



**AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY**

Half-Year Review to
31 December 2016

EXPERIENCE
INCOME
GROWTH

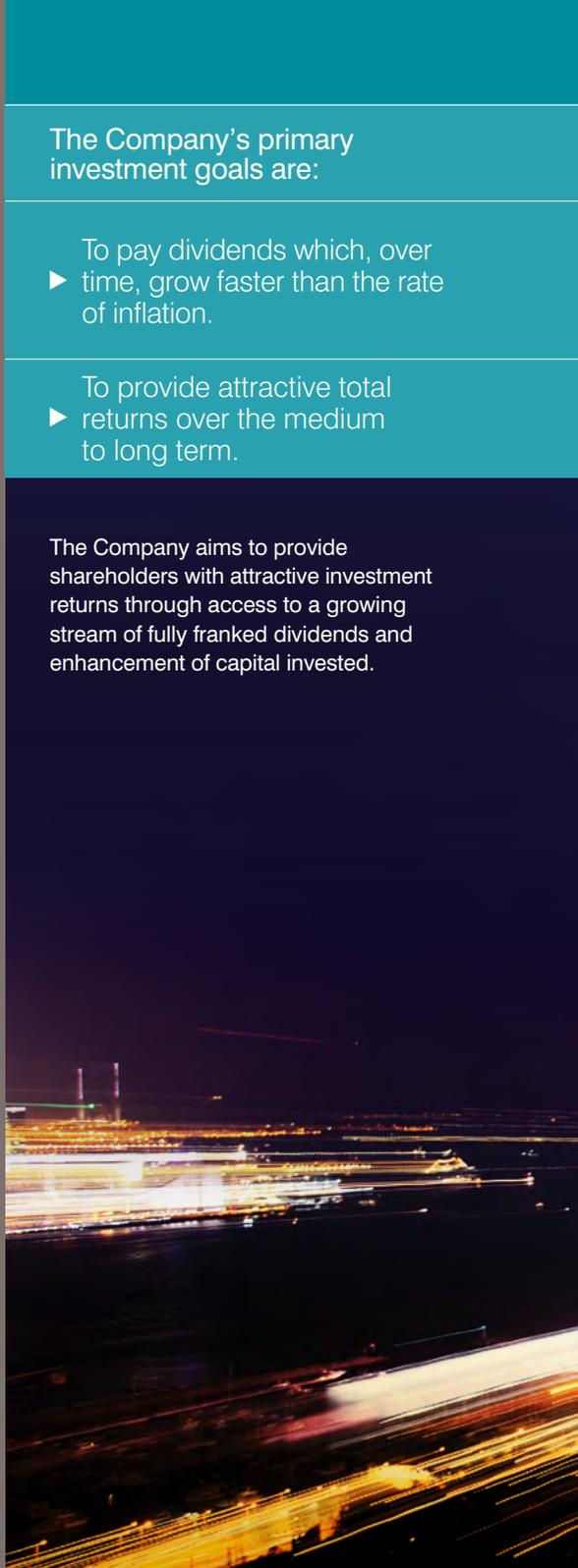
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The Company's primary investment goals are:

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

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



HALF-YEAR IN SUMMARY

PROFIT FOR THE HALF-YEAR

\$118.3m

▼ Down 18.9% from 2015

TOTAL 6 MONTH SHAREHOLDER RETURN

5.2%

Share price plus dividend

FULLY FRANKED INTERIM DIVIDEND

10¢

Unchanged

MANAGEMENT EXPENSE RATIO

0.13% Annualised

0.16% in 2015

TOTAL 6 MONTH PORTFOLIO RETURN

8.6%

S&P/ASX 200 Accumulation Index 10.6%

TOTAL PORTFOLIO

\$6.8b Including cash at 31.12.16

\$6.5 billion in 2015

REVIEW OF OPERATIONS AND ACTIVITIES

Profit and Dividend

Profit for the half-year was \$118.3 million compared to \$145.6 million for the corresponding period last year. The fall was due to the decline in investment income received, primarily as a result of the significant cut in dividends across a broad range of large companies including resources, energy and supermarkets as operating conditions remained challenged in 2016. The contribution from the trading portfolio and options was also down \$9.7 million, as the realised gains generated last half were not repeated this half-year.

The Board has maintained the fully franked interim dividend of 10 cents per share fully franked.

