AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Australian Foundation Investment Company Ltd
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28 August 2014

The Manager
ASX Market Announcements
Australian Securities Exchange
Exchange Centre
Level 4
20 Bridge Street
Sydney NSW 2000

Electronic Lodgement

Australian Foundation Investment Company Limited
Statutory Annual Report, Annual Shareholder Review,
Notice of Meeting and Proxy Form

Dear Sir / Madam

Please find attached the 2014 Statutory Annual Report, Annual Shareholder Review, Notice of Meeting and Proxy Form being sent to shareholders.

Yours faithfully

Simon Pordage
Company Secretary

Annual Report
2014

EXPERIENCE
INCOME
GROWTH

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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.

CONTENTS

DIRECTORS' REPORT

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

YEAR IN SUMMARY

PROFIT FOR THE YEAR

$254.3m

▲ Up 4.7% from 2013

TOTAL PORTFOLIO RETURN

+17.3%

S&P/ASX 200 Accumulation Index +17.4%

TOTAL PORTFOLIO

$6.4b Including cash at 30 June

$5.7 billion in 2013

NET OPERATING RESULT

$254.2m

▲ Up 8.5% from 2013

TOTAL SHAREHOLDER RETURN

+17.9%

Share price plus dividend

FULLY FRANKED DIVIDENDS

14¢ Final | **22¢** Total

■ Same as 2013

MANAGEMENT EXPENSE RATIO

0.17%

0.18% in 2013

5 YEAR SUMMARY

	2014	2013	2012	2011	2010
Net profit after tax ($ million)	**254.3**	242.8	219.9	233.3	183.8
Operating result after tax ($ million)	**254.2**	234.3	204.8	228.4	179.5
Investments at market value ($ million)[(a)]	**6,324**	5,411	4,570	4,885	4,436
Net operating result per share (cents)	**24.4**	22.7	20.0	22.5	18.2
Dividends per share (cents)[(b)]	**22**	22	21	21	21
Net asset backing per share (cents)[(c)]	**584.5**	518.5	435.1	478.9	449.2
Number of shareholders (30 June)	**103,188**	96,668	93,513	93,092	92,442

Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2014: nil, 2013: 4.3 cents, 2012 and 2011: nil, 2010: 1.4 cents.

(c) Net asset backing per share is based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

ABOUT THE COMPANY

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested. The Company's primary investment goals are:

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

Approach to Investing

The investment philosophy is built on taking a medium to longer term view of value which means that the aim is to buy and hold individual stocks for the long term based on selection criteria which, in summary, include:

- formulation and execution of business strategy of the Company and its underlying business value;
- key financial indicators, including cash flow, prospective price earnings relative to projected growth, sustainability of earnings and dividend yield; and
- corporate governance practices.

The Company has access to lines of credit of up to $250 million which allows it to borrow money when appropriate investment returns are available. The Company also has on issue $206 million of convertible notes.

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

Our Structure

The Company has a 'closed end' structure which means that the number of shares on issue is fixed and set by the Board. As a result, the Company does not issue new shares or cancel them as investors enter and leave. This allows management to concentrate on the performance of the funds invested over the longer term without having to deal with continuous inflows or outflows of monies.

Fees

The management expense ratio to 30 June 2014 was 0.17 per cent of assets. The Company does not charge entry or exit fees when shareholders acquire or dispose of their holdings although transaction costs will be borne by the shareholder when buying or selling through a stockbroker. There are no trailing commissions or portfolio performance fees.

Investing in the Company

By investing in the Company, shareholders have immediate access to a diversified portfolio numbering around 80 companies, most of which are predominantly Australia's major companies and to a Board and Investment Committee with extensive investment skills and practical business experience. The Company's shares can be bought or sold through the Australian Securities Exchange and New Zealand Securities Exchange (ASX Code: AFI, NZX Code: AFI). The Company's convertible notes can be bought or sold through the Australian Securities Exchange (ASX Code: AFIG).

Transparency

We take an active approach to keeping shareholders informed about the Company's activities and performance including yearly and half-yearly profit announcements, regular shareholder briefings and access to all Company announcements, including monthly net tangible asset announcements, through the Australian Securities Exchange and the Company's website www.afi.com.au

REVIEW OF OPERATIONS AND ACTIVITIES

Profit

Profit for the year increased 4.7 per cent to $254.3 million from $242.8 million last year. The net operating result which measures the underlying income generated by the portfolio was $254.2 million, up 8.5 per cent from the previous year's result of $234.3 million. Income from investments which consists primarily of franked dividend income was up 10.2 per cent over the year. This increase included one off dividends received of $11 million from Amcor and Brambles as part of the demerger of Orora and Recall respectively.

The trading portfolio contributed $9.8 million compared to $10.3 million last year. Whilst there were less realised and unrealised gains in the trading portfolio this year, option income was up as more buy and write activity was undertaken into the rising market as part of a strategy to add further income into the portfolio. The buy and write portfolio at $132 million is very small relative to the total.

Earnings per share based on the net operating result were 24.4 cents per share compared with 22.7 cents per share last year.

Dividends

The Company has maintained its final dividend at 14 cents per share fully franked bringing total dividends for the year to 22 cents per share fully franked, the same as last year. The Board notes the increase in earnings provides scope to increase the dividend. It is the Board's current intention to apply a 1 cent increase to the interim dividend to be paid in February 2015 to adjust the disparity between the interim and final dividends.

Market and Portfolio Performance

The market remained buoyant over the year. AFIC's portfolio return for the 12 months to 30 June 2014 was 17.3 per cent compared with the S&P ASX 200 Accumulation Index of 17.4 per cent. These returns built further on last year's strong performance which

Figure 1: Comparative changes in sector returns – % change

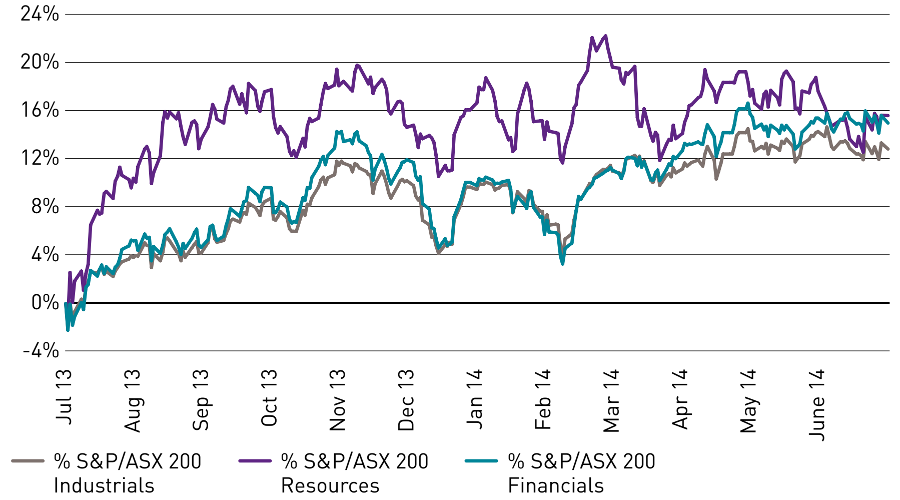
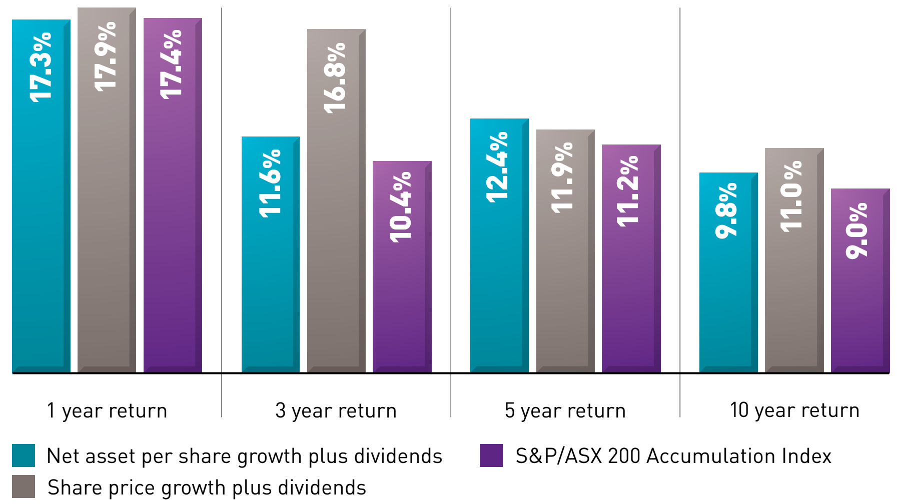


Figure 2: Portfolio and share price performance to 30 June 2014



delivered returns in excess of 20 per cent. Consistent with its approach as a long term investor, the 10 year return for AFIC was 9.8 per cent per annum versus the index return of 9 per cent per annum. AFIC's performance numbers are after expenses and tax paid.

All of the major sectors of the market delivered very good returns with the resources sector pulling back slightly after a strong start to the financial year.

Given continued low interest rates in Australia, companies with high dividend yield remained in demand. The local market was driven largely by the performance of the major banks, Telstra and the major resource companies, BHP Billiton and Rio Tinto. The most significant contributors to AFIC's portfolio performance over the year were these companies as well as Oil Search, Wesfarmers and Woodside Petroleum. Holdings with the biggest negative impact in AFIC's portfolio performance were QBE Insurance and Coca-Cola Amatil.

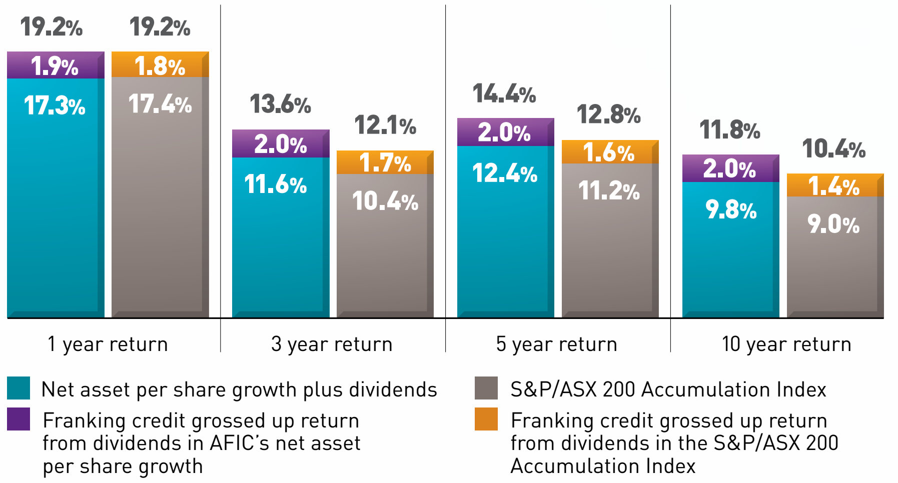
The share price performed well over the year as it traded at a premium to the net asset backing (before tax on unrealised gains). Shareholder numbers continued to rise with a 6.7 per cent increase over the year. Our view is that this increase is a product of the growth in self-managed superannuation sector as well as the changing regulatory environment for financial advisors, which makes low cost investment vehicles such as AFIC, an attractive alternative to managed funds.

Importantly the share price over the long term has also performed well with this return aligned to the long term portfolio return.

The generation of fully franked income is one of the key aspects of AFIC's investment approach. Figure 3 highlights the additional benefits franking credits can make to portfolio returns. This chart assumes an investor can fully utilise the distributed franking credits and these have been added to the AFIC portfolio and index returns. This adds approximately another 0.6 per cent per annum over the long term to investor returns when compared with the overall market.

Figure 4 is one we have been communicating for some time to shareholders. It shows the share price return of the Australian All Ordinaries Price Index market since 1936. The long term compound average return over this period is approximately 6.7 per cent per annum in price terms (that is excluding dividends). It also shows that during different stages of market cycles it can sometimes trade well outside expected return parameters. At present, whilst the market has moved back toward the long term average, with its rise over the past two years, it is still trading below this level.

Figure 3: Portfolio performance percentage per year periods ended 30 June 2014 – including the benefit of franking credits



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 and tax.

In comparison, the United States market (Figure 5) has moved very strongly above the long term trend line to reach a record high, although it has not reached the upper limit of the trend range as it did prior to the global financial crisis.

Whilst it is always difficult to directly compare markets, it does suggest some caution about the United States, with any adjustment there likely to impact sentiment in Australia.

Investment Portfolio Activity

New additions to the portfolio included Qube Holdings, Washington H Soul Pattinson, James Hardie Industries, TPG Telecom, Twenty-First Century Fox, Japara Healthcare and ResMed.

The addition of new holdings is part of the strategy to add some smaller companies to the portfolio given larger companies are becoming more dominant in the portfolio. This concentration is somewhat reflective of the trend that is happening in the broader Australian market, particularly as companies are taken over and merged with others. Smaller companies quite often have the ability to grow over the long term and are often in attractive segments of the economy.

Details of the new stocks added to the portfolio during year, which have not been previously reported to shareholders at the half year, are:

- **Japara Healthcare** is one of Australia's largest enterprises in the aged care and retirement industry. It owns and operates 35 aged care facilities and four retirement complexes throughout Victoria, South Australia, New South Wales and Tasmania.

Figure 4: All ordinaries price index – long term performance

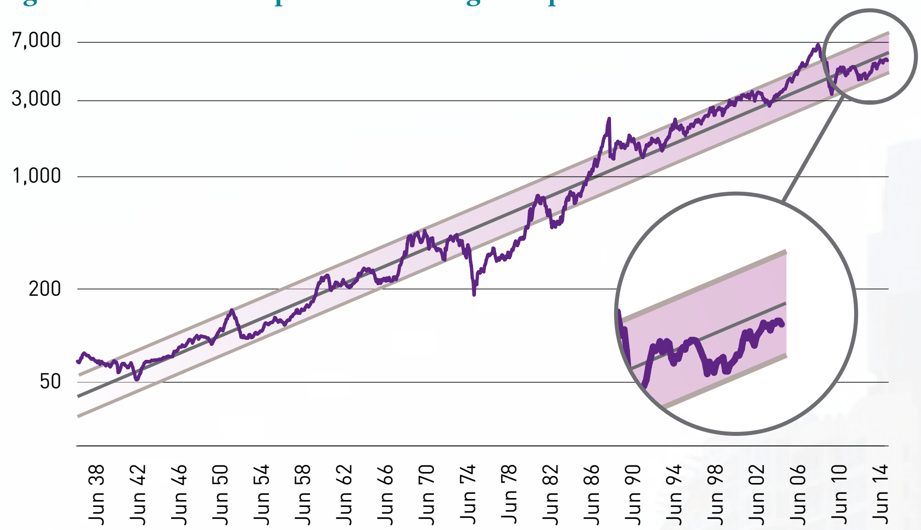
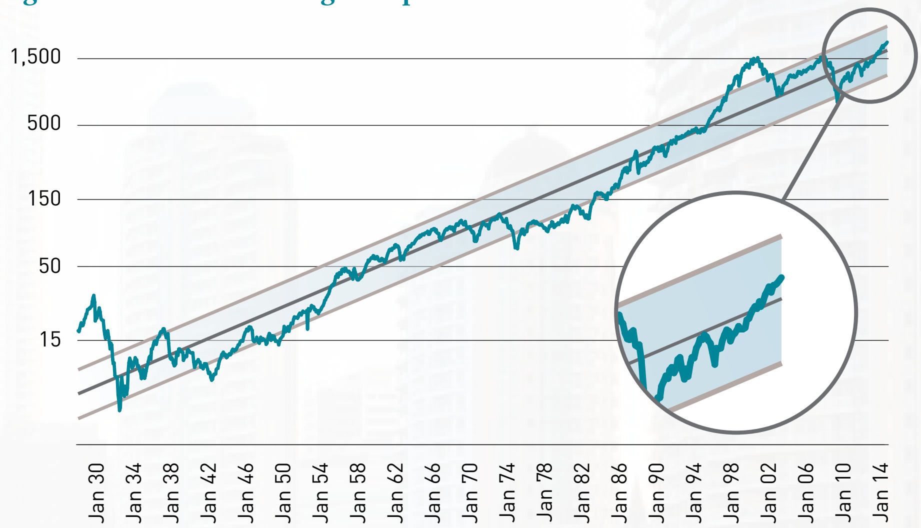


Figure 5: US S&P 500 – long term performance



Note: A semi log scale has been used in Figure 4 and 5 to better show a comparison of the relative size of the percentage changes over the period.

