



ABN 56 004 147 120

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**APPENDIX 4E STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2016**

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These documents comprise the preliminary final report given to ASX under Listing Rule 4.3A.

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# RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the year ended 30 June 2016 with the prior corresponding period being the year ended 30 June 2015.

This report is based on audited financial statements. A copy of the audit report can be found on page 41.

## Results for announcement to the market

- Net profit attributable to members (excluding minority interests) was \$265.6 million, 9.5% down from the prior year. The prior year included \$31.9 million of demerger dividend arising from the BHP Billiton/South 32 demerger.
- Revenue from operating activities was \$293.6 million, 9.8% down from the prior year.
- The Management Expense Ratio (“MER”) calculated as the net expenses of managing the Company as a percentage of the average value of its investments including cash over the year, was 0.16% for the year (2015: 0.16%).
- Net tangible assets per share as at 30 June 2016, before allowing for the final dividend, were \$5.50 per share before allowing for the provision of deferred tax on unrealised gains in the investment portfolio (2015: \$5.85).
- A fully-franked final dividend of 14 cents per share, the same as last year’s final dividend, will be paid on 30 August 2016 to shareholders on the register on 10 August 2016. The shares are expected to trade ex-dividend on 9 August 2016. There is no conduit foreign income component of the dividend or any New Zealand imputation credit attached to the dividend.
- 1.5 cents of the final dividend are sourced from capital gains, on which the Group has paid or will pay tax. The amount of the pre-tax attributable gain, known as an “LIC capital gain”, is therefore 2.1 cents. This enables some shareholders to claim a tax deduction in their tax return. Further details will be on the dividend statements.
- The interim dividend of 10 cents per share was paid to shareholders on 19 February 2016.
- The total dividend for the financial year is therefore 24 cents per share, fully-franked, up from 23 cents last year.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for both of which will be set at a **2.5% discount** to the Volume Weighted Average Price of the Company’s shares traded on the ASX and Chi-X automated trading systems over the five trading days after the shares trade ex-dividend. Notices of participation in the DRP & the DSSP need to be received by the share registry by 5 pm (AEST) on 11 August 2016. All shares issued under the DRP and DSSP will rank equally with existing shares.
- The next interest payment on the 6.25% Convertible Notes issued in December 2011 will be \$3.1678 per \$100 Note, payable on 31 August 2016 to note holders on the register on 23 August 2016. The notes are expected to commence trading on an ex-interest basis on 22 August 2016. Any conversion notices need to be received by the share registry by 5 p.m. AEST on 16 August 2016.
- The 2016 AGM will be held at the RACV City Club, Melbourne, at 10.00 AM on Wednesday 12 October.



## ***MEDIA RELEASE – RESULT SUMMARY TO 30 JUNE 2016***

- **AFIC is an investor in a diversified portfolio of Australian equities seeking to deliver income and capital growth over the medium to long term.**
- **Profit for the year is \$265.8 million.**
- **Final Dividend is 14 cents per share fully franked.**
- **One year portfolio return was negative 1.6%, including franking it was positive 0.2%.**
- **Share Purchase Plan raised \$153.3 million in November 2015.**
- **Management expense ratio is 0.16%.**

### **Profit and Dividend**

Profit for the year to 30 June 2016 was \$265.8 million, down from \$293.6 million the prior year. Last year's figure included a special non-cash dividend of \$31.9 million received from the demerger of South32 from BHP Billiton. Excluding this item the profit was up 1.5%.

The Company has maintained its final dividend at 14 cents per share fully franked. Total dividends for the year are 24 cents per share fully franked, up 1 cent from 23 cents last year. The increase was made in the interim dividend paid in February.

### **Portfolio Performance**

The Fifty Leaders segment of the market was down 2.6% over the year. In stark contrast the combined Small and Mid-Cap 50 sectors produced a positive return of 16.1%. In particular, interest rate sensitive areas such as the Real Estate Trusts (REIT's) and utility stocks were up strongly over the year. Many small and mid-sized resources were also strong, particularly gold companies. AFIC does not have large exposure to REIT's given the general lack of franked income and lower longer term returns than industrial companies. The Company also has no exposure to the small resources sector because of its highly speculative nature.

AFIC's portfolio, which remains positioned more toward larger companies given the source of franked income they provide, was down 1.6% for the 12 months to 30 June 2016 against the S&P/ ASX 200 Accumulation Index which was up 0.6%. Including the benefit of the franking credits for those who can fully utilise them, the return for AFIC was 0.2% whereas the index was 2.2% per annum.

The best performing holdings in the investment portfolio by their percentage increase over this period were iProperty, Treasury Wine Estates, Macquarie Atlas Roads, Aconex, Fisher & Paykel Healthcare and Sydney Airport.

The long term performance of the portfolio, which is more in line with the Company's investment horizon, was 5.7% per annum for the 10 years to 30 June 2016 versus the Index return of 4.9% per annum. Including the benefit of the franking credits for those who can fully utilise them, the 10 year return is 7.6% per annum whereas the index is 6.4% per annum. AFIC's performance numbers are after expenses and tax paid whereas the Index does not have expenses or tax.

### **Positioning the Portfolio for Long Term Opportunities**

AFIC has for some time been broadening its portfolio exposure. Many of the larger companies are facing competitive headwinds in a lower growth environment which may well persist for some time. Given these challenges our strategy has been to reduce the percentage of investments in this segment and increase the holdings in mid and small caps with better prospects but in a manner that does not impact our ability to maintain the dividend. Reflecting this, the percentage of the portfolio invested in mid and small cap companies has increased from 15% to 22%.

Some of the individual transactions include Healthscope, Qube Holdings, Mainfreight, Challenger, Mayne Pharma Group, Fisher and Paykel Healthcare, Freedom Foods and Treasury Wine Estates.

Macquarie Group was also added as a new larger company to the portfolio.

Major sales have seen reductions in the holdings of the major banks, large supermarkets and the energy sector. Sales also resulted from the takeover of iProperty and Veda Group.

### **How are we seeing the market?**

Despite the recent strength of the market we expect volatility to remain a feature of markets for some time. The Australian economy is expected to face more subdued growth rates over the medium term. Lower commodity prices are likely to endure. High levels of household debt relative to income and the required adjustment to the large federal budget deficit may impact growth. This is against the background of a political environment which is making it more difficult to deliver necessary economic reform.

As a result, subdued returns are likely to be a feature of the Australian market for some time.

AFIC will continue to look at quality companies in growing sectors of the economy for investment ideas. However many companies in these sectors have attracted strong interest and are in our view expensive necessitating a cautious approach. The current cash position provides AFIC with a degree of flexibility to make further adjustments, particularly though any periods of market weakness where long term value may emerge.