Market Commentary

The Australian market in recent months has risen strongly on the back of rising commodity prices as investors embraced a more positive outlook for global growth spurred in part by the outcome of the United States presidential election. Banking stocks also performed strongly. Both of these sectors had been previously out of favour for some time. This rebound pushed the resources index up 23.2 per cent and banks increased 19.4 per cent over the six month period (Figure 1).

The other trend that emerged through the period was the relative underperformance of the small and mid cap sector relative to larger companies (Figure 2). In particular, smaller industrial companies retraced some of their more recent gains as investors reassessed the valuations of a number of these companies, many of which had been trading at very high levels. In some cases disappointing company updates, which looked to dampen strong growth expectations, further accelerated the decline in share prices.

Infrastructure and utility sectors, many of which are in the Mid Cap 50 sector, were also down as longer term interest rates started to rise in line with expectations of a more buoyant United States economy.

Portfolio and Share Price Returns

AFIC's portfolio was up 8.6 per cent for the six months to 31 December 2016 compared with the S&P/ASX 200 Accumulation Index, which increased 10.6 per cent. AFIC traditionally only invests in the large resource companies such as BHP Billiton and Rio Tinto. The portfolio was not exposed to the significant rise in the more cyclical mid-sized resource companies, which increased by approximately 40.2 per cent over the period.

Figure 1: Banks and resources relative to the S&P/ASX 200



Figure 2: Index performance by market capitalisation



REVIEW OF OPERATIONS AND ACTIVITIES

continued

The best performing companies in the AFIC portfolio outside of resource companies and the banks were Woolworths, Wesfarmers and Computershare.

The long term performance of the portfolio, which is more in line with the Company's investment timeframes, was 5.3 per cent per annum for the 10 years to 31 December 2016 versus the Index return of 4.5 per cent per annum (Figure 3). When adding the full benefit of franking credits, the return for AFIC over this period is 7.2 per cent per annum and 6.1 per cent per annum for the Index.

Over the six month and one year periods, AFIC's share price has fallen from a premium to net asset backing to a slight discount by 31 December 2016 (Figure 4). This has meant the share price return was below that of the portfolio over these periods. This can sometimes occur depending on market conditions. Importantly the share price return is more in line with the portfolio return over the five and 10 year periods (Figure 3).

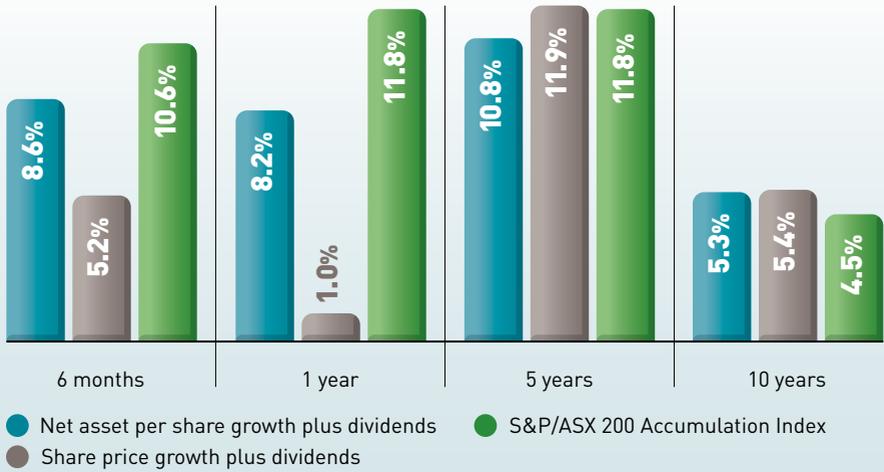
Portfolio Adjustments

AFIC continued to diversify the portfolio with the addition of new holdings including Link Administration Holdings, Carsales.com, Isentia Group and AMA Group. Other major additions were in existing holdings of CSL and Cochlear, both of which we believe are soundly positioned for the growing demand for their products arising from ageing demographics globally. AFIC also participated in the capital raising by Vocus Communications.