- Qube Holdings is an integrated provider of import and export logistics services with national operations that provide a broad range of services. Qube operates across three divisions, covering Automotive, Bulk and General Stevedoring, Landside Logistics and Strategic Development Assets.
- SAI Global provides organisations globally with information services and solutions for managing risk, achieving compliance and driving business improvement. SAI's business is supported by the increasing need to meet regulations, standards and legislation in all their locations. The company is currently subject to a takeover bid by Pacific Equity Partners and has reportedly also been approached by a number of other interested parties.

Major additions to existing holdings were Transurban, CSL, Telstra and Equity Trustees (primarily through their rights issue). There were also a number of corporate actions through the year that resulted in changes to the portfolio.

Major sales were some BHP Billiton, from the Company's buy and write portfolio and the complete disposal of GWA Group.

Overall purchases for the year totalled $519.8 million with sales totalling $254.3 million.

Figure 6 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year. In comparison to last year there has been an increase in the portfolio weighting toward Energy, Financials, Industrials and Healthcare sectors. The biggest reduction was the fall in the holding of cash, which went from 4.5 per cent of the portfolio at the beginning of the year to 1.1 per cent at year end. There were 88 companies in the portfolio at 30 June 2014, whereas at the end of last year there were 74.

Outlook

We have had two strong years in the equity markets particularly in the United States and Australia. This is reflected in the AFIC portfolio total return which was up 24.4 per cent in the 2012–13 year and then 17.3 per cent in the year just passed. History would suggest that following years of higher than normal returns, there can be a period of consolidation or correction.

One of the main drivers of the market's performance has been very low interest rates in Australia and in most developed economies and reinforced by the quantitative easing programs in the United States, Japan and Europe. Current expectations are that interest rates will stay at this very low level for some time to come. We think interest rates are unlikely to rise until there is a return to stronger economic growth including improved employment conditions and central banks move from seeing deflation as the most important challenge to an outlook where higher inflation becomes the key focus of monetary policy.

The market's resilience in recent years has also been the outcome of the large quantum of investor cash looking for satisfactory returns. This has provided a buffer for markets. If there has been a prospect of a significant fall there seems to have been sufficient investors willing to take the risk and invest further. As a result, market volatility is currently very low. This implies that investors are not expecting any of the economic or geopolitical risks to prompt a major market setback.

Another feature of the current market is that few listed companies have been raising new funds for capital investment within their businesses because of the lack of a satisfactory return. This may well cause them to look for merger and acquisition opportunities. Within Australia, there is also the likelihood that both state and federal governments will privatise existing assets to raise capital for new infrastructure projects or to reduce debt. The buoyant markets have also facilitated an active initial public offering (IPO) market, encouraging many new companies to list.

As a long term investor with a stable capital structure, we are able tap the opportunities presented by the cycles in markets. With the funds raised from the Share Purchase Plan, we should be well placed to take advantage of any market pull back, should that occur, and to take up the other investments which may come to the market, as indicated above, if they are attractively priced.

Share Purchase Plan

A Share Purchase Plan (SPP) for shareholders has been initiated and is due to close on 25 September 2014. Details of the SPP have been sent separately to shareholders. These should be read before participating in the SPP.

The SPP issue price will be the lower of the Dividend Reinvestment Plan price for the 2014 final dividend or a 2.5 per cent discount to the volume weighted average price of AFIC shares traded on the Australian Securities Exchange and Chi-X Australia automated trading systems over the five trading days up to, and including, the day on which the SPP offer is scheduled to close, rounded down to the nearest cent.

Company Position
Capital Changes

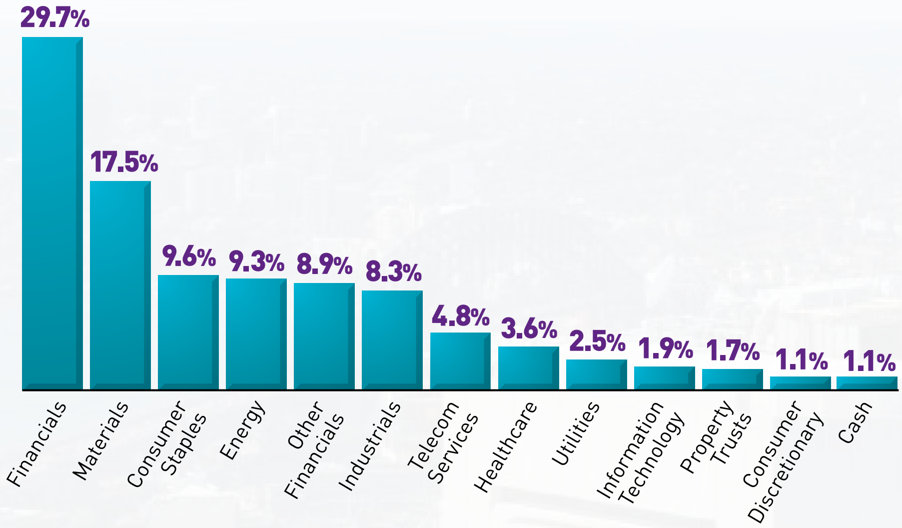
As a result of the reinvestment of dividends, 5,181,498 new shares were issued at a price of $5.64 per share in August 2013 and 2,873,650 new shares were issued at a price of $5.86 per share in February 2014.

As a result of participation in the Company's Dividend Substitution Share Plan, 252,411 new shares were issued at nil cost in August 2013 and 150,775 new shares were issued at nil cost in February 2014.

As a result of conversion of convertible notes, 2,457 new shares were issued at a price of $5.0864 per share in August 2013 and 3,273,028 new shares were issued at a price of $5.0864 per share in February 2014.

5,112 shares were cancelled in October 2013 as a result of long term incentives not vesting.

Figure 6: AFIC investment by sector as at 30 June 2014



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

The Company's contributed equity, net of share issue costs, rose $62.7 million to $2.1 billion from $2 billion. At the close of the year the Company had 1,049.1 million shares on issue.

Dividends

Directors have declared a fully franked final dividend of 14 cents per share, the same as last year.

The dividends paid during the year ended 30 June 2014 were as follows:

	$'000
Final dividend for the year ended 30 June 2013 of 14 cents per share fully franked at 30 per cent, paid on 30 August 2013	143,800
Interim dividend for the year ended 30 June 2014 of 8 cents per share fully franked at 30 per cent, on 21 February 2014	82,536
Total for the year	226,336

Dividend Substitution Share Plan (DSSP)

The Company has in place a Dividend Substitution Share Plan.

This enables shareholders to elect to receive shares in the Company instead of dividends, foregoing any franking credit and LIC gains that would otherwise be attached to the dividend but deferring any tax due on the receipt of such shares (for Australian tax payers) until such time as the shareholding is sold. Shareholders will need to seek their own taxation advice in determining if this Plan is suitable for them.

Further details are available on the Company's website or by request from the Company's Share Registrar.

Dividend Reinvestment Plan (DRP)

The Company's Dividend Reinvestment Plan remains in operation. Under this plan, shareholders may elect to receive dividends (and the attached franking credit and LIC gains) and reinvest the cash value of the dividend in shares in the Company.

Shares under both the DSSP and the DRP for the final dividend in respect of the year ended 30 June 2014 will be issued at a 2.5 per cent discount to the volume weighted average price of AFI shares traded on the ASX and Chi-X Australia automated trading systems in the five days from (and including) the day that the AFI shares trade ex the final dividend.

Financial Condition

The Company's primary source of funds consists of its shareholders' funds as noted above plus the convertible notes. However, the Company also had agreements with Westpac and Commonwealth Bank of Australia for loan facilities totalling $250 million (see Note 6 (b)) and convertible notes of $206 million. At various points during the year, some of these facilities were drawn down. The Board takes a prudent and conservative approach to the use of borrowed funds. Currently, when used, they are maintained within a limit of 10 per cent of total assets. Total borrowings are currently well below this limit.

Listed Investment Company Capital Gains

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

Tax legislation sets out the definition of a 'listed investment company' which AFIC satisfies. Furthermore, from time to time the Company sells securities out of the investment portfolio held for more than one year which may result in capital gains being made and tax being paid. The Company is therefore on occasion in a position to be able to make available to shareholders a LIC capital gain attributable part with our dividends. As there were comparatively few capital gains this year, no part of the final dividend has been sourced from capital gains, and consequently there is no LIC capital gain amount attached to the dividend.

Likely Developments

The Company intends to continue its investment activities going forward as it has done since its inception in 1928. The results of these investment activities depend upon the performance of the companies and securities in which we invest. Their performance in turn depends on many economic factors. These include economic growth rates, inflation, interest rates, exchange rates and taxation levels. There are also industry and company-specific issues such as management competence, capital strength, industry economics and competitive behaviour.

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities. However, the Company's focus is on results over the medium to long term and its twin objectives are to grow dividends at a rate faster than inflation and to provide shareholders with attractive capital growth.

Significant Changes in the State of Affairs

Directors are not aware of any other significant changes in the operations of the Company, or the environment in which it operates, that will adversely affect the results in subsequent years.

Events Since Balance Date

The Directors are not aware of any matter or circumstance not otherwise disclosed in the financial statements or the Directors' Report which has arisen since the end of the financial year that has affected or may affect the operations, or the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental Regulations

The Company's operations are such that they are not directly materially affected by environmental regulations.

Rounding of Amounts

The Company is of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' Report. Unless specifically stated otherwise, amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

TOP 25 INVESTMENTS
As at 30 June 2014

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 June 2014

		Total Value $ Million	% of Portfolio
1	Commonwealth Bank of Australia	686.1	10.8
2	Westpac Banking Corporation	617.8	9.8
3	BHP Billiton*	510.5	8.1
4	Wesfarmers	316.0	5.0
5	National Australia Bank*	312.8	4.9
6	Telstra Corporation*	286.8	4.5
7	Australia & New Zealand Banking Group	283.0	4.5
8	Woolworths*	222.4	3.5
9	Rio Tinto	216.6	3.4
10	Oil Search	159.4	2.5
11	Transurban Group*	146.0	2.3
12	Woodside Petroleum	134.8	2.1
13	Amcor	134.2	2.1
14	Santos*	116.5	1.8
15	AMP	106.5	1.7
16	Origin Energy*	105.0	1.7
17	Brambles	102.7	1.6
18	Computershare	101.8	1.6
19	QBE Insurance Group	84.7	1.3
20	APA Group	80.2	1.3
21	AGL Energy	78.7	1.2
22	CSL*	66.6	1.1
23	Milton Corporation	65.4	1.0
24	Incitec Pivot*	64.2	1.0
25	Ramsay Health Care	61.9	1.0
Total		5,060.6	
As a percentage of total portfolio value (excludes cash)			80.0%

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

BOARD AND MANAGEMENT

Directors

Terrence A Campbell AO BCom (Melb). Chairman and Independent Non-Executive Director. Chairman of the Investment Committee and member of the Remuneration Committee and Nomination Committee.

Mr Campbell has been a Director of the Company since September 1984, appointed Deputy Chairman in September 2008 and Chairman in October 2013. He is Senior Chairman of Goldman Sachs Australia and New Zealand (formerly Goldman Sachs JBWere) and Advisory Director of Goldman Sachs. Mr Campbell was formerly Chairman and Chief Executive of Goldman Sachs JBWere. He is also Chairman of Mirrabooka Investments Limited and a former Director of Djerriwarrh Investments Limited and AMCIL Limited.

Ross E Barker BSc (Hons) (Melb), MBA (Melb), F Fin. Managing Director. Member of the Investment Committee. Managing Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Barker became Chief Executive Officer in February 2001 having been an Alternate Director of the Company since April 1987. He was appointed Managing Director in October 2001. He is also Managing Director of Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited. He is also a Director of Melbourne Business School Ltd and a member of the Financial Reporting Council.

Jacqueline C Hey BCom (Melb), Graduate Certificate (Management), GAICD. Independent Non-Executive Director.

Ms Hey was appointed to the Board on 31 July 2013. She is a Non-Executive Director of Qantas Limited, Bendigo and Adelaide Bank Limited, Special Broadcasting Service (SBS), Cricket Australia and Melbourne Business School Ltd. She is also the Honorary Consul for Sweden in Victoria. She was formerly Managing Director of Ericsson UK and Ireland and Managing Director of Ericsson Australia and New Zealand.

Graeme R Liebelt B Ec (Hons). Independent Non-Executive Director. Chairman of the Remuneration Committee.

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited and the Global Foundation, Director of Australia and New Zealand Banking Group Limited; Deputy Chairman of the Melbourne Business School Ltd and a Director of Carey Baptist Grammar School. He is a Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors. He was formerly Managing Director and CEO of Orica Limited.

John Paterson BCom (Hons) (Melb), CPA, F Fin. Independent Non-Executive Director. Chairman of the Nomination Committee. Member of the Remuneration Committee and Investment Committee. Chairman of the Company's subsidiary, AICS.

Mr Paterson is a Company Director who was appointed to the Board in June 2005. He was a former Alternate Director of the Company for Mr Campbell from April 1987 to June 2005. He is Chairman of Djerriwarrh Investments Limited. He was formerly a Director of Goldman Sachs JBWere and is a former member of the Board of Guardians of Australia's Future Fund.

David A Peever B Ec MSC (Mineral Economics). Independent Non-Executive Director. Member of the Audit Committee.

Mr Peever was appointed to the Board on 20 November 2013. He was Managing Director of Rio Tinto Australia of Rio Tinto Limited from 2009 until his retirement in 2014. He had been with Rio Tinto since 1987 working in an extensive range of senior roles.

He is Deputy Chairman of Cricket Australia, Director of the Business Council of Australia and Melbourne Business School Ltd. He is a member of the Prime Minister's Indigenous Advisory Council and member of the Chief of Defence's Gender Equality Advisory Board. He is a former Vice Chairman of the Minerals Council of Australia.

Fergus D Ryan AO FCA, FAICD. Independent Non-Executive Director. Member of the Investment Committee, Audit Committee and the Nomination Committee.

Mr Ryan is a Company Director and chartered accountant. He was appointed a Director of the Company in August 2001. He is also a Patron of the Global Foundation and a Councillor of The Committee for Melbourne.

He was formerly a Director of the Commonwealth Bank of Australia Limited, the Strategic Investment Coordinator and Major Projects Facilitator for the Federal Government, a Director of Clayton Utz, of the National Australia Day Council and the Centre for Social Impact. He was also former Deputy Chairman of the Council of the National Library. Mr Ryan spent his career with Arthur Andersen during which he was Managing Partner Melbourne for 15 years and Managing Partner Australia for five years.