Please direct any enquiries to:

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General Manager  
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**25 July 2016**

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

| Acquisitions (above \$20 million)                       | Cost<br>(\$'000) |
|---|------------------|
| Healthscope   | 53,166           |
| CSL   | 44,900           |
| Macquarie Group*  | 41,713           |
| Qube Holdings   | 37,969           |
| Mainfreight* (Listed on the New Zealand Stock Exchange) | 35,423           |
| Challenger*   | 32,108           |
| Mayne Pharma Group*                                     | 29,102           |
| James Hardie Industries                                 | 27,554           |
| Fisher & Paykel Healthcare Corporation                  | 25,141           |
| Seek  | 24,719           |
| Suncorp Group   | 24,409           |
| Treasury Wine Estates                                   | 22,653           |

\* New to the portfolio

| Disposals (above \$20 million)  | Proceeds<br>(\$'000) |
|---|----------------------|
| Westpac Banking Corporation   | 82,226               |
| Commonwealth Bank of Australia  | 40,319               |
| Computershare   | 34,565               |
| APA Group   | 33,346               |
| Wesfarmers  | 28,098               |
| Woolworths  | 26,223               |
| Origin Energy   | 22,013               |
| Asciano   | 21,636               |
| iProperty Group# (Takeover by REA Group Limited)                            | 21,304               |
| Twenty-First Century Fox Inc. # (Listed on the NASDAQ Global Select Market) | 20,424               |

# Complete Disposal

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## TOP 25 INVESTMENTS AS AT 30 JUNE 2016

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

|    |  | Total Value<br>\$ million | % of<br>Portfolio |
|----|--|---------------------------|-------------------|
| 1  | Commonwealth Bank of Australia                           | 592.4                     | 9.5%              |
| 2  | Westpac Banking Corporation                              | 457.0                     | 7.3%              |
| 3  | Telstra Corporation                                      | 291.6                     | 4.7%              |
| 4  | Wesfarmers   | 269.6                     | 4.3%              |
| 5  | BHP Billiton   | 260.9                     | 4.2%              |
| 6  | * National Australia Bank                                | 254.0                     | 4.1%              |
| 7  | Transurban Group   | 219.8                     | 3.5%              |
| 8  | Australia and New Zealand Banking Group                  | 204.7                     | 3.3%              |
| 9  | CSL  | 184.9                     | 3.0%              |
| 10 | Amcor  | 183.6                     | 2.9%              |
| 11 | Rio Tinto  | 166.2                     | 2.7%              |
| 12 | Brambles   | 147.8                     | 2.4%              |
| 13 | Oil Search   | 109.9                     | 1.8%              |
| 14 | * Ramsay Health Care                                     | 108.6                     | 1.7%              |
| 15 | AGL Energy   | 107.8                     | 1.7%              |
| 16 | Woolworths   | 104.9                     | 1.7%              |
| 17 | AMP  | 103.7                     | 1.7%              |
| 18 | Woodside Petroleum                                       | 88.1                      | 1.4%              |
| 19 | Healthscope  | 82.9                      | 1.3%              |
| 20 | * QBE Insurance Group                                    | 82.1                      | 1.3%              |
| 21 | Qube Holdings  | 70.2                      | 1.1%              |
| 22 | Incitec Pivot  | 66.2                      | 1.1%              |
| 23 | Scentre Group  | 63.7                      | 1.0%              |
| 24 | TPG Telecom  | 63.5                      | 1.0%              |
| 25 | * Treasury Wine Estates                                  | 63.5                      | 1.0%              |
|    |  | <b>4,347.7</b>            |                   |
|    | <b>As % of Total Portfolio Value<br/>(excludes Cash)</b> | <b>69.6%</b>              |                   |

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

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## PORTFOLIO PERFORMANCE TO 30 JUNE 2016

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|  | 1 YEAR | 3 YEARS<br>%PA | 5 YEARS<br>%PA | 10 YEARS<br>%PA |
|--|--------|----------------|----------------|-----------------|
| <i>AFIC PORTFOLIO RETURN - NET ASSET BACKING INCLUDING DIVIDENDS REINVESTED*</i> | -1.6%  | 6.2%           | 7.3%           | 5.7%            |
| S&P/ASX 200 ACCUMULATION INDEX   | 0.6%   | 7.7%           | 7.4%           | 4.9%            |

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| <b><i>NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</i></b> | <b>0.2%</b> | <b>8.0%</b> | <b>9.2%</b> | <b>7.6%</b> |
| <b>S&amp;P/ASX 200 GROSS ACCUMULATION INDEX*</b>                             | 2.2%        | 9.3%        | 9.1%        | 6.4%        |

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

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

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***Australian  
Foundation  
Investment  
Company Limited  
(AFIC)***  
*Consolidated Annual Financial  
Statements*

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*30 June 2016*



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## FINANCIAL STATEMENTS

### Consolidated Income Statement for the Year Ended 30 June 2016

|  | Note   | 2016<br>\$'000 | 2015<br>\$'000 |
|--|--------|----------------|----------------|
| Dividends and distributions                                | A3     | 286,128        | 317,762        |
| Revenue from deposits and bank bills                       | A3     | 2,754          | 3,425          |
| Other revenue  | A3     | 4,742          | 4,461          |
| <b>Total revenue</b>                                       |        | <b>293,624</b> | <b>325,648</b> |
| Net gains on trading portfolio and non-equity investments  | A3     | 12,297         | 8,440          |
| <b>Income from operating activities</b>                    |        | <b>305,921</b> | <b>334,088</b> |
| Finance costs  |        | (13,758)       | (15,757)       |
| Administration expenses                                    | B1     | (14,654)       | (14,867)       |
| <b>Profit before income tax expense</b>                    |        | <b>277,509</b> | <b>303,464</b> |
| Income tax expense   | B2, E2 | (11,753)       | (9,860)        |
| <b>Profit for the year</b>                                 |        | <b>265,756</b> | <b>293,604</b> |
| Profit is attributable to :                                |        |                |                |
| Equity holders of Australian Foundation Investment Company |        | 265,573        | 293,503        |
| Minority interest  |        | 183            | 101            |
|  |        | <u>265,756</u> | <u>293,604</u> |
|  |        | <b>Cents</b>   | <b>Cents</b>   |
| Basic earnings per share                                   | A5     | 23.83          | 27.23          |
| Diluted earnings per share                                 | A5     | 23.80          | 27.11          |

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

## Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2016

|   | Year to 30 June 2016           |                                |                  | Year to 30 June 2015 |                   |                 |
|---|--------------------------------|--------------------------------|------------------|----------------------|-------------------|-----------------|
|   | Revenue <sup>1</sup><br>\$'000 | Capital <sup>1</sup><br>\$'000 | Total<br>\$'000  | Revenue<br>\$'000    | Capital<br>\$'000 | Total<br>\$'000 |
| <b>Profit for the year</b>  | <b>265,801</b>                 | <b>(45)</b>                    | <b>265,756</b>   | <b>293,650</b>       | <b>(46)</b>       | <b>293,604</b>  |
| <b>Other Comprehensive Income</b>                                   |                                |                                |                  |                      |                   |                 |
| <i>Items that will not be recycled through the Income Statement</i> |                                |                                |                  |                      |                   |                 |
| Gains/(losses) for the period                                       | -                              | (376,045)                      | <b>(376,045)</b> | -                    | (23,281)          | <b>(23,281)</b> |
| Deferred tax expense on above                                       | -                              | 110,787                        | <b>110,787</b>   | -                    | (3,122)           | <b>(3,122)</b>  |
| <i>Items that may be recycled through the Income Statement</i>      |                                |                                |                  |                      |                   |                 |
| Gross movement in fair value for interest rate swaps                | -                              | -                              | -                | -                    | 401               | <b>401</b>      |
| Tax expense on above  | -                              | -                              | -                | -                    | (120)             | <b>(120)</b>    |
| <b>Total Other Comprehensive Income<sup>2</sup></b>                 | <b>-</b>                       | <b>(265,258)</b>               | <b>(265,258)</b> | <b>-</b>             | <b>(26,122)</b>   | <b>(26,122)</b> |
| <b>Total Comprehensive Income</b>                                   | <b>265,801</b>                 | <b>(265,303)</b>               | <b>498</b>       | <b>293,650</b>       | <b>(26,168)</b>   | <b>267,482</b>  |

<sup>1</sup> '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'.