Details of major new additions to the investment portfolio:

- **Link Administration Holdings** is a global provider of share registry, shareholder management, analytics and fund administration services. In December 2014 Link Group acquired Superpartners, which is a superannuation administration provider for Australian industry super funds.
- **Carsales.com** is the largest online automotive classifieds business in Australia. It also has interests in leading online automotive classified businesses in Brazil, South Korea, Malaysia, Indonesia, Thailand and Mexico.
- **Isentia Group**, formerly known as Media Monitors, is a media intelligence group headquartered in Sydney, with locations in New Zealand, South East Asia and Greater China. It tracks and monitors news published from newspapers, magazines, journals, television, radio, internet and social networking sites for corporate clients. This monitoring includes content analysis and evaluation of media campaigns.
- **AMA Group** provides automotive aftercare services. It engages in the management of the company's investments in the wholesale vehicle aftercare and accessories market, including smash repairs and repair panel shops, vehicle protection equipment, brakes and transmission service workshops and the wholesale distribution of automotive and electrical accessories.

Figure 3: Portfolio and share price performance to 31 December 2016*

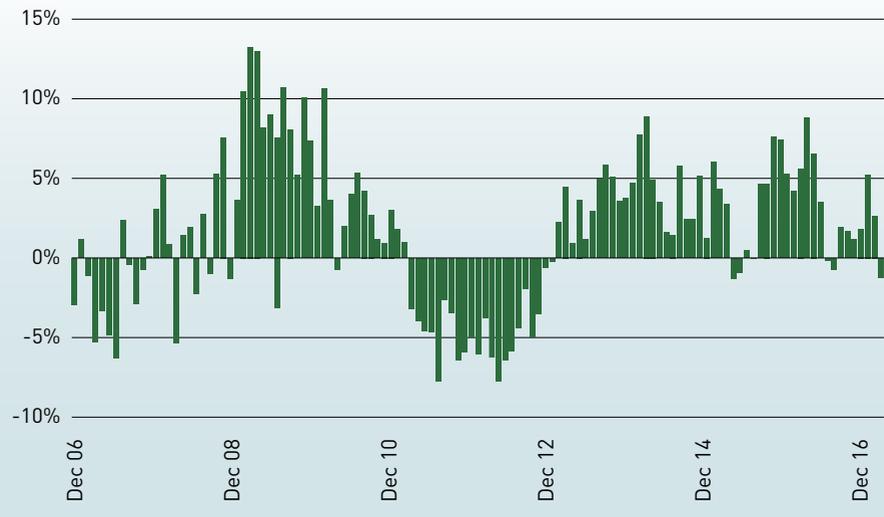


Note: AFIC’s net asset per share growth plus dividend series is calculated after management fees, income tax and capital gains tax on realised sales of investments. It should be noted that Index returns for the market do not include management expenses or tax.

This chart does not include the benefit of franking credits attached to dividends paid by AFIC and any LIC capital gain distributions made.

* Annualised returns other than six month figure.

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

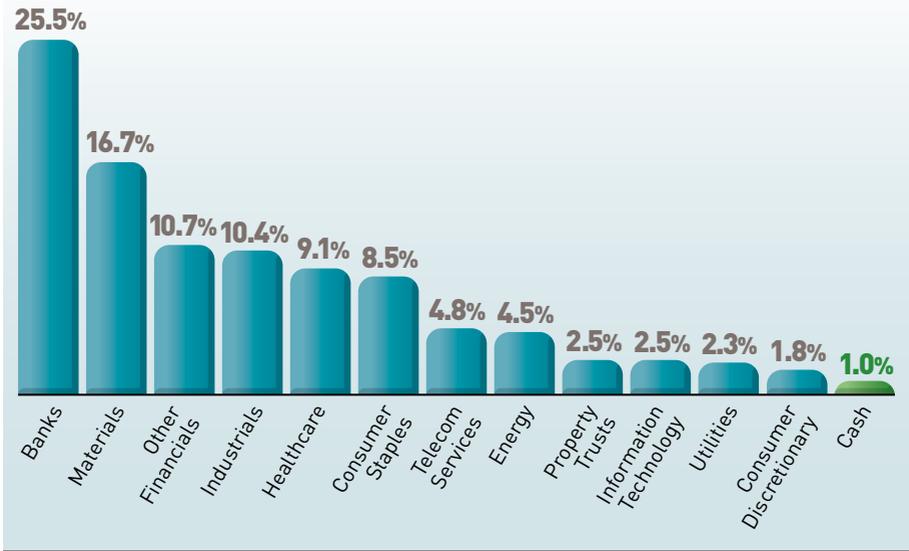




REVIEW OF OPERATIONS AND ACTIVITIES

continued

Figure 5: Investment by sector as at 31 December 2016



Major sales were in Asciano as a result of the combined takeover offer from Brookfield and Qube Holdings, the complete disposal of the remaining position in Santos and a slight reduction in the holding in APA Group.