Catherine M Walter AM LLB (Hons), LLM, MBA (Melb), FAICD. Independent Non-Executive Director. Member of the Investment Committee, Remuneration Committee and the Audit Committee.

Mrs Walter is a solicitor and Company Director. She was appointed a Director of the Company in August 2002. Mrs Walter is Chair of Federation Square Pty Ltd, a Director of the RBA's Payment Systems Board, Victorian Funds Management Corporation and WEHI. She was formerly Chair of Australian Synchrotron Company Ltd, a Director of ASX, National Australia Bank Ltd, Orica Ltd and Melbourne Business School.

Peter J Williams Dip.All, MAICD, FAIM. Independent Non-Executive Director. Chairman of the Audit Committee. Member of the Investment Committee and Nomination Committee. Director of the Company's subsidiary, AICS.

Mr Williams was appointed a Director of the Company in February 2010. He is Chairman of Olympic Park Sports Medical Centre Pty Ltd and a Director of the Australian Baseball Federation, National Australia Trustees Limited, Foundation for Young Australians and the E.W. Tipping Foundation. Mr Williams was formerly Managing Director of Equity Trustees Limited and a Director of the Trustee Corporations Association of Australia.

Senior Executives

Geoffrey N Driver B Ec, Grad Dip Finance, MAICD. General Manager, Business Development and Investor Relations.

Mr Driver joined the Company in January 2003. Previously, he was with National Australia Bank Ltd for 18 years in various roles covering business strategy, marketing, distribution, investor relations and business operations. Mr Driver is a Director on the Board of Trust for Nature (Victoria).

R Mark Freeman BE, MBA, Grad Dip App Fin (Sec Inst), AMP (INSEAD). Chief Investment Officer.

Mr Freeman has been Chief Investment Officer since joining the Company in February 2007. Prior to this he was a Partner with Goldman Sachs JBWere where he spent 12 years advising the investment companies on their investment and dealing activities. He has a deep knowledge and experience of investments markets and the Company's approaches, policies and processes.

Simon M Pordage LLB (Hons), FGIA, FCIS, MAICD. Company Secretary.

Mr Pordage joined the Company in February 2009. He is a Chartered Secretary and has over 16 years' company secretarial experience and was previously Deputy Company Secretary for Australia & New Zealand Banking Group Limited and prior to that was Head of Board Support for Barclays PLC in the United Kingdom. He is a Vice President and Non-Executive Director of Governance Institute of Australia, Chairman of their National Legislation Review Committee and Deputy Chairman of their Victorian Council.

Andrew JB Porter MA (Hons) (St And), FCA, MAICD. Chief Financial Officer.

Mr Porter joined the Company in January 2005. He is a chartered accountant and has had over 20 years' experience in accounting and financial management both in the United Kingdom with Andersen Consulting and Credit Suisse First Boston and in Australia where he was Regional Chief Operating Officer for the Corporate and Investment Banking Division of CSFB. He is also a Non-Executive Director of the Royal Victorian Eye & Ear Hospital.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2014 and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
BB Teele***	5	5	11	11	-	-	1	1	1	1
DR Argus***	5	4	11	8	1	0	1	0	-	-
RE Barker	15	14	36	32	-	4#	-	3#	-	-
TA Campbell	15	13	36	30	-	-	2	1	-	-
JC Hey*	13	13	-	29#	-	-	-		-	-
GR Liebelt*	15	12	-	23#	-	1#	2	2	-	-
J Paterson	15	14	36	31	-	-	3	3	1	1
DA Peever**	9	8	-	16#	1	1	-	-	-	-
FD Ryan	15	14	36	32	4	4	-	-	1	1
CM Walter	15	15	36	32	4	3	3	2	-	-
PJ Williams	15	15	36	36	4	4	-	2#	1	1

\# Attended meetings by invitation.
* J Hey became a Director of the Company on 30 July 2013.
** D Peever became a Director of the Company on 20 November 2013.
*** Retired as Directors on 9 October 2013.

Retirement, Election and Continuation in Office of Directors

Mr DA Peever, having been appointed a Director by the Board since the last AGM, will retire and, being eligible, will offer himself for election at the forthcoming 2014 AGM.

Mrs CM Walter AM and Mr J Paterson, having been re-elected by shareholders at the 2011 AGM, will retire and, being eligible, will offer themselves for re-election at the forthcoming 2014 AGM.

Insurance of Directors and Officers

During the financial year, the Company paid insurance premiums to insure the Directors and Officers named in this report to the extent allowable by law. The terms of the insurance contract preclude disclosure of further details.

REMUNERATION REPORT

Contents

Abbreviations Used in this Report

AFIC	Australian Foundation Investment Company Limited
AICS	Australian Investment Company Services Limited
ELTIP	Executive Long Term Incentive Plan
FAR	Fixed Annual Remuneration
GR	Gross Return
KMP	Key Management Personnel
LTI	Long Term Incentive
MER	Management Expense Ratio
NED	Non-Executive Director
NTA	Net Tangible Assets (as disclosed monthly to the ASX)
OIC	Other Investment Company (including AMCIL Limited, Djerriwarrh Investments Limited and Mirrabooka Investments Limited)
SGC	Superannuation Guarantee Contributions
TGSR	Total Gross Shareholder Return
The Company	AICS
The Group	AFIC
TPR	Total Portfolio Return
TSR	Total Shareholder Return
VWAP	Volume Weighted Average Price

Key Management Personnel

All of the Group's employees, with the exception of the Non-Executive Directors but including the Managing Director, are employed by AICS, which is a subsidiary of AFIC. Their services are provided to AFIC and to the Other Investment Companies under written agreements. Performance metrics for the OICs are incorporated into the remuneration structure for the KMPs, and payment for these services is received by AICS.

Non-Executive Directors

Terrence A Campbell AO	Chairman (Member of Remuneration Committee)
Jacqueline C Hey	Non-Executive Director
Graeme R Liebelt	Non-Executive Director (Chairman of Remuneration Committee)
John Paterson	Non-Executive Director (Member of Remuneration Committee)
David A Peever	Non-Executive Director
Fergus D Ryan AO	Non-Executive Director
Catherine M Walter AM	Non-Executive Director (Member of Remuneration Committee)
Peter J Williams	Non-Executive Director

During the year ended 30 June 2014, Donald A Argus AC, the Chairman of the Remuneration Committee, and Bruce B Teele, Chairman of the Company and a Member of the Remuneration Committee, both retired at the conclusion of AFIC's AGM. Graeme R Liebelt became Chairman of the Remuneration Committee and Terrence A Campbell AO joined the Remuneration Committee.

Executive Director

Ross E Barker	Managing Director

Current Disclosed Executives

Geoffrey N Driver	General Manager – Business Development and Investor Relations
R Mark Freeman	Chief Investment Officer
Simon M Pordage	Company Secretary
Andrew JB Porter	Chief Financial Officer

There were no appointments or resignations amongst the disclosed Executives during the year.

Section 1. Snapshot of Remuneration for the Financial Year

Section 1.1 Key Changes

There were no changes to the remuneration plans in existence during the year.

It should be noted that the 'annual incentive' is actually a deferred incentive plan, with performance metrics being used that not only cover the current year but also look back at company and investment performance over prior periods up to 10 years.

Section 1.2 Some Questions Answered

Who decides on the overall level of Executive remuneration?	The Board determines the Managing Director's remuneration on the advice of the Remuneration Committee. The Managing Director discusses Executive remuneration with the Remuneration Committee, who make recommendations to the Board. Ernst & Young are remuneration advisers to the Company, and any recommendations to the Remuneration Committee are independent of management. The Company also participates in the annual McLagan and FIRG surveys of fund managers to understand current remuneration levels and practices.
Why are there separate investment team and Executive incentive plans?	The investment team plans were specifically designed, with advice from the Company's external experts, to align remuneration with the outcome of the Company's investment objectives. However, the Executives also have additional responsibilities and the structure of the Executive Annual Incentive Plan and ELTIP and the use of other non-investment return measures reflect this. External advice was also received in designing these plans. The Remuneration Committee will continue to monitor the effectiveness of these plans.
Why are personal objectives included in incentive plan performance conditions?	Personal objectives are included in incentive calculations to encourage outperformance on non-financial metrics, such as advice to the Board, succession planning, management of staff, risk management, promotion of the corporate culture and satisfaction of key internal stakeholders. These metrics are important determinants of business success.
If, for example, only 50 per cent of an Executive's annual incentive measures are rated 'outperform', why would 50 per cent of the incentive not be forfeited?	There are several measures that determine annual incentive payout. It is possible for an Executive to 'outperform' (i.e. exceed target) on some measures and meet target or even 'underperform' on other measures. The Executive is allocated an aggregate score based on their performance across all the measures (taking into consideration the weighting of each measure). The quantitative measures are only part of the assessment that the Remuneration Committee makes in determining an Executive's incentive. Personal objectives and the performance of the Other Investment Companies are also considered, as noted above.
Is it possible for an Executive to earn more than target?	Yes, target performance will result in an incentive payment at target level, which may represent an expected level of performance. Should performance be significantly better (outperformance) then a higher amount could be paid.

Section 1.3 Remuneration Paid in 2014

2014 saw another strong market performance. Although on a one year basis the NTA return and investment returns, at 17.3 per cent and 17 per cent respectively, were slightly under the S&P/ASX 200 Accumulation Return of 17.4 per cent, the more important (to AFIC and its shareholders) longer term returns continued to outperform the market. On a five year basis, the NTA return was 12.4 per cent compared to the index return of 11.2 per cent and the 10 year return was 9.8 per cent vs the index return of 9 per cent. AFIC's returns are, as ever, after taxes and expenses and represent the 'net' return to the shareholder, whereas index returns do not include either, and many returns quoted by managed funds exclude either tax or expenses, or both.

The AFIC share price continued to record a small premium at the year end, and slightly outperformed on a one year basis (17.9 per cent) and as with the NTA and investment returns, also continued to outperform on a longer term basis.

The continued use of accumulation returns, which includes dividends paid, and the use of gross returns which includes franking credits, reflects the importance that AFIC places on both of these elements as components of a return to investors. The Gross Return on a one year basis was equivalent to that of the S&P/ASX 200 Accumulation Return grossed up for franking credits (19.2 per cent) and also continued to outperform over the longer term.

These metrics were mirrored by the Other Investment Companies who bear part of the costs of employing the Group's Executives and staff, and therefore the pay-outs under the annual incentive have been very close to the target amounts.

This is the second year of the new AFIC Executive Long Term Incentive Plan (LTIP), and as it is a four year plan, no amounts have been paid out under it. Executives did not receive all of their LTIP under the old plan this year, with 12.5 per cent forfeited due to the total portfolio return over the five year period narrowly missing out on the top quartile compared to its peer group (note this is a different metric to the 'Risk/Reward' metric, which was a top-quartile performance over this period).

For the investment team, the strong outperformance over time of AMCIL and Mirrabooka, in particular, as well as the slightly more modest outperformance of AFIC and DJW, saw 104 per cent of the target awarded under their LTIP, down from 130 per cent last year.

Most Executives received modest inflationary increases in their fixed annual remuneration this year. AFIC continues to operate in a highly competitive section of the market, and salary levels are reviewed periodically to ensure that the Group remunerates its Executives to the extent required to attract and retain Executives who are leaders in their field.

Table 1 – Actual Executive Remuneration Outcomes (Past, Present and Future Pay)

Table 1 below is a voluntary disclosure of actual remuneration earned or received by Executives (past, present and future pay). The Board notes that statutory reporting can distort the value of compensation received as it includes an accounting charge for LTI that may or may not be received in future years. The Board has included the table below to provide additional clarity to shareholders around actual payments. The required audited disclosures are shown on pages 28 to 29 and details of Executives' shareholdings are shown on page 81.

	Present Pay – remuneration received in respect of the current financial year			
	Total Fixed Annual Remuneration $	Percentage[7] of Total	Annual Incentive Paid[1] $	Percentage[7] of Total
Ross Barker – Managing Director				
2014	**676,973**	**58%**	**363,054**	**31%**
2013	673,972	61%	331,364	30%
Mark Freeman – Chief Investment Officer				
2014	**780,000**	**57%**	**398,520**	**29%**
2013	772,317	57%	368,821	27%
Andrew Porter – Chief Financial Officer				
2014	**588,000**	**70%**	**181,526**	**21%**
2013	574,000	72%	169,524	21%
Geoff Driver – General Manager – Business Development and Investor Relations				
2014	**490,000**	**71%**	**146,324**	**21%**
2013	477,400	73%	135,730	21%
Simon Pordage – Company Secretary				
2014	**365,000**	**75%**	**109,714**	**22%**
2013	335,000	78%	93,345	21%

1. Note that STI key performance indicators include investment performance over one to 10 years rather than a single year.
2. See Table 16 on pages 32 to 33 for details of the awards to which this relates. Shares received valued at closing price on the day that they were received.
3. Valued at closing price of AFI shares on the last possible vesting date.
4. Shares valued at closing price of AFI on 30 June 2014 (30 June 2013).
5. The LTI for Mark Freeman that is yet to vest is a set cash amount, rather than shares.
6. See page 34 for a breakdown of these amounts by year of award.
7. Percentage of total remuneration received. Note that the annual incentive amount is in respect of the current financial year (and prior) but may not be paid during the year.
8. Amount received during 2013–14 that was in respect of the four years ended 30 June 2013 (2013: received during 2012–13 in respect of the four years ended 30 June 2012).

Past Crystallised Pay – remuneration received in the current financial year but awarded in prior years							Future Pay
Prior Years' Long Term Incentive Vested at Cost $	Prior Years' Long Term Incentive Received During Year[2] $	Percentage[7] of Total	Dividends on Unvested ELTIP Shares $	Percentage[7] of Total	Total Remuneration $	Long Term Incentive Forfeited During Year[3] $	Long Term Incentive Yet to Vest[4,5,6] $
98,997	114,137	10%	14,974	1%	1,169,138	15,261	818,100
97,385	85,082	8%	18,027	1%	1,108,445	0	640,235
-	182,420[8]	14%	-	-	1,360,940	0	616,730
-	210,000[8]	16%	-	-	1,351,138	0	633,180
57,501	66,295	8%	8,319	1%	844,140	7,767	430,571
49,573	43,311	5%	9,919	2%	796,754	0	346,385
42,016	48,442	7%	6,387	1%	691,153	6,060	341,040
38,656	33,770	5%	7,608	1%	654,508	0	269,874
7,229	8,335	2%	2,776	1%	485,825	0	217,591
-	-	-	2,730	1%	431,075	N/A	139,391

Section 2. Executive Remuneration Strategy and Structure

Section 2.1 Remuneration policy

AFIC is an investor in securities listed in Australia and New Zealand. For the Company to meet its objectives on behalf of its shareholders it is essential to have professional, competent and highly motivated Executives and staff. This means that the Company must have attractive remuneration arrangements which are:

- fair;
- reflect market conditions;
- recognise the skills, experience, roles, obligations and responsibilities of the respective individuals; and
- align with risk management strategies.

Generally, the Company seeks to set total remuneration at the upper or second quartile of the sectors in which it operates.