<sup>2</sup> Total tax movement in Other Comprehensive Income: 2016: \$110.8m; 2015: (\$3.2)m.

### Total Comprehensive Income is attributable to :

|  | Year to 30 June 2016 |                   |                 | Year to 30 June 2015 |                   |                 |
|--|----------------------|-------------------|-----------------|----------------------|-------------------|-----------------|
|  | Revenue<br>\$'000    | Capital<br>\$'000 | Total<br>\$'000 | Revenue<br>\$'000    | Capital<br>\$'000 | Total<br>\$'000 |
| Equity holders of Australian Foundation Investment Company Ltd | 265,618              | (265,303)         | 315             | 293,549              | (26,168)          | 267,381         |
| Minority Interests   | 183                  | -                 | 183             | 101                  | -                 | 101             |
|  | <b>265,801</b>       | <b>(265,303)</b>  | <b>498</b>      | <b>293,650</b>       | <b>(26,168)</b>   | <b>267,482</b>  |

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

## Consolidated Balance Sheet as at 30 June 2016

|   | Note   | 2016<br>\$'000   | 2015<br>\$'000   |
|---|--------|------------------|------------------|
| <b>Current assets</b>                           |        |                  |                  |
| Cash  | D1     | 155,903          | 163,840          |
| Receivables                                     |        | 45,358           | 46,059           |
| Trading portfolio                               |        | -                | 1,930            |
| <b>Total current assets</b>                     |        | <b>201,261</b>   | <b>211,829</b>   |
| <b>Non-current assets</b>                       |        |                  |                  |
| Investment portfolio                            | A2     | 6,250,233        | 6,412,242        |
| Deferred tax assets                             |        | 1,034            | 527              |
| <b>Total non-current assets</b>                 |        | <b>6,251,267</b> | <b>6,412,769</b> |
| <b>Total assets</b>                             |        | <b>6,452,528</b> | <b>6,624,598</b> |
| <b>Current liabilities</b>                      |        |                  |                  |
| Payables  |        | 20,932           | 10,783           |
| Tax payable                                     |        | 14,393           | 30,050           |
| Convertible Notes                               | D3     | 190,057          | -                |
| Trading portfolio                               |        | 226              | -                |
| Provisions                                      |        | 3,636            | 3,409            |
| <b>Total current liabilities</b>                |        | <b>229,244</b>   | <b>44,242</b>    |
| <b>Non-current liabilities</b>                  |        |                  |                  |
| Provisions                                      |        | 1,796            | 1,508            |
| Convertible Notes                               | D3     | -                | 202,252          |
| Deferred tax liabilities – investment portfolio | B2     | 812,947          | 930,152          |
| <b>Total non-current liabilities</b>            |        | <b>814,743</b>   | <b>1,133,912</b> |
| <b>Total liabilities</b>                        |        | <b>1,043,987</b> | <b>1,178,154</b> |
| <b>Net Assets</b>                               |        | <b>5,408,541</b> | <b>5,446,444</b> |
| <b>Shareholders' equity</b>                     |        |                  |                  |
| Share capital                                   | A1, D7 | 2,521,441        | 2,301,232        |
| Revaluation reserve                             | A1, D4 | 1,767,628        | 2,152,455        |
| Realised capital gains reserve                  | A1, D5 | 457,593          | 391,773          |
| General reserve                                 | A1     | 23,637           | 23,637           |
| Retained profits                                | A1, D6 | 637,094          | 576,382          |
| <b>Parent entity interest</b>                   |        | <b>5,407,393</b> | <b>5,445,479</b> |
| Minority interest                               |        | 1,148            | 965              |
| <b>Total equity</b>                             |        | <b>5,408,541</b> | <b>5,446,444</b> |

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

## Consolidated Statement of Changes in Equity for the Year Ended 30 June 2016

|  | Note | Share<br>Capital<br>\$'000 | Revaluation<br>Reserve<br>\$'000 | Realised<br>Capital<br>Gains<br>\$'000 | General<br>Reserve<br>\$'000 | Retained<br>Profits<br>\$'000 | Total<br>Parent<br>Entity<br>\$'000 | Minority<br>Interest<br>\$'000 | Total<br>\$'000  |
|--|------|----------------------------|----------------------------------|--|------------------------------|-------------------------------|-------------------------------------|--------------------------------|------------------|
| <b>Year Ended 30 June 2016</b>   |      |                            |                                  |  |                              |                               |                                     |                                |                  |
| <b>Total equity at the beginning of the year</b>                           |      | <b>2,301,232</b>           | <b>2,152,455</b>                 | <b>391,773</b>                         | <b>23,637</b>                | <b>576,382</b>                | <b>5,445,479</b>                    | <b>965</b>                     | <b>5,446,444</b> |
| Dividends paid   | A4   | -                          | -                                | (53,704)                               | -                            | (204,906)                     | (258,610)                           | -                              | (258,610)        |
| Shares issued - Dividend Reinvestment Plan                                 | D7   | 54,324                     | -                                | -                                      | -                            | -                             | <b>54,324</b>                       | -                              | <b>54,324</b>    |
| - Share Purchase Plan  | D7   | 153,340                    | -                                | -                                      | -                            | -                             | <b>153,340</b>                      | -                              | <b>153,340</b>   |
| - Conversion of Notes  | D7   | 13,091                     | -                                | -                                      | -                            | -                             | <b>13,091</b>                       | -                              | <b>13,091</b>    |
| Other share capital adjustments  |      | (546)                      | -                                | -                                      | -                            | -                             | (546)                               | -                              | (546)            |
| <b>Total transactions with shareholders</b>                                |      | <b>220,209</b>             | <b>-</b>                         | <b>(53,704)</b>                        | <b>-</b>                     | <b>(204,906)</b>              | <b>(38,401)</b>                     | <b>-</b>                       | <b>(38,401)</b>  |
| Profit for the year  |      | -                          | (45)                             | -                                      | -                            | 265,618                       | <b>265,573</b>                      | <b>183</b>                     | <b>265,756</b>   |
| <b>Other Comprehensive Income (net of tax)</b>                             |      |                            |                                  |  |                              |                               |                                     |                                |                  |
| Net losses for the period  |      | -                          | (265,258)                        | -                                      | -                            | -                             | (265,258)                           | -                              | (265,258)        |
| Other Comprehensive Income for the year                                    |      | -                          | (265,258)                        | -                                      | -                            | -                             | (265,258)                           | -                              | (265,258)        |
| Transfer to Realised Capital Gains of cumulative gains on investments sold |      | -                          | (119,524)                        | 119,524                                | -                            | -                             | -                                   | -                              | -                |
| <b>Total equity at the end of the year</b>                                 |      | <b>2,521,441</b>           | <b>1,767,628</b>                 | <b>457,593</b>                         | <b>23,637</b>                | <b>637,094</b>                | <b>5,407,393</b>                    | <b>1,148</b>                   | <b>5,408,541</b> |

*This statement of changes in equity should be read in conjunction with the accompanying notes*