Figure 5 highlights the profile of the portfolio by the various sectors of the market at the end of the calendar year. In comparison to the corresponding period last year, the major changes have been in banks (down from 27.8 per cent last year), materials (up from 14.0 per cent last year), healthcare (up from 8.4 per cent last year) and a reduction in cash (down from 2.4 per cent last year). The investment portfolio comprises 104 companies.

Going Forward

The strength in the United States market following the presidential election has also helped drive an increase in the broad Australian equity index to just over 5,700 by the end of the calendar year. At current market levels it is difficult to find outstanding value. We will continue to look for quality companies that can provide good long term growth, including dividends, but will only do this at appropriate prices where reasonable value is on offer. In this context we will be looking to any possible market pullback, which may arise from further interest rate rises in the United States over the course of the year or heightened geopolitical tensions, as a way of adding to holdings at more reasonable prices.

TOP 25 INVESTMENTS

As at 31 December 2016

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 December 2016

		Total Value \$ Million	% of Portfolio
1	Commonwealth Bank of Australia	651.0	9.6
2	Westpac Banking Corporation	506.8	7.5
3	BHP Billiton	350.6	5.2
4	National Australia Bank*	306.0	4.5
5	Wesfarmers	283.3	4.2
6	Telstra Corporation	267.5	4.0
7	Australia and New Zealand Banking Group*	263.4	3.9
8	Rio Tinto	218.7	3.2
9	Transurban Group	189.2	2.8
10	Ancor	183.9	2.7
11	CSL*	178.5	2.6
12	Brambles*	155.7	2.3
13	Woolworths	122.1	1.8
14	Oil Search	118.2	1.7
15	AGL Energy	112.0	1.7
16	Woodside Petroleum	102.3	1.5
17	AMP	101.3	1.5
18	QBE Insurance Group	97.8	1.4
19	Ramsay Health Care	96.6	1.4
20	Incitec Pivot*	80.2	1.2
21	Qube Holdings	77.5	1.1
22	Treasury Wine Estates*	73.4	1.1
23	Healthscope	68.7	1.0
24	James Hardie Industries*	68.1	1.0
25	Macquarie Group*	60.5	0.9
Total		4,733.3	

As a percentage of total portfolio value (excludes cash)

70.1%

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

INCOME STATEMENT

For the half-year ended 31 December 2016

	Half-Year 2016 \$'000	Half-Year 2015 \$'000
Dividends and distributions	132,043	153,065
Revenue from deposits and bank bills	928	1,170
Other revenue	83	83
Net gains/(losses) on trading portfolio and non-equity investments	(363)	9,384
Total income	132,691	163,702
Finance costs	(6,597)	(6,961)
Administration expenses	(4,062)	(5,083)
Profit before income tax	122,032	151,658
Income tax	(3,745)	(6,018)
Profit for the half-year	118,287	145,640
	Cents	Cents
Earnings per share	10.40	13.23

BALANCE SHEET

As at 31 December 2016

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Current assets		
Cash	70,397	155,903
Receivables	9,159	45,358
Total current assets	79,556	201,261
Non-current assets		
Investment portfolio	6,757,058	6,250,233
Deferred tax assets	1,770	1,034
Total non-current assets	6,758,828	6,251,267
Total assets	6,838,384	6,452,528
Current liabilities		
Payables	4,863	20,932
Tax payable	7,817	14,393
Convertible notes	185,344	190,057
Trading portfolio	2,735	226
Provisions	3,110	3,636
Total current liabilities	203,869	229,244
Non-current liabilities		
Provisions	979	1,796
Deferred tax liabilities – investment portfolio	936,415	812,947
Total non-current liabilities	937,394	814,743
Total liabilities	1,141,263	1,043,987
Net assets	5,697,121	5,408,541
Shareholders' equity		
Share capital	2,559,056	2,521,491
Revaluation reserve	2,056,416	1,767,628
Realised capital gains reserve	440,687	457,593
General reserve	23,637	23,637
Retained profits	617,325	638,192
Total shareholders' equity (including minority interests)	5,697,121	5,408,541