Directors believe that the remuneration of Executives is adjusted to account for the risks that the Company and its shareholders face and how it responds to those risks. This rationale is based on the fact that:

- Executives (other than the CIO) agree to invest 50 per cent of the annual incentive (after tax) they are paid in AFIC shares and shares of the OICs to which AICS provides services, and hold these shares for a minimum of two years. This gives Executives a direct stake in the future performance of the Companies. The CIO and other members of the investment team are encouraged to purchase shares in AFIC and the OICs.
- Vesting of ELTIP is dependent on achievement of performance hurdles that include both portfolio and share price performance. For the investment team, the ELTIP hurdle is the Gross Return which includes both dividends paid and franking, and reflects the importance of these elements combined with a medium term investment period (i.e. four years). For the other Executives, the Total Gross Shareholder Return that is used reflects these elements but compares directly to the return enjoyed by shareholders – i.e. the AFIC share price. The other measure compares the performance of AFIC's investments against other fund managers (although AFIC's return is after tax whilst the other fund managers' performance is before tax).
- All of the investment team's performance-related pay that is attributed to quantitative (as opposed to qualitative) measures and a significant proportion of the Executive's annual incentive is based on portfolio returns between one and 10 years. This is largely a deferred incentive plan, with a focus on past performance over the mid to long term, with only a minor proportion dependent on a single year's performance. This is in keeping with the investment philosophy of the Group which has a medium to long term focus on investor returns, rather than a short term trading focus.
- The Remuneration Committee may, at its discretion, 'clawback' any performance rights that are yet to vest or to be tested in the event of any negative issues that may arise, including material misstatement of the Group's financial statements.

The Company provides no lending or leveraging arrangements to its Executives, who are prohibited by Company policy from entering into hedging policies that mitigate the possibility that 'at-risk' incentive payments may not vest.

Section 2.2 Executive Remuneration Structure

Remuneration for the Company's Executives is broadly comprised of two main elements:

- fixed annual remuneration, and
- performance-related pay, including annual incentive and ELTIP.

Section 2.2.1 Fixed Annual Remuneration

The FAR component of an Executive's remuneration is comprised of their base salary, SGC, and fringe benefits.

Executives may choose whether they take a proportion of their FAR in the form of additional superannuation contributions or fringe benefits, such as a car lease, provision of a parking space, et cetera. This does not affect the gross amount paid by the Group as remuneration. There are no perquisites provided by the Company for Executives as a result of their employment other than their remuneration.

The FAR for an Executive (and for all staff) is determined with reference to levels necessary to recruit and retain staff with the relevant skills and experience in the industry in which the Company operates. The dividends received from unvested shares awarded under the old ELTIP are also taken into account when setting remuneration levels. External input is sought to ensure that the FAR meets these conditions, including reference to industry data provided by FIRG and McLagan, external remuneration data providers for the financial services industry.

Section 2.2.2 Performance-related Pay

The performance-related component of pay for Executives is intended to reflect:

- the performance of the Company and the OICs, including the impact on shareholders wealth; and
- an individual's performance with respect to personal objectives having regard to their role in the Company and the OICs.

Section 2.2.3 Remuneration Mix

The mix of total remuneration varies based on performance. At target performance levels, the mix for Executives (excluding the investment team) varies and is c. 56 per cent (for the MD) to c. 70 per cent (for the other Executives) fixed remuneration and c. 44 per cent to c. 30 per cent performance-related pay. Performance-related pay is skewed toward the largely deferred annual incentive (67 per cent annual incentive and 33 per cent LTI) which considers performance over the past one to 10 year periods inclusive.

For the investment team, fixed remuneration is c. 60 per cent of total target remuneration, and c. 40 per cent performance-related pay. Performance-related pay is also skewed towards the previous performance of the Company and the OICs – c. 70 per cent annual incentive and c. 30 per cent LTI.

Managing Director's target remuneration mix

- Fixed annual remuneration
- Annual incentive
- Long term incentive

Other Executives' target remuneration mix

- Fixed annual remuneration
- Annual incentive
- Long term incentive

Investment team's target remuneration mix

- Fixed annual remuneration
- Annual incentive
- Long term incentive

Section 3. Performance-related Pay

Performance-related pay links remuneration to performance to motivate Executives to achieve their performance goals. There are two main elements of performance-related pay – annual incentive and ELTIP.

The level of performance-related pay is set as a target that is also set with reference to levels necessary to recruit and retain staff of the relevant calibre.

Section 3.1 Annual Incentive

There are two Annual Incentive Plans – one for the Executives (excluding the CIO) and one for the investment team (including the CIO). As the roles and objectives of the Senior Executives and investment team are different, it is necessary to provide separate incentives to focus each team on the different business-critical measures they are able to impact. Table 2 outlines the purpose of each plan, and the key changes.

Table 2: Summary of Annual Incentive Plans

	Purpose	Rationale for Measures
Executive annual incentive (excluding the CIO)	To align remuneration for the Executives with the creation of shareholder wealth over the past year in terms of operational metrics and with the investment metrics over a longer period as described below.	Measures chosen reflect the management of the Group, and the OICs, as well as the key investment returns that reflect the creation of shareholder wealth.
Investment team annual incentive (including the CIO)	To align remuneration of the investment team with the outcomes of the Company's investment objectives over a period of between one and 10 years.	Measures chosen are the key metrics for portfolio performance, and also include dividends paid and franking credits, as well as actual portfolio return and the risk profile of the investments.

The performance measures of each Annual Incentive Plan is reviewed by the Remuneration Committee. The Remuneration Committee may, from time to time, revise the performance conditions and weightings in order to better meet the objectives of the annual incentive policies. Note that if the relevant targets are not achieved but performance is close to the target, some of the incentive may be paid – this is noted as having been 'partially achieved.'

Section 3.1.1 Executive Annual Incentive Plan

Annual Incentive Opportunity

The Remuneration Committee sets the target annual incentive opportunity that could be paid should all performance hurdles be achieved. The target annual incentive opportunity is set at c. 52.5 per cent of fixed remuneration for the Managing Director, and at c. 30 per cent for all other disclosed Executives, excluding the CIO.

If stretch levels of performance are achieved above target then higher amounts may be paid. On the other hand, if performance hurdles are not achieved, incentives will not be paid. The outperformance allows for the possibility that investment performance and other numerical metrics (but not personal objectives) may considerably outperform the relevant metrics. To date, total annual incentive paid to each Executive has never exceeded target.

How Annual Incentive Performance is Assessed

Annual incentive rewards a mixture of company performance, performance of the investment companies and performance of the Executive in meeting their personal objectives as assessed by the Remuneration Committee. Table 3 outlines each performance condition.

Table 3: Executive Annual Incentive Performance Conditions

Performance Area and Relative Weighting	Performance Measures	Objectives these Measures Aim to Achieve
Company Performance (43 per cent) The relevant weightings of the investment companies are: • AFIC: 53 per cent • Djerriwarrh Investments Limited: 16 per cent • AMCIL Limited: 4 per cent • Mirrabooka Investments Limited: 7 per cent	• Relative TSR: TSR is the movement in share price plus the dividends paid by the Company assumed to be reinvested. TSR performance is measured against the S&P/ASX 200 Accumulation Index over 1, 3, 5, 8 and 10 year periods (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • Growth in net operating result per share: measured against CPI. • MER: measured against prior years' results or, in the case of AFIC, measured against a base of 0.19 per cent.	• Relative TSR: this is a direct measure of the increase in shareholder's wealth against the performance of the index. • Growth in net operating per share reflects the ability of the Company to meet its stated aim of 'paying out dividends which, over time, grow faster than the rate of inflation'. • MER reflects the costs of running the Company.
Investment Performance (37 per cent) The relevant weightings of the investment companies are: • AFIC: 53 per cent • Djerriwarrh Investments Limited: 16 per cent • AMCIL Limited: 4 per cent • Mirrabooka Investments Limited: 7 per cent	• Relative investment return: measure of the return on the portfolio invested (including cash) over the previous 1, 3, 5, 8 and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • GR: measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous 1, 3, 5, 8 and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • Risk/reward return: This is a measure over 3, 5, 8 and 10 years of the past performance of the Company, compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer. (Note: this measure is used for AFIC's performance only, reflecting that company's focus on producing stable returns over the medium to long term).	The NEDs consider that the metrics used equate, over the medium to long term, with the stated objectives of the Company, namely 'to provide attractive total returns and pay dividends, which, over time, grow faster than the rate of inflation'. • Investment Return: reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders wealth by the investment decisions of the Company. • GR: reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits. • Risk/reward return: best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected. Note: The Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.
Personal Objectives (20 per cent)	Includes: • advice to the Board; • succession planning; • management of staff; • risk management; • promotion of the corporate culture; and • satisfaction of key internal stakeholders. These measures all contribute to the efficient running of the Group, and the OICs, enhancing investment outcomes.	• Personal objectives are included in incentive calculations to encourage outperformance on non-financial metrics. These metrics can be important determinants of business success. The Managing Director reviews the performance of each Executive with the Remuneration Committee, whilst the Remuneration Committee alone determines how the Managing Director is performing against these objectives.

The Remuneration Committee reserves the right to revise the criteria and weightings in order to better meet the objectives of the incentive plan, and to change or suspend any part of the incentive payment arrangements.

How the Executive Annual Incentive is Delivered

Executives are paid a cash annual incentive on achievement of performance conditions. The recipients then use 50 per cent of their award (post tax) to purchase AFIC shares and shares in the OICs (in proportion to the weightings used to assess performance, as detailed above), which they agree to hold, without trading or hedging, for a minimum of two years. Executives can earn dividends on the shares, which are paid during the holding term. Should an Executive leave the Group before the holding term expires, the restriction will be lifted.

Section 3.1.2 Investment Team Annual Incentive Plan

A percentage of the target amount of total performance-related pay is available to be paid under the Annual Incentive Plan. The actual percentage varies between members of the investment team, depending on their role. Typically, 50 per cent of FAR is set as the target annual incentive opportunity for members of the investment team.

Performance Conditions

The Investment Team Annual Incentive Plan primarily rewards on the performance of the investment companies.

The relevant weightings of the investment company performance metrics used to determine the incentive payments awarded reflected in the amount that AICS charges them for the provision of investment and research services, and are as follows:

- AFIC: 60 per cent
- Djerriwarrh Investments Limited: 18 per cent
- AMCIL Limited: 4 per cent
- Mirrabooka Investments Limited: 8 per cent
- Personal objectives: 10 per cent

Table 4 outlines the mechanics and rationale of each performance condition.

Table 4: Investment Team Annual Incentive Performance Conditions

Performance Area and Relative Weighting	Performance Measures	Objectives these Measures Aim to Achieve
Investment return	• Measure of the return on the portfolio invested (including cash) over the previous 1, 3, 5, 8 and 10 years. Measured relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• Investment Return: reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders' wealth by the investment decisions of the Company.
Gross return	• Measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous 1, 3, 5, 8 and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• GR: reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits.
Risk/reward return Note: this measure is used for AFIC's performance only.	• This is a measure over the previous 3, 5, 8 and 10 years of Company performance. It is calculated by using the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested divided by the standard deviation of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested over the same period. This is compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer.	• Risk/reward return best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected, therefore aligning Executives to shareholders. Reflects that company's focus on producing stable returns over the medium to long term. Note: The Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.

Performance Area and Relative Weighting	Performance Measures	Objectives these Measures Aim to Achieve
Income generation	• This is relevant for measuring Djerriwarrh Investments Limited's operating earnings as a percentage of the average investable assets. It is a one year measure only, and measures the ability of the investment team to generate returns from the assets of the Company (Djerriwarrh Investments Limited only, reflecting that company's focus on enhancing income). It is compared to the return generated in prior years.	• Reflects the need for Djerriwarrh to create an enhanced income from its portfolio.
Qualitative measures	• Investment process – including the identification of quality stocks. • Diversifying the portfolio – for example, developing a 'nursery' of smaller, potential growth stocks.	• These qualitative processes provide the opportunities for the future growth of the Company's investments.

The Remuneration Committee reserves the right to revise the criteria and weightings in order to better meet the objectives of the incentive plan, and to change or suspend any part of the incentive payment arrangements.

How the Investment Team Annual Incentive is Delivered

The investment team's annual incentive may be paid in either cash or shares or a combination of both, at the discretion of the Remuneration Committee.

There are no conditions attaching to cash amounts awarded under this plan.

Section 3.2 Long Term Incentive

There are two LTI Plans – one for the Executives (excluding the CIO) called the ELTIP, and one for the investment team (including the CIO). Table 5 outlines the purpose of each plan, and the key changes.

Table 5: Summary of Long Term Incentive Plans

	Purpose	Rationale for Measures
ELTIP	To align Executives' remuneration with the growth in shareholder wealth over a forward looking period of four years.	TGSR: Direct measure of movement in the value of shareholders shares, including franking credits against the movement in the broader index. TPR: Return on investments measured against other investment vehicles will reward outperformance against other investments that shareholders might have chosen, reflecting AFIC's attractiveness as an investment.
Investment Team LTI Plan	To align investment team's remuneration with the growth in shareholder wealth over a forward looking period of four years.	Uses Gross Return against comparator indices to reflect value above that which would have been obtained by merely investing in the index, and reflects the investment team's contribution in stock selection and analysis.

Section 3.2.1 Executive Long Term Incentive Plan

The ELTIP comprises an award of performance rights (also referred to as share appreciation rights) to fully paid shares without payment by the Executive, subject to the achievement of a set of quantitative measures over a four year period. There is no retesting.

As the awards are in the form of performance rights rather than actual shares, no dividends are payable to Executives and no voting rights attach, until after the rights vest. Shares purchased as a result of performance rights vesting under the ELTIP are purchased on-market and there is no dilution of existing shareholders.

An amount equivalent to 50 per cent of an Executive's targeted STI is available for vesting under the ELTIP.

The maximum amount that may vest from an award made under the ELTIP is dependent on the value of the performance rights at the time of vesting. The minimum amount that may vest should the targets not be achieved is nil.

Performance Conditions

Vesting of performance rights is determined dependent on:

- TGSR – the movement in the share price and the index price, grossed up to reflect the value of franking credits.
- TPR – the movement in the net asset backing of the Company (per share) plus the dividends paid by the Company reinvested.

It was determined that for an Executive both the return through the share price (and franked dividends) to shareholders plus the performance of the underlying portfolio should be measured. The TGSR measures the first and is compared to AFIC shareholders' return against that of the market, so that only outperformance is rewarded. The TPR measures the second and compares AFIC's investment performance against that of other fund managers, so only outperformance relative to its peers is rewarded (although AFIC's performance is on an after tax paid basis and the other fund managers are on a pre tax basis, which usually improves their performance).

The performance conditions have an equal 50 per cent weighting, and operate as follows:

(i) Fifty per cent of the award granted will be contingent on AFIC's TGSR to outperform the S&P/ASX 200 Accumulation Index for vesting to occur.

The S&P/ASX 200 Accumulation Index is an appropriate approximation for the market for the companies in which AFIC invests. Importantly, the index considers the impact of dividends, unlike other simple price indices. Outperformance of this index over time should be an indicator of the value added by the Company to shareholders' wealth.

The vesting schedule is outlined in Table 6 below. Both the Company's return and the index return are smoothed over 30 days to remove excess volatility and both are grossed up to reflect the value of franking credits for those that can use them. The percentage of the performance rights that vest will depend on the level of outperformance.

Table 6: Total Gross Shareholder Return Vesting Schedule

Company TGSR Performance	Percentage of Performance Rights Vesting
Underperformance relative to Gross Accumulation Index	0%
< or = 20% outperformance relative to Gross Accumulation Index	Straight line between 25% and 50%
> 20% outperformance relative to Gross Accumulation Index	50%

(ii) Fifty per cent of the award granted will be contingent on AFIC's TPR to outperform the median performance of comparable retail fund managers.

The Mercer Investment Consulting Survey of Australian Retail Fund Managers is used which provides the industry benchmark of funds management performance over the relevant 48 month period.

The percentage of the performance rights vesting will depend on the level of outperformance as set out in Table 7 below.