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2016 (continued)

|  | Note | Share Capital<br>\$'000 | Revaluation<br>Reserve<br>\$'000 | Realised<br>Capital<br>Gains<br>\$'000 | General<br>Reserve<br>\$'000 | Interest<br>Rate<br>Hedging<br>\$'000 | Retained<br>Profits<br>\$'000 | Total<br>Parent<br>Entity<br>\$'000 | Minority<br>Interest<br>\$'000 | Total<br>\$'000  |
|--|------|-------------------------|----------------------------------|--|------------------------------|---------------------------------------|-------------------------------|-------------------------------------|--------------------------------|------------------|
| <b>Year Ended 30 June 2015</b>   |      |                         |                                  |  |                              |                                       |                               |                                     |                                |                  |
| <b>Total equity at the beginning of the year</b>                           |      | <b>2,064,936</b>        | <b>2,253,053</b>                 | <b>317,624</b>                         | <b>23,637</b>                | <b>(281)</b>                          | <b>524,319</b>                | <b>5,183,288</b>                    | <b>864</b>                     | <b>5,184,152</b> |
| Dividends paid   | A4   | -                       | -                                | -                                      | -                            | -                                     | (241,486)                     | (241,486)                           | -                              | (241,486)        |
| Shares issued - Dividend Reinvestment Plan                                 | D7   | 49,724                  | -                                | -                                      | -                            | -                                     | -                             | 49,724                              | -                              | 49,724           |
| Share Purchase Plan  | D7   | 184,671                 | -                                | -                                      | -                            | -                                     | -                             | 184,671                             | -                              | 184,671          |
| - Conversion of Notes  | D7   | 2,423                   | -                                | -                                      | -                            | -                                     | -                             | 2,423                               | -                              | 2,423            |
| Other share capital adjustments  |      | (522)                   | -                                | -                                      | -                            | -                                     | -                             | (522)                               | -                              | (522)            |
| <b>Total transactions with shareholders</b>                                |      | <b>236,296</b>          | <b>-</b>                         | <b>-</b>                               | <b>-</b>                     | <b>-</b>                              | <b>(241,486)</b>              | <b>(5,190)</b>                      | <b>-</b>                       | <b>(5,190)</b>   |
| Profit for the year  |      | -                       | (46)                             | -                                      | -                            | -                                     | 293,549                       | 293,503                             | 101                            | 293,604          |
| <b>Other Comprehensive Income (net of tax)</b>                             |      |                         |                                  |  |                              |                                       |                               |                                     |                                |                  |
| Net losses for the period  |      | -                       | (26,403)                         | -                                      | -                            | -                                     | -                             | (26,403)                            | -                              | (26,403)         |
| Net movement in fair value of swap contracts                               |      | -                       | -                                | -                                      | -                            | 281                                   | -                             | 281                                 | -                              | 281              |
| Other Comprehensive Income for the year                                    |      | -                       | (26,403)                         | -                                      | -                            | 281                                   | -                             | (26,122)                            | -                              | (26,122)         |
| Transfer to Realised Capital Gains of cumulative gains on investments sold |      | -                       | (74,149)                         | 74,149                                 | -                            | -                                     | -                             | -                                   | -                              | -                |
| <b>Total equity at the end of the year</b>                                 |      | <b>2,301,232</b>        | <b>2,152,455</b>                 | <b>391,773</b>                         | <b>23,637</b>                | <b>-</b>                              | <b>576,382</b>                | <b>5,445,479</b>                    | <b>965</b>                     | <b>5,446,444</b> |

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

## Consolidated Cash Flow Statement for the Year Ended 30 June 2016

|  |      | 2016<br>\$'000         | 2015<br>\$'000        |
|--|------|------------------------|-----------------------|
|  | Note | Inflows/<br>(Outflows) | Inflows/<br>(Outflow) |
| <b>Cash flows from operating activities</b>                |      |                        |                       |
| Sales from trading portfolio                               |      | 116,331                | 41,909                |
| Purchases for trading portfolio                            |      | (71,428)               | (32,297)              |
| Interest received  |      | 3,187                  | 3,680                 |
| Dividends and distributions received                       |      | 244,660                | 309,469               |
|  |      | 292,750                | 322,761               |
| Other receipts   |      | 4,749                  | 4,467                 |
| Administration expenses                                    |      | (14,307)               | (14,903)              |
| Finance costs paid   |      | (13,125)               | (14,993)              |
| Taxes paid   |      | (34,141)               | (13,677)              |
| <b>Net cash inflow/(outflow) from operating activities</b> | E1   | <b>235,926</b>         | <b>283,655</b>        |
| <b>Cash flows from investing activities</b>                |      |                        |                       |
| Sales from investment portfolio                            |      | 610,811                | 244,676               |
| Purchases for investment portfolio                         |      | (803,331)              | (325,949)             |
| <b>Net cash inflow/(outflow) from investing activities</b> |      | <b>(192,520)</b>       | <b>(81,273)</b>       |
| <b>Cash flows from financing activities</b>                |      |                        |                       |
| Repayment of borrowings                                    |      | -                      | (100,000)             |
| Proceeds from share issues                                 |      | 153,264                | 184,671               |
| Share issue transaction costs                              |      | (476)                  | (597)                 |
| Dividends paid   |      | (204,131)              | (191,700)             |
| <b>Net cash inflow/(outflow) from financing activities</b> |      | <b>(51,343)</b>        | <b>(107,626)</b>      |
| Net increase/(decrease) in cash held                       |      | (7,937)                | 94,756                |
| Cash at the beginning of the year                          |      | 163,840                | 69,084                |
| <b>Cash at the end of the year</b>                         | D1   | <b>155,903</b>         | <b>163,840</b>        |

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

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

## 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 steady stream of fully-franked dividends and enhancement of capital invested.

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

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

|                                | <b>2016</b>      | <b>2015</b>      |
|--------------------------------|------------------|------------------|
|                                | <b>\$'000</b>    | <b>\$'000</b>    |
| Share capital                  | 2,521,441        | 2,301,232        |
| Revaluation reserve            | 1,767,628        | 2,152,455        |
| Realised capital gains reserve | 457,593          | 391,773          |
| General reserve                | 23,637           | 23,637           |
| Retained profits               | 637,094          | 576,382          |
|                                | <b>5,407,393</b> | <b>5,445,479</b> |

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:

|  | <b>2016</b>      | <b>2015</b>      |
|--|------------------|------------------|
|  | <b>\$'000</b>    | <b>\$'000</b>    |
| Equity instruments (excluding below) at market value   | 6,039,563        | 6,248,944        |
| Equity instruments (over which options may be written) | 198,825          | 148,845          |
| Hybrids  | 11,845           | 11,788           |
| Convertible notes that are classified as debt          | -                | 2,665            |
|  | <b>6,250,233</b> | <b>6,412,242</b> |



## How investments are shown in the financial statements

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

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

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

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

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

## Net tangible asset backing per share

The Investment Committee regularly reviews the net asset backing per share both before and after provision for deferred tax on the unrealised gains in AFIC's long-term investment portfolio. Deferred tax is calculated as set out in note B2. The relevant amounts as at 30 June 2016 and 30 June 2015 were as follows:

|   | 30 June<br>2016 | 30 June<br>2015 |
|---|-----------------|-----------------|
| <b>Net tangible asset backing per share</b> | <b>\$</b>       | <b>\$</b>       |
| Before tax                                  | 5.50            | 5.85            |
| After tax                                   | 4.79            | 5.00            |

## 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 & convertible notes

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

## Securities sold and how they are measured

During the period \$598.0 million (2015: \$215.7 million) of equity securities were sold. The cumulative gain on the sale of securities was \$119.5 million for the period after tax (2015: \$74.1 million). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated statement of changes in equity). These sales were accounted for at the date of trade.

Where securities are sold, any difference between the sale price and the 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.

### A3. Operating income

The total income received from AFIC's investments in 2016 is set out below.