SUMMARISED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Half-Year 2016 \$'000	Half-Year 2015 \$'000
Total equity at the beginning of the half-year	5,408,541	5,446,444
Dividends paid	(155,852)	(150,372)
Dividend Reinvestment Plan/convertible notes	37,626	41,221
Share Purchase Plan	-	153,340
Other share capital adjustments	(61)	(444)
Total transactions with shareholders	(118,287)	43,745
Profit for the half-year	118,287	145,640
Revaluation of investment portfolio	418,915	(214,784)
Provision for tax on revaluation	(130,335)	62,580
Revaluation of investment portfolio (after tax)	288,580	(152,204)
Total comprehensive income for the half-year	406,867	(6,564)
Realised gains on securities sold	6,658	79,315
Tax expense on realised gains on securities sold	(6,866)	(12,125)
Net realised gains/(losses) on securities sold	(208)	67,190
Transfer from revaluation reserve to realised gains reserve	208	(67,190)
Total equity at the end of the half-year	5,697,121	5,483,625

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

HOLDINGS OF SECURITIES

At 31 December 2016

Individual investments for the combined investment and trading portfolios as at 31 December 2016 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
AAC	Australian Agricultural Company	9,764	16,551
ACX	Aconex	1,084	5,497
AGL	AGL Energy	5,070	111,992
AIA	Auckland International Airport	1,770	10,886
ALQ	ALS	9,205	55,601
ALU	Altium	625	5,056
AMA	AMA Group	8,428	8,302
AMC	Amcor	12,300	183,885
AMP	AMP	20,100	101,306
ANN	Ansell	1,284	31,724
ANZ*	Australia and New Zealand Banking Group	8,683	263,388
APA	APA Group	5,075	43,493

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
APE	AP Eagers	869	8,016
ARB	ARB Corporation	1,198	21,146
ASX	ASX	709	35,250
AWC	Alumina	5,513	10,089
AZJ*	Aurizon Holdings	3,380	16,698
BGA	Bega Cheese	2,203	9,340
BHP	BHP Billiton	13,991	350,613
BKW	Brickworks	1,503	20,425
BLD	Boral	4,008	21,686
BXB*	Brambles	12,570	155,703
CAR*	Carsales.com	1,520	16,632
CBA	Commonwealth Bank of Australia	7,900	651,039
CCL	Coca-Cola Amatil	5,160	52,219
CGF*	Challenger	4,265	47,851
COH*	Cochlear	159	19,206
CPU	Computershare	4,660	58,064
CSL*	CSL	1,784	178,481
CSR	CSR	3,109	14,366
CTX*	Caltex Australia	669	20,378
CVO	Cover-More Group	11,351	21,908
CVW	ClearView Wealth	6,179	8,311

HOLDINGS OF SECURITIES *continued*

At 31 December 2016

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
CYB*	CYBG PLC	2,524	12,143
DJW	Djerriwarrh Investments	7,505	28,370
DLX	DuluxGroup	2,556	15,950
DUI	Diversified United Investment	12,030	42,226
EQT	EQT Holdings	1,303	22,807
EVT	Event Hospitality & Entertainment	1,030	14,187
FLT	Flight Centre Travel Group	241	7,542
FNP	Freedom Foods Group	4,507	19,829
FPH	Fisher & Paykel Healthcare Corporation	5,008	41,016
HSO	Healthscope	30,000	68,700
IAG*	Insurance Australia Group	6,066	36,121
ICQ	iCar Asia	22,030	5,508
IDX	Integral Diagnostics	4,163	5,058
IEL	IDP Education	880	3,510
ILU*	Iluka Resources	3,642	26,016
INM	Iron Mountain	202	9,003
IPL*	Incitec Pivot	22,280	80,189
IRE	IRESS	3,442	40,860