Table 7: Total Portfolio Return Vesting Schedule

Company TPR Performance	Percentage of Performance Rights Vesting
Less than median performance	0%
Median to < or = 75th percentile performance	Straight line between 25% and 50%
> 75th percentile performance	50%

Other Conditions

There is no holding lock on shares that vest under the ELTIP.

Should an employee cease employment at any time prior to the vesting of performance rights, then all unvested rights will be cancelled and the expense incurred to date reversed, subject to the decision of the Remuneration Committee when the departure is due to death, permanent disability or retirement.

Valuation

At 1 July each year the 30 day 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 total dollar value of the performance rights at 1 July will be equivalent to the dollar value of the award.

The value of each performance right will be adjusted each year by the TSR for the year. The 30 day VWAP price up to but not including 1 July of the vesting date will be used in the calculation of the TSR – note that this will be slightly different than the 'headline' TSR which uses a single closing price of share at 30 June each year rather than a 30 day VWAP. At vesting time, the value of the proportion of performance rights that vest will be converted to cash. This cash will be used by each Executive, after tax, to purchase AFIC shares.

Accounting Treatment

Under current Accounting Standards, the fair value of the expected final value of the grant has to be estimated each year, adjusted by the likelihood of vesting. In the first year, 25 per cent of this amount will be booked as an expense. At the end of the second year, 50 per cent of the new expected final value less the amount booked in the previous year will be booked. At the end of the third year, 75 per cent of the total; estimated final value less amounts previously expensed will be booked. At the end of the fourth year, the actual liability will be calculated, as it will be known how much will be vesting, and a balancing adjustment made.

Therefore, over four years, only the actual amount paid out to Executives as a result of any vesting of the LTI will be expensed.

Section 3.2.2 Investment Team Long Term Incentive Plan

The Investment Team LTI Plan comprises an award of cash or shares (at the discretion of the Company) subject to the achievement of a performance conditions over a four year period. There is no retesting.

Twenty per cent of an investment team member's FAR is set as the target amount of LTI to be paid in respect of a particular year. The minimum amount of LTI for any financial year is nil, in the event that performance hurdles are not achieved. The maximum amount on vesting is dependent upon the share price of the shares awarded at the time of vesting, should shares be awarded.

Performance Conditions

Vesting of LTI is determined dependent on the GR. This measure best reflects the ability of the Company to meet its stated aim of providing 'attractive total returns over the medium to long term'.

The Gross Return performance hurdle will require the management of investment portfolios to outperform the most appropriate indices based on the investment objectives of each company, as set out in Table 8 below.

Table 8: Indices which Investment Portfolios are Assessed Against

Weighting	Investment Portfolio	Relevant Accumulation Index
60%	AFIC	S&P/ASX 200 Accumulation Index, grossed up for franking credits
25%	Djerriwarrh Investments Limited	S&P/ASX 200 Accumulation Index grossed up for franking credits
10%	Mirrabooka Investments Limited	S&P/ASX Mid Cap 50 Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index grossed up for franking credits
5%	AMCIL Limited	S&P/ASX 200 Accumulation Index grossed up for franking credits

The percentage of the amount vesting will depend on the level of outperformance as set out in Table 9 on page 26.

Table 9: Company Gross Return Vesting Schedule

Company GR Performance Relative to the Relevant Accumulation Index	Percentage Vesting
< 90% performance	0%
90–99.9% performance	Board discretion
> 100% up to 110% performance	Straight line between 50% and 100%
> 110% up to 120% performance	Straight line between 100% and 150%
120%+ performance	150%

Section 3.2.3 Previous ELTI Plan

Prior to 1 July 2012, Executives participated in a different LTI where performance shares were granted.

The number of performance shares granted was dependent on an Executive's performance in the STI Plan (i.e. the STI Plan acted as a gateway). The amount of shares awarded to an Executive was equivalent to 50 per cent of the gross amount awarded to the individual under the STI Plan. The maximum amount that may vest from an award made under the old ELTIP is dependent on the value of the shares at the time of vesting, should they all vest. The minimum amount that may vest should the targets not be achieved is nil.

The performance shares vest between four and five years after grant date, entirely dependent on the achievement of set quantitative measures, described below.

Because the performance shares are ordinary shares in the Company, dividends are paid to the Executives on the performance shares that are held by them prior to vesting. However, the dividends are taken into account when setting the Executive's annual fixed remuneration.

Performance Conditions

The performance conditions that determine vesting of the performance shares are TSR and TPR. Fifty per cent of the shares vest under TSR, and fifty per cent of the shares vest under TPR. Any performance shares that do not vest are transferred back to the Company by the Executive for no consideration and are cancelled.

The vesting hurdles are as noted below:

(i) The TSR hurdle will require the Company to outperform the relevant index, (the S&P/ASX 200 Accumulation Index (the Accumulation Index) being in the Directors' view the most appropriate approximation for the market for the companies in which AFIC invests) by the percentages set out in Table 10 below. The percentage of the performance shares that vest will depend on the level of outperformance.

Table 10: Total Shareholder Return Vesting Schedule

Company TSR Performance	Percentage of Performance Shares Vesting
Underperformance relative to Accumulation Index	0%
< 10% outperformance relative to Accumulation Index	25%
10% to 20% outperformance relative to Accumulation Index	37.5%
> 20% outperformance relative to Accumulation Index	50%

(ii) The TPR performance hurdle will require the Company's management of its portfolio to outperform the median performance of comparable retail fund managers. For this purpose, the Mercer Investment Consulting Survey of Australian Retail Fund Managers is used which provides the industry benchmark of funds management performance over the relevant 48 to 60 month period. The percentage of the performance shares vesting will depend on the level of outperformance as set out in Table 11 below.

Table 11: Company Total Portfolio Return Vesting Schedule

Company TPR Performance	Percentage of Performance Shares Vesting
Less than median performance	0%
Median to < 62.5th percentile performance	25%
62.5th percentile to < 75th percentile performance	37.5%
> 75th percentile performance	50%

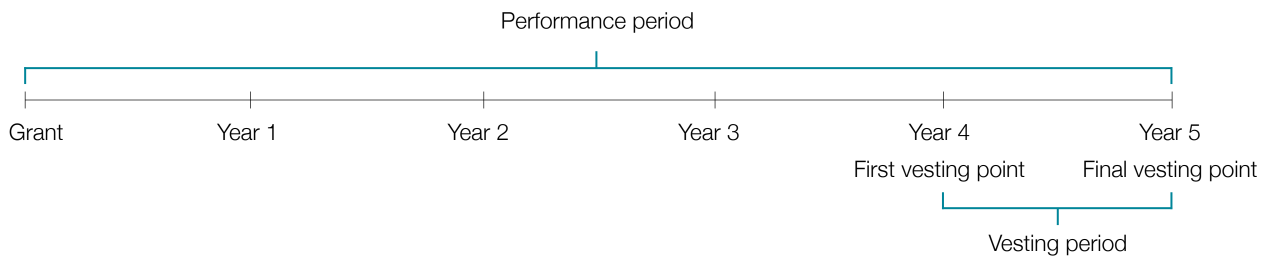
Other Conditions

There is no holding lock on shares that vest under the ELTIP.

Should an employee cease employment at any time prior to the vesting of shares, then all shares unvested will be cancelled. A charge will be made through the Income Statement for any amount still outstanding on those shares.

Valuation

The diagram below depicts the old ELTIP performance and vesting periods (including initial and final vesting points). Each of these terms is defined below.



Vesting Point

Four years after performance shares are granted to Executives under the ELTIP, Company and individual performance is measured against hurdles to determine what proportion of shares will vest, i.e. will be released to participants. This measurement point is called the vesting point. There are potentially 13 vesting points under the ELTIP, starting at this first test (at the end of Year 4) and at each month end thereafter extending until the fifth year of the performance period.

Vesting Period

The vesting period for the ELTIP extends from the initial vesting point (see definition above) to the final (13th) vesting point at the end of the fifth year of the performance period. Dividends on performance shares that are subject to a vesting period are paid to the relevant Executive and these are taken into consideration in setting their remuneration levels. Executives who are awarded shares under the ELTIP are not permitted to enter into arrangements that limit the direct risk of these shares not vesting.

Reasons for Change

Although dividends received under unvested shares in the ELTIP were taken into account when assessing total remuneration, the Remuneration Committee decided that this should no longer occur. It was also considered that the multiple vesting periods may give an Executive a greater likelihood of vesting than was considered to be best market practice. External advice was therefore sought in structuring a new plan that would continue to meet incentive objectives.

Section 4. Executive Remuneration Outcomes

Table 12 on pages 28 to 29 shows the disclosure of the remuneration outcomes for Executives as required by law and the relevant Accounting Standards. The main difference between Table 12 and Table 1 'Actual Executive remuneration outcomes (past, present and future pay)' in Section 1 is that Table 12 on pages 28 to 29 includes the amount expensed for LTI during the year, regardless of vesting. Long term share-based awards are expensed over four years from the date of purchase (for Executives). The investment team cash-based long term award is also expensed over four years.

Tables 13 and 14 shows how AFIC has performed against the relative benchmarks used for annual incentive vesting.

Table 15 shows the percentage of target annual incentive that actually vested for the year ended 30 June 2014.

Table 16 shows the result of the ELTIP and investment team long term incentive vesting during the year.

Tables 17 and 18 show the amount of unvested shares or performance rights that are not yet due for vesting.

Table 19 shows the amount of investment team LTIP for Mark Freeman that is not yet due for vesting.

Table 20 shows the original value and vesting periods of shares vested under the ELTIP.

Table 21 shows the actual metrics used in determining the quantitative measures used in determining the vesting of incentives.

Table 12: Remuneration Accounting Disclosures

			Post Employment		Short Term Cash
	Base Salary $	Non Cash Benefits $	Superannuation $	Total Fixed Annual Remuneration $	Short Term Cash Incentive $
	Present Pay – remuneration received in respect of the current financial year				
Ross Barker – Managing Director					
2014	**632,030**	**9,943**	**35,000**	**676,973**	**242,793**
2013	638,564	10,408	25,000	673,972	221,600
Mark Freeman – Chief Investment Officer					
2014	**755,000**	**-**	**25,000**	**780,000**	**398,520**
2013	747,317	-	25,000	772,317	368,821
Andrew Porter – Chief Financial Officer					
2014	**565,083**	**-**	**22,917**	**588,000**	**121,396**
2013	549,000	-	25,000	574,000	113,369
Geoff Driver – General Manager – Business Development and Investor Relations					
2014	**465,000**	**-**	**25,000**	**490,000**	**97,854**
2013	452,400	-	25,000	477,400	90,769
Simon Pordage – Company Secretary					
2014	**347,225**		**17,775**	**365,000**	**73,371**
2013	318,530		16,470	335,000	62,424

Note: All of the STIs shown in respect of services performed for the year ended 30 June 2013 were paid in the year ending 30 June 2014 and, for the year ending 30 June 2014, will be paid in the year ending 30 June 2015. See Table 1 for details of past pay – amounts received during the year relating to prior years.

The only major difference between this table and Table 1 Actual Executive Remuneration Outcomes (past, present and future pay) is in the treatment of the LTI – Table 1 shows what was received during the year whilst this table shows the accounting cost for the year. This difference remains under the new ELTIP.

Share-based – Equity Settled		Long Term						
Short Term Incentive[1] $	Long Term Incentive Expensed $	Long Term Incentive (Cash Based) – Expensed $	Long Term Incentive (Equity-based, Cash-settled) – Expensed $	Total Remuneration $	Percentage Performance Related $	Percentage Fixed $	Percentage Share-based[2] $	Dividends on ELTIP Shares Unvested[3] $
Future Pay – to be paid in future years subject to vesting								
120,261	64,886	-	131,549	1,236,462	45%	55%	26%	14,974
109,764	85,767	-	53,510	1,144,613	41%	59%	22%	18,027
-	-	160,734	-	1,339,254	42%	58%	0%	-
-	-	190,110	-	1,331,248	42%	58%	0%	-
60,130	35,924	-	67,200	872,650	33%	67%	19%	8,319
56,155	47,885	-	27,519	818,928	30%	70%	16%	9,919
48,470	27,700	-	53,932	717,956	32%	68%	18%	6,387
44,961	36,498	-	22,150	671,778	29%	71%	15%	7,608
36,343	13,125		38,816	526,655	31%	69%	17%	2,776
30,921	14,480		15,543	458,368	27%	73%	13%	2,730

1. Only the pre tax amount that will be used to purchase AFI shares is shown as equity settled, as shares in the Other Investment Companies will also be purchased. Executives will voluntarily hold shares for two years before any sale.
2. Includes value of annual share award (for AFIC shares only – does not include shares in the Other Investment Companies) plus accounting charge for ELTIP (see Note 17 to the Financial Statements).
3. This represents dividends received on ELTIP shares that have not vested or been cancelled as per the ELTIP. The amounts involved are considered by the Remuneration Committee when setting remuneration levels and are recognised as distributions for accounting purposes.

Performance of the Executive Team

Table 13 below shows AFIC's performance against annual incentive metrics for both the Executives and the investment team. Percentage figures are the relevant proportion of the annual incentive that is determined by AFIC's performance. Thirty-seven per cent is assessed against investment returns (see Table 14).

Table 13: Executive Team Performance (Excluding Investment Returns)

Performance Measures	Benchmark Result	AFIC Result	Comparison to Benchmark	Summary
Total Shareholder Return (22%)				
Share price return – one year	17.4%	17.9%	Favourable	Achieved
Share price return – three years	10.4%	16.8%	Favourable	Achieved
Share price return – five years	11.2%	11.9%	Favourable	Achieved
Share price return – eight years	5.3%	8.0%	Favourable	Achieved
Share price return – 10 Years	9.0%	11.0%	Favourable	Achieved
Growth in net operating result per share (12.5%)				
Growth in net operating result per share	2.9%	7.5%	Favourable	Achieved
MER (8.5%)				
MER (compared to base of 0.19%)	0.19%	0.17%	Favourable	Achieved

Performance of the Investment Team

Table 14 on page 31 shows AFIC's performance against annual incentive metrics for both the Executives and the investment team. Refer to Section 3 for an explanation regarding the measures used, including a description of the methodology.

Table 14: Investment Team Performance (Including Investment Returns used for Executives)

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark	Summary
Investment return – one year	17.4%	17.0%	Unfavourable	Partially achieved
Investment return – three years	10.4%	11.5%	Favourable	Achieved
Investment return – five years	11.2%	12.5%	Favourable	Achieved
Investment return – eight years	5.3%	7.4%	Favourable	Achieved
Investment return – 10 Years	9.0%	10.3%	Favourable	Achieved
Gross return – one year	19.2%	19.2%	Favourable	Achieved
Gross return – three years	12.1%	13.6%	Favourable	Achieved
Gross return – five years	12.8%	14.4%	Favourable	Achieved
Gross return – eight years	6.8%	8.8%	Favourable	Achieved
Gross return – 10 Years	10.4%	11.8%	Favourable	Achieved
Reward to risk – three years	Top quartile	30th/153	Top quartile	Achieved
Reward to risk – five years	Top quartile	27th/138	Top quartile	Achieved
Reward to risk – eight years	Top quartile	15th/107	Top quartile	Achieved
Reward to risk – 10 years	Top quartile	16th/76	Top quartile	Achieved

Actual Annual Incentive for the Financial Year

Table 15 below shows the STI paid to Executives as a result of AFIC's performance on financial metrics (see table 13 and 14 above); the OICs to which AICS provides services (see Table 21 for these results) and individuals' achievement of their own personal objectives. See Section 3.1 for an explanation of the financial and non-financial performance conditions underpinning the Executive STI Plan.