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| Dividends from securities held in investment portfolio at 30 June  | 272,530        | 314,066        |
| Income from investment securities sold during the year             | 13,251         | 3,449          |
| Dividends from securities held in trading portfolio at 30 June     | 99             | -              |
| Interest income from securities in investment portfolio            | -              | 247            |
| Income from trading and non-equity securities sold during the year | 248            | -              |
|  | 286,128        | 317,762        |
| <b>Interest income</b>   |                |                |
| Income from cash investments                                       | 2,754          | 3,425          |
| <b>Other income</b>  |                |                |
| Administration fees  | 4,600          | 4,403          |
| Other income   | 142            | 58             |
|  | 4,742          | 4,461          |

### 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 & non-equity investments

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

|   | 2016<br>\$'000 | 2015<br>\$'000 |
|---|----------------|----------------|
| <b>Net gains</b>  |                |                |
| Net realised gains from trading portfolio – shares        | 9,403          | 4,101          |
| - options   | 3,700          | 3,533          |
| Unrealised gains/(losses) from trading portfolio - shares | (364)          | 12             |
| - options   | (377)          | 859            |
| Losses from non-equity investments                        | (65)           | (65)           |
|   | 12,297         | 8,440          |

\$99.8 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2015: \$119.3 million). These shares are lodged with ASX Clear under the terms of ASX Clear Pty Ltd which require participants in the Exchange Traded Option market to lodge collateral, and are recorded as part of the Group's Investment Portfolio. If all call options were exercised, this would lead to the sale of \$78.0 million worth of securities at an agreed price – the 'exposure' (2015: \$60.7 million). If all put options were exercised, this would lead to the purchase of \$1.2 million of securities at an agreed price (2015 : \$Nil)

#### A4. Dividends paid

The dividends paid and payable for the year ended 30 June 2016 are shown below:

|   | 2016<br>\$'000 | 2015<br>\$'000 |
|---|----------------|----------------|
| <b>(a) Dividends paid during the year</b>   |                |                |
| Final dividend for the year ended 30 June 2015 of 14 cents fully franked at 30% paid 28 August 2015 (2015: 14 cents fully franked at 30% paid on 29 August 2014).             | 150,372        | 145,077        |
| Interim dividend for the year ended 30 June 2016 of 10 cents per share fully franked at 30%, paid 19 February 2016 (2015: 9 cents fully franked at 30% paid 20 February 2015) | 108,238        | 96,409         |
|   | 258,610        | 241,486        |
| Dividends paid in cash  | 204,286        | 191,762        |
| Dividends reinvested in shares  | 54,324         | 49,724         |
|   | 258,610        | 241,486        |
| Dividends forgone via DSSP  | 3,699          | 3,128          |
| <b>(b) Franking credits</b>   |                |                |
| Opening balance of franking account at 1 July   | 137,698        | 128,143        |
| Franking credits on dividends received  | 100,883        | 100,932        |
| Tax paid during the year  | 33,707         | 13,458         |
| Franking credits paid on ordinary dividends paid  | (110,832)      | (103,494)      |
| Franking credits deducted on DSSP shares issued   | (1,587)        | (1,341)        |
| <b>Closing Balance of Franking Account</b>  | <b>159,869</b> | <b>137,698</b> |
| Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables   | 28,674         | 44,659         |
| <b>Adjusted Closing Balance</b>   | <b>188,543</b> | <b>182,357</b> |
| Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:  | (67,818)       | (65,391)       |
| <b>Net available</b>  | <b>120,725</b> | <b>116,966</b> |
| These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:  | 281,692        | 272,921        |
| 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.     |                |                |

| <b>(c) New Zealand imputation account</b>  | <b>2016<br/>\$'000</b> | <b>2015<br/>\$'000</b> |
|--|------------------------|------------------------|
| (Figures in A\$ at year-end exchange rate : 2016 : \$NZ1.045:\$A1; 2015 : \$NZ1.14:\$A1) |                        |                        |
| Opening balance  | 13,485                 | 6,761                  |
| Imputation credits on dividends received   | 6,182                  | 5,599                  |
| Imputation credits on dividends paid   | (11,991)               | -                      |
| Closing balance  | 7,676                  | 12,360                 |

In 2015, 3 NZ cents per share of the dividend paid on 28 August 2015 had New Zealand imputation credit attached. The final dividend to be paid on 30 August 2016 will not carry any New Zealand imputation credits.

#### **(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%. The aggregate amount of the final dividend for the year to 30 June 2016 to be paid on 30 August 2016, but not recognised as a liability at the end of the financial year is:

158,243

| <b>(e) Listed Investment Company capital gain account</b>            | <b>2016<br/>\$'000</b> | <b>2015<br/>\$'000</b> |
|--|------------------------|------------------------|
| Balance of the Listed Investment Company (LIC) capital gain account: | 19,854                 | 61,134                 |
| This equates to an attributable amount of:                           | 28,363                 | 87,334                 |

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. \$16.9 million of the capital gain (\$24.2 million of the attributable amount) will be paid out as part of the final dividend on 30 August 2016.

## **A5. Earnings per share**

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

|  | <b>2016</b>   | <b>2015</b>   |
|--|---------------|---------------|
| Basic Earnings per share   | <b>Number</b> | <b>Number</b> |
| Weighted average number of ordinary shares used as the denominator | 1,114,522,875 | 1,078,053,226 |
|  | <b>\$'000</b> | <b>\$'000</b> |
| Profit for the year  | 265,573       | 293,503       |
|  | <b>Cents</b>  | <b>Cents</b>  |
| Basic earnings per share   | 23.83         | 27.23         |

| <b>Diluted Earnings per share</b>   | <b>2016<br/>Number</b> | <b>2015<br/>Number</b> |
|---|------------------------|------------------------|
| Weighted average number of ordinary shares attributable to members of the company | 1,114,522,875          | 1,078,053,226          |
| Weighted maximum number of potential shares as a result of possible conversion    | 38,947,258             | 40,185,036             |
|   | 1,153,470,133          | 1,118,238,262          |
|   |                        |                        |
|   | <b>\$'000</b>          | <b>\$'000</b>          |
| Profit after tax for the year attributable to members of the company              | 265,573                | 293,503                |
| Interest and costs on convertible notes (after tax)                               | 8,982                  | 9,570                  |
| Adjusted profit after tax attributable to members of the company                  | 274,555                | 303,073                |
|   |                        |                        |
|   | <b>Cents</b>           | <b>Cents</b>           |
| Diluted earnings per share  | 23.80                  | 27.11                  |

## B. Costs, Tax and Risk

### B1. Management Costs

The total management expenses for the period are as follows:

|   | 2016<br>\$'000 | 2015<br>\$'000 |
|---|----------------|----------------|
| Rental expense relating to non-cancellable leases | (574)          | (534)          |
| Employee benefit expenses                         | (9,382)        | (9,815)        |
| Depreciation charge                               | -              | (75)           |
| Other administration expenses                     | (4,698)        | (4,443)        |

### Employee benefit expenses

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

|                         | Short-term<br>\$ | Other Long Term<br>\$ | Post-employment<br>\$ | Share-based<br>\$ | Total<br>\$      |
|-------------------------|------------------|-----------------------|-----------------------|-------------------|------------------|
| <b>2016</b>             |                  |                       |                       |                   |                  |
| Non-executive Directors | 652,722          | -                     | 70,145                | -                 | 722,867          |
| Executives              | 3,657,197        | 135,606               | 131,090               | 384,593           | 4,308,486        |
| <b>Total</b>            | <b>4,309,919</b> | <b>135,606</b>        | <b>201,235</b>        | <b>384,593</b>    | <b>5,031,353</b> |
| <b>2015</b>             |                  |                       |                       |                   |                  |
| Non-executive Directors | 671,007          | -                     | 93,993                | -                 | 765,000          |
| Executives              | 3,919,635        | 154,216               | 133,783               | 488,750           | 4,696,384        |
| <b>Total</b>            | <b>4,590,642</b> | <b>154,216</b>        | <b>227,776</b>        | <b>488,750</b>    | <b>5,461,384</b> |