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
ISD	Isentia Group	3,800	10,906
IVC	InvoCare	1,150	15,951
JHC	Japara Healthcare	14,007	31,657
JHX*	James Hardie Industries	3,111	68,112
LIC	Lifestyle Communities	5,470	21,718
LNK*	Link Administration Holdings	2,491	18,838
MFT	Mainfreight	2,840	56,630
MIR	Mirrabooka Investments	8,728	25,922
MLT	Milton Corporation	10,841	47,269
MPL	Medibank Private	2,000	5,640
MQG*	Macquarie Group	700	60,504
MYX	Mayne Pharma Group	20,361	27,386
NAB*	National Australia Bank	9,994	305,958
NVT	Navitas	3,678	18,314
OFX	OFX Group	5,137	8,630
ORA	Orora	12,864	38,464
ORG	Origin Energy	6,000	39,540
ORI	Orica	2,712	47,942

HOLDINGS OF SECURITIES *continued*

At 31 December 2016

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
OSH	Oil Search	16,483	118,180
PPT	Perpetual	1,061	51,740
QBE	QBE Insurance Group	7,874	97,796
QUB	Qube Holdings	31,759	77,491
REA	REA Group	384	21,206
REG	Regis Healthcare	5,355	24,526
REH	Reece	318	14,276
RHC	Ramsay Health Care	1,415	96,645
RIO	Rio Tinto	3,652	218,740
RMD	ResMed	3,935	33,762
RWC	Reliance Worldwide Corporation	2,400	7,680
S32*	South32	15,241	41,656
SCG	Scentre Group	12,950	60,088
SEK*	Seek	3,315	49,287
SHL*	Sonic Healthcare	1,841	39,310
SOL	Washington H Soul Pattinson	1,709	25,851
SRX	Sirtex Medical	558	7,907
SUN*	Suncorp Group	3,770	50,878

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held '000	Market Value \$'000
SYD*	Sydney Airport	8,700	52,058
TCL	Transurban Group	18,335	189,220
TGG	Templeton Global Growth Fund	12,106	14,829
TLS	Telstra Corporation	52,445	267,470
TOX	Tox Free Solutions	9,046	23,430
TPM*	TPG Telecom	5,715	38,935
TWE*	Treasury Wine Estates	6,882	73,448
VCX	Vicinity Centres	15,628	46,726
VOC	Vocus Communications	4,614	17,856
WBC	Westpac Banking Corporation	15,545	506,767
WES	Wesfarmers	6,723	283,286
WFD*	Westfield Corporation	5,523	51,640
WOW	Woolworths	5,065	122,067
WPL	Woodside Petroleum	3,283	102,295
WTC	WiseTech Global	746	4,216
XRO	Xero	437	7,420
Total			6,742,190

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

HOLDINGS OF SECURITIES *continued*

At 31 December 2016

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held '000	Market Value \$'000
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	12,133
Total			12,133

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above \$10 Million)	Cost \$'000
Link Administration Holdings	20,754
Carsales.com	18,537
CSL	14,917
Isentia Group	12,065
Vocus Communications (includes participation in 1 for 8.9 rights issue at \$7.55 per share)	11,831
Cochlear	11,551

Disposals (Above \$10 Million)	Proceeds \$'000
Asciano* (takeover by Brookfield and Qube)	16,280
Santos*	12,385
APA Group	12,107

* Complete disposal from the portfolio.

New companies added to the investment portfolio

- Link Administration Holdings
- Carsales.com
- AMA Group
- Altium
- Isentia Group

COMPANY PARTICULARS

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

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

Directors

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

Company Secretaries

Matthew J Rowe
Andrew JB Porter

Auditor

PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation

Australia

Registered Office and Mailing Address

Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

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

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

Telephone 1800 780 784 (toll free)

Share Registrar

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

Shareholder

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

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

Australian and New Zealand Securities Exchange Codes

AFI Ordinary shares (ASX and NZX)

SHAREHOLDER MEETINGS

Melbourne Meeting

Time 10.00am
Date Wednesday 15 March 2017
Venue RACV City Club
Location 501 Bourke Street
Melbourne

Adelaide Meeting

Time 10.00am
Date Friday 17 March 2017
Venue Adelaide Convention Centre
Location North Road
Adelaide

Sydney Meeting

Time 10.00am
Date Monday 20 March 2017
Venue Four Seasons Hotel
Location 199 George Street
Sydney

Canberra Meeting

Time 10.00am
Date Tuesday 21 March 2017
Venue Hyatt Hotel Canberra
Location 120 Commonwealth Avenue
Canberra

Perth Meeting

Time 10.00am
Date Monday 27 March 2017
Venue Pan Pacific Perth
Location 207 Adelaide Terrace
Perth