Table 15: Annual Incentive Outcomes

Executive	Percentage of Target Paid	$ Paid	Percentage of Target Forfeited	$ Forfeited
Ross Barker	99.7%	$363,054	0.3%	$946
Andrew Porter	99.7%	$181,526	0.3%	$474
Geoff Driver	99.5%	$146,324	0.5%	$676
Simon Pordage	99.7%	$109,714	0.3%	$286
Mark Freeman	98.4%	$398,520	1.6%	$6,480

Actual LTIP for the Financial Year

Table 16 on page 32 shows the value of long term incentive awards that vested to or were forfeited by Executives in financial year 2014 (past and present pay).

Table 16 (a): Executive Long Term Incentive Plan Outcomes During the Financial Year

Award Date	Measure	Benchmark Result	AFIC Result	Percentage Vested in 2014	Vested Ross Barker $	Vested Geoff Driver $	Vested Andrew Porter $	Vested Simon Pordage $
August 2008#	TPR	5.74% (75th percentile)	5.69%	0%	0	0	0	N/A
				0%	0	0	0	N/A
October 2009^	TSR	7.2%	8.85%	50%	57,880	24,567	33,617	4,226
	TPR	9.34% (75th percentile)	9.61%	50%	56,257	23,875	32,678	4,109
				100%	114,137	48,442	66,295	8,335
					114,137	48,442	66,295	8,335

The performance figures are shown as at the end of July 2013, for four years and 11 months, the closest that the AFIC performance got to the upper quartile benchmark.

^ The shares that vested under this award vested at different times, hence the different values.

The $ amounts shown are the market value of the shares vested at the date of vesting (for shares that vested) or last possible day of vesting for those forfeited.

Table 16 (b): Investment Team Long Term Incentive Outcomes During the Financial Year

Effective Award Date	Measure	Benchmark Result	AFIC Result	Percentage Vested	Mark Freeman $	Percentage Forfeited	Mark Freeman $
July 2010	Gross Return	12.4%	13.6%	104.1%	$151,570	0%	$0

Note that the percentage awarded is based on a blend of AFIC plus the OICs results, and results in a higher payment than just based on the AFIC result alone.

	Forfeited				
Percentage Forfeited	Ross Barker $	Geoff Driver $	Andrew Porter $	Simon Pordage $	Percentage Still to Vest
12.5%	15,261	6,060	7,767	N/A	0%
12.5%	15,261	6,060	7,767	N/A	0%
0%	0	0	0	0	0%
0%	0	0	0	0	0%
0%	0	0	0	0	0%
	15,261	6,060	7,767	0	

Tables 17 and 18 below show the ELTI awards (i.e. future pay) that are subject to vesting.

Table 17: Unvested Performance Shares (see Table 20 for Performance Shares that Vested During the Year)

Award Date	Number of Shares Unvested	Value at Award Date	Value Per Share at Award	Value at 30 June 2014 ($6.18 Per Share Outstanding)	Value at 30 June 2013 ($5.44 Per Share Outstanding)	Vesting Dates Subject to Performance Hurdles
Ross Barker – Managing Director						
25 August 2010	23,063	$111,327	$4.83	$142,529	$125,463	August 2014 – August 2015
22 August 2011	29,472	$123,470	$4.19	$182,137	$160,328	August 2015 – August 2016
				$324,666	$285,791	
Simon Pordage – Company Secretary						
25 August 2010	3,230	$15,592	$4.83	$19,961	$17,571	August 2014 – August 2015
22 August 2011	8,380	$35,107	$4.19	$51,788	$45,587	August 2015 – August 2016
				$71,749	$63,158	
Geoff Driver – General Manager – Business Development and Investor Relations						
25 August 2010	9,561	$46,152	$4.83	$59,087	$52,012	August 2014 – August 2015
22 August 2011	12,924	$54,144	$4.19	$79,870	$70,307	August 2015 – August 2016
				$138,957	$122,319	
Andrew Porter – Chief Financial Officer						
25 August 2010	12,846	$62,009	$4.83	$79,388	$69,882	August 2014 – August 2015
22 August 2011	16,069	$67,319	$4.19	$99,306	$87,415	August 2015 – August 2016
				$178,694	$157,297	

Table 18: Unvested Performance Rights

Effective Award Date	Number of Rights Awarded	Value at Award Date ($)	Value Per Right at Award ($)	Total Value at 30 June 2014 ($)*	Total Value at 30 June 2013 ($)
Ross Barker – Managing Director					
1 July 2012	42,126	173,000	4.107	278,856	236,456
1 July 2013	33,562	182,000	5.423	214,578	N/A
Simon Pordage – Company Secretary					
1 July 2012	12,236	50,250	4.107	80,997	68,682
1 July 2013	10,142	55,000	5.423	64,845	N/A
Geoff Driver – General Manager – Business Development and Investor Relations					
1 July 2012	17,437	71,610	4.107	115,427	97,877
1 July 2013	13,554	73,500	5.423	86,656	N/A
Andrew Porter – Chief Financial Officer					
1 July 2012	21,664	88,970	4.107	143,409	121,604
1 July 2013	16,965	92,000	5.423	108,468	N/A

* Value calculated using Company's TSR (two year: 27 per cent p.a., one year:17.9 per cent) since award.

Actual Investment Team Long Term Incentive for the Financial Year

During the year ended 30 June 2014, Mark Freeman received $182,420 in respect of the four years ended 30 June 2013, which was 130 per cent of the target amount of $140,000. The benchmark annualised return for the period was 11.3 per cent whilst AFIC's was 13.2 per cent.

Table 19 on page 35 shows the investment team LTI award for Mark Freeman that is subject to vesting.

Table 19: Investment Team Long Term Incentive Award for Mark Freeman

Award Date	Amount Awarded/Target Amount	Performance Period	Vesting Date Subject to Performance Hurdles
1 July 2010	$151,570*	1/7/10–30/6/14	30 June 2014
1 July 2011	$150,696	1/7/11–30/6/15	30 June 2015
1 July 2012	$154,464	1/7/12–30/6/16	30 June 2016
1 July 2013	$160,000	1/7/13–30/6/17	30 June 2017
	$616,730		

* The target amount was $145,600 but the outcome of the testing will result in 104.1 per cent of the award being paid during the year ended 30 June 2015 (see above).

Note the investment team LTI award is shown as a cash amount only, as it will be paid either in cash or in an equivalent value of shares, at the discretion of the Remuneration Committee. See Section 3.2.2 for further details.

Long Term Incentive – Vested and Awarded

Table 20 below shows the amounts of LTI that vested during the year relating to prior years' awards. Assessment periods run from the last day of the month of the award to the last day of the month for each assessment date – there are therefore 13 possible assessment dates for each award. The minimum assessment period is four years and the maximum is five years.

Table 20: Long Term Incentive Vested and Awarded

Award Date	Number of Shares Awarded	Value at Award Date	Assessment Dates	Shares Vested During the Year	Shares Forfeited During the Year	Shares Vested in Prior Years	Shares Still Subject to Vesting
Ross Barker – Managing Director							
13 August 2008	21,452	$111,297	August 2012 – August 2013	0	2,682	18,770	0
14 October 2009	19,007	$98,997	October 2013 – October 2014	19,007	0	0	0
Geoff Driver – General Manager – Business Development and Investor Relations							
13 August 2008	8,515	$44,178	August 2012 – August 2013	0	1,065	7,450	0
14 October 2009	8,067	$42,016	October 2013 – October 2014	8,067	0	0	0
Andrew Porter – Chief Financial Officer							
13 August 2008	10,920	$56,655	August 2012 – August 2013	0	1,365	9,555	0
14 October 2009	11,040	$57,501	October 2013 – October 2014	11,040	0	0	0
Simon Pordage – Company Secretary							
14 October 2009	1,388	$7,229	October 2013 – October 2014	1,388	0	0	0

Of the shares awarded in August 2008, 87.5 per cent of the total award vested. Fifty per cent of the total award vested as at the end of August 2012 as the TSR was 1.61 per cent compared to the hurdle of 0.24 per cent (> 20 per cent outperformance). 37.5 per cent vested as the TPR for the relevant period to the end of August 2012 was 1.98 per cent which was above the 50th percentile of the comparative (75th percentile return was 2.08 per cent).

Of the shares awarded in October 2009, 100 per cent of the total award vested. Twenty-five per cent of the total award vested as at the end of November 2013 as the TSR was 8.22 per cent compared to the hurdle of 8.13 per cent (1.1 per cent outperformance). Twenty-five per cent vested as at the end of January 2014 as the TSR was 8.85 per cent compared to the hurdle of 7.22 per cent (22.6 per cent outperformance). Fifty per cent vested as the TPR for the relevant period to the end of October 2013 was 9.61 per cent which was above the 75th percentile of the comparative (9.34 per cent).

All calculations used in determining the vesting of awards are reviewed and certified by Ernst & Young as being correct and in accordance with the terms and conditions of the LTI Plans.

The Link Between the Remuneration Policy and Company Performance

Table 21 on page 36 shows AFIC's (and the OICs) performance over the past five years, including details of TSR, TPR and GR. These measures, which represent growth in shareholder wealth, determine the vesting of AFIC's LTI plans to Executives and to the investment team.

Table 21: The Link Between the Remuneration Policy and Company Performance

Year Ending 30 June	10 Year Return	8 Year Return
Comparative Returns		
S&P/ASX 200 Accumulation Return	9.0%	5.3%
Gross S&P/ASX 200 Accumulation Return	10.4%	6.8%
Combined S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	6.2%	1.1%
Gross Combined S&P/ASX Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	7.1%	2.1%
AFIC		
TSR	11.0%	8.0%
TPR	9.8%	6.9%
Growth in net operating result per share	5.5%	2.9%
MER	N/A	N/A
Risk/reward return*	16th/76	15th/107
GR	11.8%	8.8%
Investment return	10.3%	7.4%
Djerriwarrh Investments Limited		
TSR	9.6%	6.8%
TPR	8.2%	5.2%
Growth in net operating profit per share	-0.1%	-2.6%
MER	N/A	N/A
GR	11.3%	8.3%
Investment return	9.5%	6.9%
Operating earnings as a percentage of available investable assets	N/A	N/A
Mirrabooka Investments Limited		
TSR	13.6%	10.0%
TPR	11.4%	8.4%
Growth in net operating result per share	3.5%	-1.4%
MER	N/A	N/A
GR	13.7%	10.9%
Investment return	14.4%	11.4%
AMCIL Limited		
TSR	13.0%	11.7%
TPR	13.5%	10.2%
Growth in net operating result per share	6.6%	4.3%
MER	N/A	N/A
GR	15.5%	12.4%
Investment return	15.6%	12.3%

* This represents the Company's ranking in the Mercer IDPS Australian Share Universe – i.e. 10th out of 71 funds. The period used is Year to May.

N/A – returns were negative for some quartiles in 2010.

5 Year Return	4 Year Return	3 Year Return	2014	2013	2012	2011	2010
11.2%	10.7%	10.4%	17.4%	22.8%	-6.7%	11.7%	13.1%
12.8%	12.4%	12.1%	19.2%	24.6%	-5.2%	13.2%	14.6%
6.3%	5.0%	1.9%	16.9%	4.8%	-13.6%	15.3%	11.5%
7.4%	6.1%	2.9%	18.0%	5.9%	-12.7%	16.3%	12.4%
11.9%	11.7%	16.8%	17.9%	36.7%	-1.1%	-2.3%	12.9%
12.4%	11.6%	11.6%	17.3%	24.4%	-4.8%	11.5%	15.6%
3.5%	7.6%	2.6%	7.5%	13.2%	-11.2%	23.9%	-11.1%
N/A	N/A	N/A	0.17%	0.18%	0.19%	0.17%	0.16%
27th/138	26th/147	30th/153	36th/177	90th/175	25th/151	65th/137	N/A*
14.4%	13.6%	13.6%	19.2%	26.5%	-2.9%	13.5%	17.8%
12.5%	11.6%	11.5%	17.0%	24.4%	-4.7%	11.7%	16.1%
11.3%	11.6%	14.5%	17.4%	21.2%	5.4%	3.3%	10.4%
10.3%	9.9%	9.6%	15.6%	19.0%	-4.4%	10.9%	11.9%
-6.3%	-1.7%	-9.9%	20.7%	-8.4%	-31.8%	23.9%	-22.8%
N/A	N/A	N/A	0.39%	0.39%	0.41%	0.38%	0.36%
13.7%	13.4%	13.1%	19.1%	22.5%	-1.3%	14.0%	15.2%
11.9%	11.5%	11.3%	16.3%	21.1%	-2.2%	12.0%	13.7%
N/A	N/A	N/A	7.6%	6.9%	8.0%	10.1%	7.9%
19.3%	18.6%	19.4%	21.2%	36.6%	2.8%	16.2%	22.4%
16.6%	15.0%	14.7%	22.8%	18.9%	3.5%	15.8%	23.0%
-3.6%	1.7%	-6.7%	-7.0%	-1.6%	-10.0%	30.0%	-22.4%
N/A	N/A	N/A	0.64%	0.70%	0.79%	0.79%	0.93%
19.4%	17.8%	17.5%	26.4%	21.2%	5.7%	18.2%	25.9%
18.9%	17.7%	17.6%	26.5%	23.1%	4.5%	17.9%	24.0%
17.9%	17.7%	20.1%	22.7%	23.6%	14.1%	10.8%	18.5%
14.5%	13.2%	13.0%	14.7%	21.1%	4.0%	13.6%	19.8%
5.4%	1.8%	-7.6%	-9.6%	14.8%	-22.6%	33.6%	21.3%
N/A	N/A	N/A	0.65%	0.77%	0.84%	0.80%	0.88%
16.6%	15.4%	15.6%	18.8%	22.5%	5.9%	14.8%	21.2%
17.1%	15.8%	15.7%	17.9%	25.3%	4.8%	16.1%	22.6%

Section 5. Contract Terms

Each Executive is employed under an open-ended contract, the terms of which can be varied by mutual agreement. There is no provision for cessation of employment. Either the Company or the Executive can give notice in accordance with statutory requirements (typically four weeks' notice; this can be altered at the Board's discretion but in no case to be more than 12 months). There are no specific payments to be made as a consequence of termination beyond those required by statute. Should there be any payments, these will be at the Board's discretion.

Material breaches of the terms of employment will normally result in the termination of an Executive's employment.

Section 6. Remuneration of Non-Executive Directors

Shareholders approve the maximum aggregate amount of remuneration per year to be allocated between NEDs as they see fit. In proposing the amount for consideration by shareholders, the Remuneration Committee takes into account the time demands made on Directors together with such factors as the general level of fees paid to Australian corporate directors.

For NEDs charged with the responsibility of oversight of the Company's activities, a fixed annual fee is paid with no element of performance-related pay.

The amount approved at the AGM in October 2007 was $1,000,000 per annum, which is the maximum amount that may be paid in total to all NEDs. As per Table 22 on page 39, the amount paid in the year ended 30 June 2014 was $750,493.

Retirement allowances for Directors were frozen at 30 June 2004.

NEDs do not receive any performance-based remuneration. On appointment, the Company enters into a deed of access and indemnity with each NED. There are no termination payments due at the cessation of office, and any Director may retire or resign from the Board, or be removed by a resolution of shareholders.

The amounts paid to each NED, and the figure for the corresponding period, are set out in Table 22 on page 39.