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*

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| <b>Profit before income tax expense</b>                              | <b>277,509</b> | <b>303,464</b> |
| Tax at the Australian tax rate of 30% (2015: 30%)                    | 83,253         | 91,039         |
| Tax offset for franked dividends                                     | (69,764)       | (70,454)       |
| Demerger dividends not taxable                                       | -              | (9,557)        |
| Tax effect of sundry items not taxable in calculating taxable income | 344            | (147)          |
|  | <b>13,833</b>  | <b>10,881</b>  |
| Over provision in prior years  | (2,080)        | (1,021)        |
| <b>Total tax expense</b>   | <b>11,753</b>  | <b>9,860</b>   |

### 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.

|   | 2016<br>\$'000 | 2015<br>\$'000 |
|---|----------------|----------------|
| Deferred tax liabilities on unrealised gains in the investment portfolio            | 812,947        | 930,152        |
| Opening balance at 1 July   | 930,152        | 948,009        |
| Charged to income statement for puttable instruments/non-equity investments         | (20)           | (19)           |
| Tax on realised gains   | (6,398)        | (20,960)       |
| (Credited) Charged to OCI for ordinary securities on gains or losses for the period | (110,787)      | 3,122          |
|   | <b>812,947</b> | <b>930,152</b> |

### 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 Listed Investment Company 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% and 10%, if spread equally over all assets in the investment portfolio, would lead to a reduction in AFIC's comprehensive income of \$218.8 million and \$437.5 million respectively, at a tax rate of 30% (2015: \$224.3 million & \$448.7 million). The Revaluation Reserve at 30 June 2016 was \$1.77 billion (2015: \$2.15 billion). It would require a fall in the value of the investment portfolio of 40% after tax to fully deplete this (2015: 48%).

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

AFIC's investment exposure by sector is as below:

|                        | <b>2016</b> | <b>2015</b> |
|------------------------|-------------|-------------|
|                        | <b>%</b>    | <b>%</b>    |
| Energy                 | 4.60        | 6.71        |
| Materials              | 14.73       | 16.66       |
| Industrials            | 11.18       | 8.07        |
| Consumer Discretionary | 1.80        | 1.36        |
| Consumer Staples       | 8.25        | 7.97        |
| Banks                  | 23.71       | 29.16       |
| Other Financials       | 10.07       | 9.22        |
| Property Trusts        | 2.79        | 2.01        |
| Telecommunications     | 6.01        | 5.68        |
| Health Care            | 10.35       | 5.92        |
| Info Technology        | 1.47        | 2.01        |
| Utilities              | 2.61        | 2.74        |
| Cash                   | 2.43        | 2.49        |

*Securities representing over 5% of the investment portfolio at 30 June were*

|                         |     |      |
|-------------------------|-----|------|
| Commonwealth Bank       | 9.5 | 11.3 |
| Westpac                 | 7.3 | 9.1  |
| BHP Billiton            | 4.2 | 6.0  |
| National Australia Bank | 4.1 | 5.2  |
| Telstra                 | 4.7 | 5.0  |



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 (with the exception of the Convertible Notes) are short term for a fixed interest rate. The Convertible Notes were also issued at a fixed interest rate.

### 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 4" commercial banks or their wholly-owned subsidiaries or in cash management trusts managed by those subsidiaries. In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

#### Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within 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 2016                  | Less than<br>6 months | 6-12<br>months | Greater<br>than 1<br>year | Total<br>contractual<br>cash flows | Carrying<br>Amount |
|-------------------------------|-----------------------|----------------|---------------------------|------------------------------------|--------------------|
|                               | \$'000                | \$'000         | \$'000                    | \$'000                             | \$'000             |
| <b>Non-derivatives</b>        |                       |                |                           |                                    |                    |
| Payables                      | 20,932                | -              | -                         | 20,932                             | 20,932             |
| Convertible Notes             | -                     | 190,477        | -                         | 190,477                            | 190,057            |
|                               | 20,932                | 190,477        | -                         | 211,409                            | 210,989            |
| <b>Derivatives</b>            |                       |                |                           |                                    |                    |
| Options in trading portfolio* | 1,200                 | -              | -                         | 1,200                              | 3,022              |
| Interest rate swaps           | -                     | -              | -                         | -                                  | -                  |
|                               | 1,200                 | -              | -                         | 1,200                              | 3,022              |

| 30 June 2015                  | Less than 6<br>months | 6-12<br>months | Greater<br>than 1<br>year | Total<br>contractual<br>cash flows | Carrying<br>Amount |
|-------------------------------|-----------------------|----------------|---------------------------|------------------------------------|--------------------|
|                               | \$'000                | \$'000         | \$'000                    | \$'000                             | \$'000             |
| <b>Non-derivatives</b>        |                       |                |                           |                                    |                    |
| Payables                      | 10,783                | -              | -                         | 10,783                             | 10,783             |
| Convertible Notes             | -                     | -              | 203,568                   | 203,568                            | 202,252            |
|                               | 10,783                | -              | 203,568                   | 214,351                            | 213,035            |
| <b>Derivatives</b>            |                       |                |                           |                                    |                    |
| Options in trading portfolio* | -                     | -              | -                         | -                                  | 1,229              |
| Interest rate swaps           | -                     | -              | -                         | -                                  | -                  |
|                               | -                     | -              | -                         | -                                  | 1,229              |

\* 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 (none in 2015) written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow).

## C. Unrecognised items

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

### C1. Contingencies

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

## Additional information

Additional information that shareholder 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

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| Cash at bank and in hand (including on-call) | 149,403        | 119,772        |
| Fixed term deposits                          | 6,500          | 44,068         |
|  | 155,903        | 163,840        |

Cash holdings yielded an average floating interest rate of 2.25% (2015: 2.76%). All cash investments not held in a transactional account or an over-night 'at call' account are invested in short-term deposits with Australia's "Big 4" commercial banks or their wholly-owned subsidiaries, all rated 'AA-' by S&P which have a maturity of three months or less or in cash management trusts managed by those subsidiaries which invest predominantly in securities with an A1+ rating.

#### D2. Credit Facilities

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| Commonwealth Bank of Australia – cash advance facilities | 140,000        | 115,000        |
| Amount drawn down  | 0              | 0              |
| Undrawn facilities                                       | 140,000        | 115,000        |
| Westpac Bank – cash advance facilities                   | 10,000         | 35,000         |
| Amount drawn down  | 0              | 0              |
| Undrawn facilities                                       | 10,000         | 35,000         |
| 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

|   | 2016    | 2015    |
|---|---------|---------|
|   | \$'000  | \$'000  |
| Current unsecured (2015 : Non-current)– convertible notes at amortised cost | 190,057 | 202,252 |

There were 1,904,768 convertible notes outstanding at 30 June 2016 each with a face value of \$100 which were issued on 19 December 2011. These notes carry an interest entitlement of 6.25 per cent per annum. They may be converted at the option of the holder into ordinary shares based on a conversion price of \$5.0864 per share on 28 February or 31 August each year until 28 February 2017. Notes not converted will be redeemed at their face value on 28 February 2017. At 30 June 2016, the face value of the convertible notes was \$190.5 million (2015: \$203.6 million). Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd.

