Buy-Back Programme in December 2000. This plan remains active. No shares were bought back during the period.

7. Dividends	Half-year 2018 \$'000	Half-year 2017 \$'000
Dividends (fully franked) paid during the period (excluding DSSP shares)	162,800 (14 cents per share)	161,955 (14 cents per share)

Dividends not recognised at period end

Since the end of the half-year the Directors have declared an interim dividend of 10 cents per share, plus a special dividend of 8 cents, both fully franked. The aggregate amount of the proposed interim and special dividends expected to be paid on 25 February 2019, but not recognised as a liability at the end of the half-year is

214,565

8. Earnings per Share	Half-year 2018	Half-year 2017
	Number	Number
Weighted average number of ordinary shares used as the denominator	1,190,047,001	1,180,025,058
	\$'000	\$'000
Profit after tax for the half-year attributable to members of the Company	239,430	136,402
	Cents	Cents
Basic earnings per share	20.11	11.56

There are no dilutive instruments on issue and consequently diluted earnings per share are the same as basic earnings per share.

9. Events subsequent to balance date

Since 31 December 2018 to the date of this report there has been no event specific to the Company of which the Directors are aware which has had a material effect on the Group or its financial position.

10. Contingencies

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

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 22 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, as represented by the results of the operations, changes in equity and cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



J. Paterson
Chairman
Melbourne
21 January 2019



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

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Australian Foundation Investment Company Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of changes in equity, consolidated cash flow statement, and consolidated income statement and statement of comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Australian Foundation Investment Company Limited (the consolidated entity). The consolidated entity comprises the Company and the entity it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Foundation Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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PricewaterhouseCoopers

A stylized blue ink signature, likely representing Nadia Carlin.

Nadia Carlin
Partner

Melbourne
21 January 2019