Table 22: Non-Executive Director Remuneration

	Primary (Fee/Base Salary) $	Post Employment (Superannuation) $	Total Remuneration $
TA Campbell AO – Chairman (from 9 October 2013)			
2014	131,218	12,138	143,356
2013	80,000	-	80,000
DR Argus AC – Non-Executive Director (retired 9 October 2013)			
2014	20,112	1,860	21,972
2013	80,000	-	80,000
JC Hey – Non-Executive Director (appointed 31 July 2013)			
2014	69,647	6,442	76,089
GR Liebelt – Non-Executive Director			
2014	75,515	6,985	82,500
2013	73,395	6,605	80,000
J Paterson – Non-Executive Director			
2014	75,515	6,985	82,500
2013	73,395	6,605	80,000
DA Peever – Non-Executive Director (appointed 20 November 2013)			
2014	47,328	4,378	51,706
FD Ryan AO – Non-Executive Director			
2014	54,920	27,580	82,500
2013	73,395	6,605	80,000
BB Teele – (Chairman until 9 October 2013. Retired 9 October 2013)			
2014	40,224	4,646	44,870
2013	150,000	10,000	160,000
CM Walter AM – Non-Executive Director			
2014	75,515	6,985	82,500
2013	73,395	6,605	80,000
PJ Williams – Non-Executive Director			
2014	75,515	6,985	82,500
2013	73,395	6,605	80,000
Total Remuneration: Non-Executive Director			
2014	665,509	84,984	750,493
2013	676,975	43,025	720,000

The amounts payable to the respective current NEDs who were in office at 30 June 2004, which will be paid when they retire, are set out on page 40. These amounts were expensed in prior years as the retirement allowances accrued. It is not expected that any of these Directors will retire within the next 12 months.

During the year ended 30 June 2014, BB Teele and DR Argus AC retired from the Board. They were paid the retirement allowances that were due to them and had been accrued in prior years, as noted above – BB Teele $229,000 and DR Argus AC $114,500.

Table 24: Non-Executive Director Retirement Allowances

	Amount Payable on Retirement $
TA Campbell AO	114,500
FD Ryan AO	66,329
CM Walter AM	42,385
	223,214

No other Director is eligible for retirement allowances.

Section 7. Remuneration Governance

Section 7.1 The Board

The Board's primary responsibilities include:

- reviewing and approving the recommendations of the Remuneration Committee; and
- providing guidance to the Remuneration Committee where appropriate.

For more information, the Charter of the Board is available on the Company's website.

Section 7.2 The Remuneration Committee

The Remuneration Committee's primary responsibilities include:

- reviewing the level of fees for NEDs and the Chairman;
- reviewing the Managing Director's remuneration arrangements;
- evaluating the Managing Director's performance;
- reviewing the remuneration arrangements for other Senior Executives;
- monitoring legislative developments with regards to Executive remuneration; and
- ensures that the Group continues to comply with all requirements in this area.

For more information, the Charter of the Remuneration Committee is available on the Company's website.

The Remuneration Committee is composed of four NEDs (including: GR Liebelt (Chairman), TA Campbell AO, J Paterson and CM Walter AM) and meets at least twice per year.

Section 7.3 Use of Remuneration Consultants

The Remuneration Committee has approved the appointment of an independent consultant, Ernst & Young, to advise regarding Executive and NED remuneration matters during the year.

Ernst & Young report directly to the Remuneration Committee (where deemed necessary) and are engaged by them to review recommendations to the Remuneration Committee and provide independent advice to the Committee on:

(a) Proposed remuneration levels and remuneration structure for the Managing Director.

(b) Proposed remuneration levels and remuneration structure for the Managing Director's direct reports.

(c) Proposed remuneration levels of NEDs.

During the year, Ernst & Young reviewed the levels of remuneration paid to certain Executives in the context of where those levels were positioned with respect to the market, but provided no remuneration advice.

The Board are satisfied that these arrangements ensure that any remuneration recommendations made by remuneration consultants are free from influence by management.

The use of the remuneration advisers by management is limited to specific areas to ensure that the independent advice that the Remuneration Committee receive is not perceived as having been compromised by management.

Ernst & Young are separately engaged by management to report on the following:

(a) Trends in remuneration for the sectors in which the Group operates (provision of market practice data).

(b) The relative positioning of the remuneration of the Group's employees (including Executives) within those sectors.

(c) Proposed remuneration levels for employees below KMP level.

(d) Advice on the operation of the incentive plans (e.g., tax and accounting advice).

The Managing Director then makes recommendations to the Remuneration Committee with regards to the remuneration levels and structure of the KMP.

Ernst & Young were paid $26,569 during the year ended 30 June 2014 for general remuneration advice including confirmation of vesting calculations (2013: $24,133) and during the year the Group also paid $167,184 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice (2013: $115,118) (all including GST).

Ernst & Young were remunerated on an invoiced basis, based on work performed.

The Company also participates in the annual McLagan and FIRG surveys of fund managers to understand current remuneration levels and practices.

NON-AUDIT SERVICES

Details of non-audit services performed by the auditors may be found in Note 30 of the Financial Report.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the *Corporations Act 2001* including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company, or jointly sharing economic risk and rewards.

A copy of the Auditors' Independence Declaration is set out on page 43.

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

Terry Campbell

Terrence Campbell AO
Chairman

21 July 2014

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
21 July 2014

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CORPORATE GOVERNANCE STATEMENT

The Board of the Company is committed to having the highest standards of ethical behaviour and an effective system of corporate governance for the Group, that is, the Company and its subsidiary Australian Investment Company Services Limited (AICS), commensurate with the size of the Company and the scope of its business operations.

In accordance with ASX Listing Rule 4.10.3, set out below are the applicable ASX Corporate Governance Council's eight principles of corporate governance (ASX Governance Principles) and outlined accordingly is how the Board has applied each principle and the recommendations set out within them.

The Company is fully supportive of the 'if not, why not' disclosure based approach to governance adopted by the ASX Governance Principles and the recognition within them that there is no single model of corporate governance and that good corporate governance practice is not restricted to adopting the recommendations contained in the ASX Governance Principles.

In addition to having its shares listed on the Australian Securities Exchange (ASX), the Company also has shares listed on the New Zealand Stock Exchange (NZX). As an overseas listed issuer on the NZX, the Company is generally deemed to comply with the NZX Listing Rules provided that the Company remains listed on the ASX, complies with the ASX Listing Rules and provides the NZX with all the information and notices that it provides to the ASX.

The ASX Governance Principles differ from the NZX's corporate governance rules and the principles of the NZX's Corporate Governance Best Practice Code. More information about the corporate governance rules and principles of the ASX can be found at www.asx.com.au and, in respect of the NZX, at www.nzx.com

Principle 1: Laying Solid Foundations for Management and Oversight

Compliance with this Principle requires the Company to establish and disclose the respective roles and responsibilities of both the Board and management.

Role of the Board

The Company's Corporate Objective, as determined by the Board, is to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital.

In this regard, the Company's primary goals are:

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

The role of the Board underpins and supports the Corporate Objective of the Company. The Board generally sets objectives and goals for the operation of the Company, oversees the Company's management, regularly reviews the Company's performance and monitors its affairs in the best interests of the Company. For these responsibilities, the Board is accountable to its shareholders as owners of the Company.

The Board operates under a Board charter, available on the Company's website, which documents the role of the Board outlined above and the matters that the Board has reserved to itself. Those matters include:

- setting the Corporate Objective of the Company and approving business strategies and plans of the Company designed to meet that objective;
- approving the expense budget at least annually;
- approving changes to the Company's capital structure and dividend policy;
- appointing and removing the Managing Director and carrying out succession planning for the Managing Director as applicable;
- reviewing the performance of the Managing Director, his/her remuneration and contractual arrangements;
- appointing and removing Senior Executives on the recommendation of the Managing Director;
- reviewing the performance and remuneration of Senior Executives on the review and recommendation of the Managing Director;

- reviewing the composition of the Board and Board Committees, the independence of Directors, the Board's performance and carrying out succession planning for the Chairman and other Non-Executive Directors;
- determining the risk appetite of the organisation;
- reviewing the performance of management and the Company, including in relation to the risk management, internal controls and compliance systems adopted by the Company and the monitoring and review of the performance of AICS in relation to the services that AICS provides the Company;
- dealing with any matters in excess of any specific delegations that the Board may from time to time delegate to the Managing Director and Senior Executives;
- approving the communication to shareholders and to the public of the half-year and full-year results and generally any public statements which reflect issues of the Company's policy or strategy that the Board deems material;
- setting designated authorities for the investment team to implement (in consultation with the Chairman/Managing Director) the decisions of the Investment Committee in buying/selling options or securities; and
- determining any investment policies/processes and underlying investment philosophies. In making such determinations, the Board recognises the importance of sustainability, including environmental, social and governance issues, to long term investment success.

The Directors meet formally as a Board, normally monthly with an annual strategy session. The Non-Executive Directors meet regularly in the absence of the Managing Director and other Senior Executives.

Delegation to Board Committees

The Board has established the following principal Board Committees to assist the Board in exercising its authority over the matters outlined above:

- Investment Committee;
- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

Each Board Committee operates under a formal charter that is made publicly available on the Company's website. The role and work of the Nomination Committee is outlined under Principle 2 on page 47; the Audit Committee is outlined under Principle 4 on page 50 and Principle 7 on page 52; and the Remuneration Committee is outlined below under this Principle and under Principle 8 on page 54.

The number of Board and Board Committee meetings held during the year and the attendance at them by Directors are set out on page 12.

Investment Committee

The general role of the Investment Committee is to review and endorse investment decisions to support the Company's Corporate Objective. In doing this, the Committee:

- reviews and endorses investment decisions to maintain the investment and trading portfolios;
- makes decisions in relation to other portfolio-related activities including voting instructions and lodgement of proxies in respect of general meetings of companies in which the Company has invested;
- receives reports from management on portfolio matters, including portfolio performance, transaction reports, portfolio position reports and performance attribution analysis; and
- receives reports and recommendations in relation to the review and analysis of companies/securities in which the Company is able to invest, or has invested in.

The Committee's membership currently comprises TA Campbell AO (Chairman), RE Barker, J Paterson, FD Ryan AO, CM Walter AM and PJ Williams. Other Directors attend Committee meetings when available.

Further details of the role of the Investment Committee in respect of the oversight of investment risk can be found under Principle 7 on page 53.

Delegation to Management

The Company has entered into an agreement with Australian Investment Company Services Limited (AICS) for AICS to provide on a non-exclusive basis a comprehensive range of management and operational services to the Company under the leadership of the Managing Director of AICS, who has been appointed Managing Director of the Company, including the day-to-day maintenance of the portfolios and associated research. AICS is 25 per cent owned by Djerriwarrh Investments Ltd and 75 per cent owned by the Company.

The Managing Director is responsible to the Company for the performance of those services and the Board acts in close consultation and cooperation with AICS in relation to the provision of services by AICS to the Company. AICS is paid a fee based on its costs in providing these services. The Senior Executives of AICS have also been appointed as officers of the Company and their details are set out on page 11.

The Remuneration Committee (see page 40), is responsible to the Board for evaluating the performance of the Managing Director and the Company's Senior Executives in accordance with the Company's aims and objectives, and remunerating them appropriately.

As part of its approach to encouraging enhanced performance, the Board has adopted a remuneration structure for the Managing Director and other Senior Executives, which includes a significant component of 'at risk' remuneration designed to encourage and reward high performance.

Full details of the remuneration process and the benchmarks used for assessment are given in the Remuneration Report on pages 13 to 41. Such an assessment was carried out in respect of the Managing Director's and Senior Executives' performance for the 2013–14 financial year.

The Board believes that the Company is fully compliant with Principle 1 and its recommendations.

Principle 2: Structuring the Board to Add Value

Compliance with this Principle requires the Company to have a Board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Directors' Report on pages 10 to 11 sets out the details of the skills, experience, and expertise of each Director.

The roles of the Chairman and Managing Director are separate. The role of the Managing Director is set out under Principle 1, above. The role of the Chairman is set out in the Board charter, including being responsible for:

- the business of the Board, taking into account the issues and the concerns of all Directors and the requirements of the Board charter;
- the leadership and conduct of Board and Company meetings to be in accordance with the agreed agenda, the Company's Corporate Objective and Principles of Conduct (described under Principle 3, below); and
- encouraging active engagement by Directors and an open and constructive relationship between the Board and the Managing Director and Senior Executives.

The Chairman also has the authority to act and speak for the Board between meetings, subject to any agreed consultation processes.

Appointment and Renewal

The Board consists of an Independent Non-Executive Chairman, TA Campbell AO, a Managing Director, RE Barker and seven Non-Executive Directors, JC Hey, GR Liebelt, J Paterson, DA Peever, FD Ryan AO, CM Walter AM and PJ Williams, who are considered by the Board to be independent (see below).

Details of the term of office held by each Director in office as at the date of this report are as follows:

TA Campbell AO	– 29 years
RE Barker	– 13 years and Alternate Director 1987 to 2001
JC Hey	– appointed 31 July 2013
GR Liebelt	– 2 years
J Paterson	– 9 years and Alternate Director 1987 to 2005
DA Peever	– appointed 20 November 2013
FD Ryan AO	– 12 years
CM Walter AM	– 11 years
PJ Williams	– 4 years

Being a long term investor is an essential part of the Company's Corporate Objective and continuity on the Board is regarded as an important factor in the Board's approach. The Board does not regard length of tenure as an issue of independence. The Board instead regards retention of corporate memory as an important element of the Board.

The Company's constitution provides that each Non-Executive Director must seek re-election by shareholders at least every three years if they wish to remain a Director. Any new Non-Executive Director appointed by the Board must seek election by shareholders at the next Annual General Meeting of the Company. This approach is consistent with the ASX Listing Rules.

All of the Directors have entered into an agreement with the Company covering the terms of their appointment, access to documents, Director's indemnity against liability, and Directors' and Officers' insurance. Each Director of the Company is encouraged to have a financial interest in the Company.

All Directors are required to have a meaningful shareholding in the Company of at least one year's Director's fees. If not, 25 per cent of a Director's fees are to be applied each year until that level is reached. In this way Directors benefit in the same way as all shareholders in improving the shareholder value of the Company.

To assist Directors to fully meet their responsibilities to bring an independent view to matters coming before them, the Board has agreed upon a procedure in appropriate situations for Directors to take independent professional advice, at the expense of the Company, after advising the Chairman of their intention to do so.

Nomination Committee

The Nomination Committee comprises J Paterson (Chairman), FD Ryan AO, TA Campbell AO and PJ Williams. Committee members are independent Directors including the Chairman of the Committee.

The Nomination Committee's charter sets out the role of the Committee and its responsibilities, composition and membership requirements. The Nomination Committee periodically reviews Board and Board Committee composition and succession planning, and where applicable, recommends suitable Directors for appointment by the Board and shareholders. The Committee may also involve other Directors or the full Board in this process. Complementary to this responsibility, the Committee oversees the Board's Diversity Policy. More details on the Board's approach to diversity, including the mix of skills and diversity that the Board is looking for in its own membership, can be found under Principle 3 below.

The Committee also reviews the process in place to assess the Board's performance. In order to provide a specific opportunity for performance matters to be discussed with each Director, each year the Chairman of the Board conducts a formal Director review process. He meets with each Director individually to discuss issues including performance and discusses with each Director the effectiveness of the Board as a whole, Board Committees, individual Directors and the Chairman with the intention of providing mutual feedback.

To assist the effectiveness of these meetings, the Chairman is provided with objective information about each Director (e.g. number of meetings attended, Committee memberships, other current directorships etc.) and a guide for discussion to ensure consistency. The Chairman reports on the general outcome of these meetings to the Nomination Committee, and to the Board where necessary. Evaluations under this process were carried out during the financial year.