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

### D4. Revaluation reserve

|   | 2016      | 2015      |
|---|-----------|-----------|
|   | \$'000    | \$'000    |
| Opening balance at 1 July                                       | 2,152,455 | 2,253,053 |
| Gains/(losses) on investment portfolio                          |           |           |
| - Equity Instruments  | (376,045) | (23,281)  |
| - Puttable/debt instruments (transferred from retained profits) | (65)      | (65)      |
| Provision for tax on above                                      | 110,807   | (3,103)   |
| Cumulative taxable realised (gains)/losses (net of tax)         | (119,524) | (74,149)  |
|   | 1,767,628 | 2,152,455 |

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

|   |          |         |
|---|----------|---------|
| Opening balance at 1 July   | 391,773  | 317,624 |
| Dividends paid  | (53,704) | -       |
| Cumulative taxable realised gains for period through OCI (net of tax) | 119,524  | 74,149  |
|   | 457,593  | 391,773 |

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

|  |           |           |
|--|-----------|-----------|
| Opening balance at 1 July  | 576,382   | 524,319   |
| Dividends paid   | (204,906) | (241,486) |
| Profit for the year  | 265,573   | 293,503   |
| Transfer to revaluation reserve (puttable instruments & non-equity investments) (net of tax) | 45        | 46        |
|  | 637,094   | 576,382   |

This reserve relates to past profits.

## D7. Share capital

### (a) Share Capital

|                              | Consolidated and Parent Entity |                | Consolidated and Parent Entity |                |
|------------------------------|--------------------------------|----------------|--------------------------------|----------------|
|                              | 2016<br>Shares<br>'000         | 2016<br>\$'000 | 2015<br>Shares<br>'000         | 2015<br>\$'000 |
| Ordinary Shares – fully paid | 1,130,305                      | 2,521,441      | 1,089,844                      | 2,301,238      |
| Less ELTIP shares adjustment | -                              | -              | -                              | (6)            |
|                              | 1,130,305                      | 2,521,441      | 1,089,844                      | 2,301,232      |

### (b) Movements in Share Capital

| Date       | Details                                 | Notes | Number<br>of shares<br>'000 | Issue<br>price<br>\$ | Paid-up<br>Capital<br>\$'000 |
|------------|---|-------|-----------------------------|----------------------|------------------------------|
| 1/07/2014  | Balance                                 |       | 1,049,055                   |                      | 2,065,017                    |
| 29/8/2014  | Dividend Reinvestment Plan              | i     | 4,983                       | 5.93                 | 29,549                       |
| 29/8/2014  | Dividend Substitution Share Plan        | ii    | 302                         | n/a                  | -                            |
| 31/8/2014  | Convertible Note conversion             | iv    | 306                         | 5.09                 | 1,558                        |
| 6/10/2014  | Share Purchase Plan                     | v     | 31,425                      | 5.88                 | 184,671                      |
| 20/2/2015  | Dividend Reinvestment Plan              | i     | 3,379                       | 5.97                 | 20,175                       |
| 20/2/2015  | Dividend Substitution Share Plan        | ii    | 224                         | n/a                  | -                            |
| 28/2/2015  | Convertible Note conversion             | iv    | 170                         | 5.09                 | 865                          |
| Various    | Costs of issue                          |       | -                           |                      | (597)                        |
| 30/6/2015  | Balance                                 |       | 1,089,844                   |                      | 2,301,238                    |
| 28/08/2015 | Dividend Reinvestment Plan              | i     | 5,252                       | 6.03                 | 31,670                       |
| 28/08/2015 | Dividend Substitution Share Plan        | ii    | 366                         | n/a                  | -                            |
| 31/08/2015 | Convertible Note conversion             | iv    | 1,878                       | 5.09                 | 9,551                        |
| 25/11/2015 | Share Purchase Plan                     | vi    | 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                         | 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                    |

- 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 & 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 programme. During the financial year, no shares were bought back (2015: Nil).

- iv. *See Note D3. 130,908 Feb 2017 convertible notes were converted into shares during the year (2015: 24,230).*
- v. *During the year ended 30 June 2015, the Group had a Share Purchase Plan. Shareholders were invited to subscribe for \$15,000 worth of new shares. Pricing was set at the lower of \$5.93 or a 2.5% discount to the Volume Weighted Average Price of the shares traded on the 5 days up to and including the closing date of the offer.*
- vi. *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% discount to the Volume Weighted Average Price of the shares traded on the 5 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

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| <b>Profit for the year</b>   | <b>265,756</b> | <b>293,604</b> |
| Fair value movement in puttable instruments  | 45             | 46             |
| Add back depreciation  | -              | 75             |
| Net decrease/(increase) in trading portfolio   | 2,156          | (3,910)        |
| Dividends received as securities under DRP investments                                   | (10,906)       | (3,399)        |
| Decrease/(increase) in current receivables   | 701            | 19,699         |
| - Less increase/(decrease) in receivables for investment portfolio                       | (179)          | (19,125)       |
| Increase in deferred tax liabilities   | (117,712)      | (17,520)       |
| - Less (increase)/decrease in deferred tax liability on investment portfolio             | 117,205        | 17,857         |
| Increase/(decrease) in current payables  | 10,149         | 4,655          |
| - Less decrease/(increase) in payables for investment portfolio                          | (10,496)       | (5,523)        |
| - Less increase/(decrease) in dividends payable  | (153)          | (62)           |
| Increase/(decrease) in provision for tax payable   | (15,657)       | 16,631         |
| Movement in ELTIP account  | 6              | 75             |
| Capital gains tax charge taken through equity  | (6,398)        | (20,960)       |
| Increase/(decrease) in other provisions/non-cash items (incl. convertible note expenses) | 1,409          | 1,512          |
| <b>Net cash flows from operating activities</b>  | <b>235,926</b> | <b>283,655</b> |

### E2. Tax reconciliations

#### Tax expense composition

|  |               |              |
|--|---------------|--------------|
| Charge for tax payable relating to the current year                    | 14,360        | 10,563       |
| Over provision in prior years  | (2,080)       | (1,021)      |
| Increase/(decrease) in deferred tax liabilities – investment portfolio | (20)          | (19)         |
| (Increase)/decrease in deferred tax assets                             | (507)         | 337          |
|  | <b>11,753</b> | <b>9,860</b> |

#### 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 | (110,787)        | 3,122        |
|  | <b>(110,787)</b> | <b>3,122</b> |

### Deferred tax assets & liabilities

The deferred tax balances are attributable to:

|   | <b>2016</b>   | <b>2015</b>   |
|---|---------------|---------------|
|   | <b>\$'000</b> | <b>\$'000</b> |
| (a) Tax on unrealised gains or losses in the trading portfolio                                | 219           | (261)         |
| (b) Provisions and expenses charged to the accounting profit which are not yet tax deductible | 1,862         | 1,553         |
| (c) Interest and dividend income receivable which is not assessable for tax until receipt     | (1,047)       | (765)         |
|   | <b>1,034</b>  | <b>527</b>    |

### Movements:

|  |              |            |
|--|--------------|------------|
| Opening asset balance at 1 July        | 527          | 864        |
| Credited/(charged) to Income statement | 507          | (337)      |
|  | <b>1,034</b> | <b>527</b> |

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 \$0.8 million (2015: \$1.0 million). This relates primarily to items described in items (a) and (c) above.



## F. Other information

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

### F1. Related parties

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

#### (a) Arrangements with non-executive directors

Non-Executive Directors John Paterson and Catherine Walter have rented office space and, 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 \$41,243 (2015: \$43,561).

#### (b) AICS transactions with minority interests

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

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| Administration expenses charged for the year | 2,412          | 2,274          |

#### (c) AICS transactions with other Listed Investment Companies

AICS had the following transactions with other Listed Investment Companies to which it provides services :

|  |       |       |
|--|-------|-------|
| Administration expenses charged for the year to Mirrabooka Investments Ltd | 1,433 | 1,398 |
| Administration expenses charged for the year to AMCIL Ltd                  | 780   | 768   |

### F2. Remuneration of auditors

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

|                                      | 2016<br>\$ | 2015<br>\$ |
|--------------------------------------|------------|------------|
| <b>PricewaterhouseCoopers</b>        |            |            |
| Audit or review of financial reports | 205,247    | 239,964    |
| AFSL compliance audit and review     | 9,925      | 9,925      |
| <u>Non-Audit Services</u>            |            |            |
| Taxation compliance services         | 38,819     | 37,868     |
| Total remuneration                   | 253,991    | 287,757    |

### 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 2 investments comprising more than 10% of AFIC's income, including realised income from the trading and options written portfolios –Commonwealth Bank (11.9%) and Westpac Bank (11.2%).

### 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 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 & 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 2016 ("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 4 years' time. The value of each Performance Shares will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any

dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June. Should performance conditions be met, the first vesting under this plan will occur in the year ended 30 June 2017.

The expense will be charged directly through the Group's Profit and Loss account in the following manner – 25% of the total estimated cost in Year 1, 50% of the total estimated cost in Year 2 less the expense charged in Year 1, 75% of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100% 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 but expenses will continue to be incurred under it until the conclusion of the vesting period in August 2016. Shares acquired to satisfy obligations under the old Senior Executive Long Term Incentive plans are recognised as an adjustment against share capital (referred to as "ELTIP shares adjustment") as at the date of acquisition by the Group. Between the award date and the vesting date, the fair value of the ELTIP shares is expensed over the relevant period of service for each executive, and recognised in equity in the ELTIP shares adjustment account. In the event that the executive does not complete the period of service, the cumulative expense is reversed. The fair value of the shares is determined at the award date and is based on:

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

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

#### 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 License in place a performance bond to the sum of \$20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investments Commission ("ASIC"), payable on demand to ASIC.

### 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% of the remuneration will be awarded. If stretch levels of performance are achieved above target, then higher amounts may be paid. On the other hand there is no set minimum that will be paid regardless of performance.

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

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

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

19,648 shares (2015: 22,452 shares) were purchased by executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of \$121,411 (2015: \$135,685).

### (ii) Senior Executive Long Term Incentive Plan

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

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

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

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

66,784 rights were awarded under the plan during the year ended 30 June 2016 (2015: 67,009). An expense of \$267,351 (2015: \$413,846) was incurred. 41,496 rights were forfeited due to departure during the year.

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

| Award date  | Assessment period | Balance at start of the year<br>Number | Awarded during the year<br>Number | Vested during the year<br>Number | Lapsed during the year<br>Number | Balance at end of the year<br>Number |
|-------------|-------------------|--|-----------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| <b>2016</b> |                   |  |                                   |                                  |                                  |                                      |
| Aug 2010    | Aug 14 – Aug 15   | 18,266                                 | -                                 | 6,088                            | 12,178                           | -                                    |
| Aug 2011    | Aug 15 – Aug 16   | 66,845                                 | -                                 | 33,422                           | 4,190                            | 29,233                               |
|             |                   | 85,111                                 | -                                 | 39,510                           | 16,368                           | 29,233                               |

| Award date  | Assessment period | Balance at start of the year<br>Number | Awarded during the year<br>Number | Vested during the year<br>Number | Lapsed during the year<br>Number | Balance at end of the year<br>Number |
|-------------|-------------------|--|-----------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| <b>2015</b> |                   |  |                                   |                                  |                                  |                                      |
| Aug 2010    | Aug 14 – Aug 15   | 48,700                                 | -                                 | 30,434                           | -                                | 18,266                               |
| Aug 2011    | Aug 15 – Aug 16   | 66,845                                 | -                                 | -                                | -                                | 66,845                               |
|             |                   | 115,545                                | -                                 | 30,434                           | -                                | 85,111                               |

### (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.

\$314,564 under this plan vested in the period (2015 \$371,859) and was paid in cash.

### (b) Employee Share Acquisition Scheme

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

In addition, each employee is eligible for an additional award of up to \$5,000. 50% 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, 83.125% of possible maximum was awarded, and 50% of this was used to buy shares in Djerriwarrh 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 the Investment Team Long Term Incentive Plan) were as follows:

|                             | <b>2016</b><br><b>\$'000</b> | <b>2015</b><br><b>\$'000</b> |
|-----------------------------|------------------------------|------------------------------|
| Share-based payment expense | 306                          | 529                          |

#### (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 7 years. Current Commitment relating to leases at balance date, for the current lease (incl. GST), is:

|  | 2016<br>\$'000 | 2015<br>\$'000 |
|--|----------------|----------------|
| Due within one year                    | 667            | 563            |
| Later than one year but less than five | 2,669          | -              |
| Greater than five years                | 667            | -              |
|  | 4,003          | 563            |

#### 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% 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:

| Name of entity                             | Country of Incorporation | Class of shares | Equity holding |      |
|--|--------------------------|-----------------|----------------|------|
|  |                          |                 | 2016           | 2015 |
| 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:

|                                    | 2016<br>\$'000   | 2015<br>\$'000   |
|------------------------------------|------------------|------------------|
| <b>Balance sheet</b>               |                  |                  |
| Current assets                     | 192,774          | 204,211          |
| <b>Total assets</b>                | <b>6,442,443</b> | <b>6,616,668</b> |
| Current liabilities                | 226,466          | 40,486           |
| <b>Total liabilities</b>           | <b>1,038,344</b> | <b>1,173,929</b> |
| <b>Shareholders' equity</b>        |                  |                  |
| Issued capital                     | 2,521,441        | 2,301,232        |
| <b>Reserves</b>                    |                  |                  |
| Revaluation reserve                | 1,767,628        | 2,152,455        |
| Realised capital gains reserve     | 457,593          | 391,773          |
| General reserve                    | 23,637           | 23,637           |
| Retained earnings                  | 633,800          | 573,642          |
|                                    | <b>2,882,658</b> | <b>3,141,507</b> |
| <b>Total shareholders' equity</b>  | <b>5,404,099</b> | <b>5,442,739</b> |
| <b>Profit or loss for the year</b> | <b>265,024</b>   | <b>293,200</b>   |
| <b>Total comprehensive income</b>  | <b>(235)</b>     | <b>267,078</b>   |





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

### ***Report on the financial report***

We have audited the accompanying financial report of Australian Foundation Investment Company Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Australian Foundation Investment Company Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

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

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

### ***Auditor's responsibility***

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

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

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

### ***Independence***

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Auditor's opinion*

In our opinion:

- (a) the financial report of Australian Foundation Investment Company Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note F.

### ***Report on the Remuneration Report***

We have audited the remuneration report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

A blue ink signature that reads 'PricewaterhouseCoopers' in a cursive, handwritten style.

PricewaterhouseCoopers

A blue ink signature that reads 'Charles Christie' in a cursive, handwritten style.

Charles Christie  
Partner

Melbourne  
25 July 2016