In addition, an independent Director meets with other Directors to discuss the performance of the Chairman. Feedback is then be provided to the Chairman. TA Campbell AO was appointed Chairman in October 2013. As such, this process will commence following the anniversary of his appointment.

Independence of Directors

The Nomination Committee also reviews the independence of each of the Non-Executive Directors on an annual basis, taking into account the factors set out in the ASX Governance Principles, including situations where an individual Director may be a partner in, controlling shareholder of, or Executive of an entity which has a material commercial relationship with the Company. In looking at such relationships, the Nomination Committee has set an initial materiality threshold of $1 million per annum and this threshold is reviewed annually by the Committee.

It is considered that all Non-Executive Directors are independent.

A number of the Directors are also Directors of companies in which the Company invests. Any real or potential conflicts of interest are dealt with by procedures consistent with Corporations Act requirements which are designed to ensure that conflicted Directors do not take part in the decision-making process on relevant issues. On this basis, it is believed that their independence on all other issues is not compromised.

For the reasons set out above, the Board believes that the Company is fully compliant with Principle 2.

Principle 3: Promotion of Ethical and Responsible Decision-making

Compliance with this Principle requires that the Company actively promote ethical and responsible decision-making.

The Board and Senior Executives are committed to maintaining the highest standards of integrity and seeks to ensure all its activities are undertaken with efficiency, honesty and fairness. The Company also maintains a high level of transparency regarding its actions consistent with the need to maintain the confidentiality of commercial-in-confidence material and, where appropriate, to protect the shareholders' interests.

The Company has in place a Securities Dealing Policy for Directors and Senior Executives, Corporate Principles of Conduct, and a Board Diversity Policy, which are available on the Company's website.

Securities Dealing Policy

Under this policy, Directors and Senior Executives are prohibited from dealing in the Company's securities from 15 December and 15 June up to and including the calendar day after the Company's announcement of its half and full year financial results as appropriate; and the opening of business on the last business day of each month up to and including the calendar day after the monthly net tangible asset per share announcement.

In addition, they must not deal in the Company's securities for short term purposes, must not engage in short-selling of the Company's securities, and are prohibited from using the Company's securities as security for margin lending arrangements or other loans. They must also use their best endeavours to ensure they are not put in a position of conflict with the policy by virtue of having margin or other loans over other securities.

Compliance with the policy is a condition of the appointment of each Senior Executive with the Company and a condition of their employment with AICS.

Corporate Principles of Conduct

The Board has adopted Corporate Principles of Conduct which outline ethical standards to be followed by Directors and Senior Executives of the Company when carrying out their responsibilities with a view to the Company achieving its aims.

Under the Principles, Directors and Senior Executives will:

- conduct business in good faith in the best interests of the Company with efficiency, honesty and fairness;
- perform their duties with the utmost integrity and the standard of care and diligence expected of an organisation of the highest calibre;
- treat others with dignity and respect; and
- not engage in conduct likely to have an adverse effect on the reputation of the Company.

The Corporate Principles of Conduct also set out details of how conflicts of interest should be avoided. The Company's Directors and employees must disclose to the Company any material personal interest that they or any associate may have in a matter that relates to the affairs of the Company, and inform the Board, via the Company Secretary, of any changes.

Where a conflict of interest may arise, full disclosure by all interested persons must be made and appropriate arrangements followed, such that interested persons are not included in making any relevant decisions.

AICS also has its own comprehensive Principles of Conduct in place that cover the behaviours and actions of its employees. Compliance with those principles is a condition of the appointment of each Senior Executive with the Company and a condition of their employment with AICS.

Board Diversity Policy

The Board recognises that having a diverse Board will assist it in effectively carrying out its role. The Board has established a Diversity Policy under the oversight of the Nomination Committee.

The Board views diversity as including, but not being limited to, skills, qualifications, experience, gender, age, disability, race, ethnicity and cultural background.

The Company has a number of characteristics that have an important influence on how the Board deals with Board and organisational diversity:

- As the Company is a long term shareholder, it is beneficial to have Directors who serve for a long period of time, experiencing different economic and business cycles.
- The Company has no employees as all management, financial, business development/marketing and securities/stock market services are provided by it's subsidiary, Australian Investment Company Services Limited (AICS).
- Senior Executives of the Company are the Senior Executives of AICS and employed by them.

As such, the Diversity Policy is limited to Board diversity.

The Board has determined that, in terms of the mix of skills and diversity it is looking for in its own membership, it is best served by having a mix of individuals with different perspectives that have deep expertise and a breadth of experience in the following areas:

- leading, managing and overseeing corporations in a range of industry sectors, at both Executive and Board level;
- advising corporations (including legal and accounting advice);
- the investment industry; and
- organisations with diverse governance and regulatory regimes (including charities, not-for-profit organisations, government bodies, private companies and international organisations).

When the Board is looking for an additional member, the overarching priority is to appoint an individual based on merit who the Board believes will provide the Company with the best opportunity to meet its Corporate Objective.

Pursuant to the policy, the Board has set as an objective to embed gender diversity as an active consideration in all succession planning for Board positions. Gender diversity has been a focus of discussion for the Nomination Committee as well as Board discussions regarding Board succession. During the financial year, Ms JC Hey and Mr DA Peever were appointed to the Board.

Below is a summary of the gender composition of the organisation:

	Male	Female
Board (including Managing Director)	7	2
Other Senior Executives	4	0
Employees (all employed by AICS, including Managing Director and other Senior Executives)	11	7

Whistleblower Protection Policy

The Company also has in place a Whistblower Protection Policy that establishes a formal framework within which individuals are able, in a secure way, to express their genuine concerns about unlawful behaviour or breaches of policy, free from the threat of victimisation or reprisal and on the understanding that their concerns will be investigated and that, where appropriate, action will be taken to redress the situation.

Any individual making a report in good faith under the policy will be protected by the Company from any victimisation, including harassment, reprisals, discrimination or other form of detriment, as a result of making such a report.

The Board believes that the Company is fully compliant with Principle 3 and its recommendations.

Principle 4: Safeguarding Integrity in Financial Reporting

Compliance with this Principle requires that the Company has a structure to independently verify and safeguard the integrity of the Company's financial reporting.

The Company has established an Audit Committee to oversee the integrity of the financial reporting process and which reports to the Board. The Committee has four members, all of whom are independent Directors: PJ Williams (Chairman), FD Ryan AO, DA Peever and CM Walter AM.

The number of meetings held during the year and attendance by Committee members are set out on page 12. Members of the Audit Committee have the requisite financial experience and understanding to effectively discharge the Committee's mandate. In addition, some members of the Committee have relevant experience and qualifications (see pages 10 to 11), but they have no responsibilities additional to those of other members of the Audit Committee.

The Audit Committee is responsible for reviewing:

- the Company's accounting policies;
- the content of financial statements;
- issues relating to the controls applied to the Company's activities;
- the conduct, effectiveness and independence of the external audit;
- risk management and related issues; and
- compliance issues.

The role of the Audit Committee in respect of its oversight of risk management issues is set out under Principle 7, on page 52.

Written Affirmations

The Board has received from the Managing Director and the Chief Financial Officer written affirmations concerning the Company's financial statements as set out in the Directors' Declaration on page 89.

External Audit

The Company has a process to ensure the independence and competence of the Company's external auditor including the Audit Committee reviewing any non-audit work to ensure that it does not conflict with audit independence. Information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners is set out in the Committee's charter. Policies relating to rotating external audit engagement partners are set by the external audit firm in accordance with Corporations Act and international best practice requirements.

The Audit Committee meets regularly with the external auditor in the absence of management.

The Board believes that the Company is fully compliant with Principle 4 and its recommendations.

Principle 5: Making Timely and Balanced Disclosure

Compliance with this Principle requires that the Company promote timely and balanced disclosure of all material matters concerning the Company.

As a listed entity, the Company has an obligation under the ASX Listing Rules to maintain an informed market in its securities. Accordingly, the Company ensures that the market is advised of all information required to be disclosed under the Listing Rules which the Company believes would or may have a material effect on the price or value of the Company's securities.

The Company has a written policy and procedures designed to ensure compliance with ASX Listing Rule and Corporations Act disclosure requirements and to ensure accountability at a senior management level for that compliance. The policy is publicly available on the Company's website.

The Board believes that the Company is fully compliant with Principle 5 and its recommendations.

Principle 6: Respecting the Rights of Shareholders

Compliance with this Principle requires that the Company respect the rights of shareholders and facilitate the effective exercise of those rights.

The Board considers that active and frequent face-to-face communication with shareholders as owners of the Company is very important to the success of the Company.

In addition to communicating with shareholders via the Annual and Half-Yearly Reports and the Annual General Meeting, the Company holds regular non-statutory shareholder meetings in major cities to provide shareholders with the opportunity to meet with representatives of the Board and management, to learn more about the Company's activities, and particularly to provide an opportunity to shareholders to ask questions of the Board and management about any aspect of the Company's activities.

These meetings are usually held following the Annual General Meeting and are also held following the release of the Company's half-year results. During the financial year, shareholder meetings were held in Sydney, Melbourne, Brisbane, Adelaide, Canberra, Perth, Launceston, Hobart and New Zealand.

The Company also maintains a comprehensive website that contains ASX/NZX announcements, Annual Reports, Half-Yearly Reports, details of corporate governance practices, presentations to shareholders, and related material for shareholders and investors.

This policy and approach to shareholder communication are set out on the Company's website.

The Board believes that the Company is fully compliant with Principle 6 and its recommendations.

Principle 7: Recognising and Managing Risk

Compliance with this Principle requires that the Board establish a sound system of risk oversight and management and internal control.

The Company has established and maintains a sound system of risk oversight, management and internal control. The Risk Management Framework adopted by the Company is available on the Company's website.

The framework has been developed to take into account the principles and guidelines outlined in AS/NZS ISO 31000: 2009 Risk Management – Principles and Guidelines.

This approach involves establishing the context in which it operates, identifying the risks, analysing those risks, evaluating the risks, treating the risks where appropriate and monitoring, reviewing and reporting risks and the overall performance of the framework. This process is underpinned through regular communication and consultation with key business stakeholders. The framework forms the basis for embedding enterprise risk management within the culture of the organisation. Its objectives are to:

- enable the Company to meet its obligations and objectives efficiently and reliably;
- increase the likelihood that the Company will be successful in its business operations by mitigating potentially damaging events occurring (e.g. operational risk) and maximising the results of positive events (e.g. financial position, investment strategies, etc.), through the implementation of risk management strategies;
- provide decision-makers with the means to identify risks and to determine whether the controls in place are adequate to mitigate those risks;
- provide a mechanism to assess the levels of risk that can be accepted;
- ensure that the application of risk management practices is understood by the agents, employees, officers and Directors of the Company, and a strong risk culture is well entrenched; and
- reduce the consequence and/or likelihood of potentially damaging events by regular reviews of investments and investment strategies or by transferring the impact of potentially damaging events to third parties (e.g. by insurance and contractual arrangements) for outsourced arrangements, where appropriate.

The Board is assisted in its risk management activities by the Audit Committee and coordination of risk management activities is done by the Chief Financial Officer, who reports to the Audit Committee on such matters. There are two main areas of risk that have been identified:

- investment risk; and
- operational risk.

Investment Risk

Investment risk includes:

- market risk;
- credit, counter-party and settlement risk;
- liquidity risk; and
- reputational risk (insofar as it relates to the investments that the Company enters into).

The Investment Committee is primarily responsible for dealing with issues arising from investment risk, and has delegated day-to-day management of the portfolios to an experienced investment team provided by AICS. All decisions of the team are reviewed, discussed and where necessary, ratified by the Committee.

By its nature as a listed investment company, the Company will always carry investment risk because it must invest its capital in securities which are not risk-free. However, the Company seeks to reduce this investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.

In addition to the investment portfolio, the Company also operates a trading portfolio for short term opportunities. The Company seeks to enhance the return from that portfolio by also selling call and put options. In normal circumstances, the Board restricts the size of the trading portfolio to a maximum size of 10 per cent of the assets of the Company. The Board, through its Investment Committee, maintains close control of option transactions. Option transactions are limited to stocks held in the trading portfolio or in a small sub-category of the investment portfolio for the purpose of enhancing returns from that portfolio and buying and/or selling stocks at attractive prices.

Operational Risk

The Company's management is primarily responsible for recognising and managing operational risk issues such as legal and regulatory risk, systems and process risk, human resource risk, reputation risk (insofar as it relates to the operations of the Company), disaster recovery risk, and occupational health and safety risk. A further risk comprises ensuring compliance with AICS's Australian Financial Services Licence requirements. This aspect of management's role is specifically overseen by the Risk Management, Audit and Remuneration Committee of AICS and reported to the Company's Audit Committee. The Chairman of the Company's Audit Committee, PJ Williams, is also Chairman of the AICS Risk Management, Audit and Remuneration Committee.

The Company has received a report from AICS outlining the control objectives for AICS and the specific policies and procedures established to meet these procedures. These policies include management oversight, segregation of duties, multiple sign-offs and specific authorisation levels. AICS has stated that these have been in place throughout the period, and have been effective in meeting the control objectives. This statement and verification have been confirmed by AICS's internal auditors, Ernst & Young, under the requirements of Auditing Standard 810.

Written Affirmations

The Board has received from the Managing Director and the Chief Financial Officer written affirmation that, to the best of their knowledge and belief, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects insofar as they relate to financial reporting risks.

The Audit Committee and the Board have also received reports from management as to the effectiveness of the Company's management of its material business risks, whilst noting that the Company, as a listed investment company, actively takes on appropriate levels of risk as part of its investment activities.

Further details with regard to financial risk management can be found in Note 24 to the financial statements.

The Board believes that the Company is fully compliant with Principle 7 and its recommendations.

Principle 8: Remunerating Fairly and Responsibly

Compliance with this Principle requires that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is defined.

The Company has a Remuneration Committee to look after remuneration issues relating to the Non-Executive Directors, the Managing Director and Senior Executives. The charter of the Remuneration Committee is available on the Company's website.

GR Liebelt (Chairman), TA Campbell AO, J Paterson and CM Walter AM are members of the Remuneration Committee. All members are Independent Non-Executive Directors. The number of meetings held during the year and the Directors' attendance at them are set out in the Directors' Report on page 12.

As set out in the Company's Securities Dealing Policy, Senior Executives are prohibited from using financial products to protect against or limit the risk associated with unvested Company securities they may receive as part of their performance-based remuneration. Breaches of the Company's policy in this regard will normally result in the termination of the Senior Executive's employment.

Further and full details regarding the work of the Committee and the Company's remuneration practices are set out in the Remuneration Report on pages 13 to 41.

The Board believes that the Company is fully compliant with Principle 8 and its recommendations.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2014

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Dividends and distributions		275,793	250,290
Revenue from deposits and bank bills		4,898	6,919
Other revenue		4,208	4,000
Total revenue		284,899	261,209
Net gains on trading portfolio		9,841	10,303
Income from operating activities		294,740	271,512
Finance costs		(20,525)	(20,998)
Administration expenses		(14,122)	(12,940)
Operating result before income tax expense	4	260,093	237,574
Income tax expense*	5	(5,873)	(3,311)
Net operating result		254,220	234,263
Net gains on investments			
Net gains on puttable instruments and non-equity investments		104	12,166
Tax expense on net gains on puttable instruments and non-equity investments*	5	(31)	(3,650)
		73	8,516
Profit for the year		254,293	242,779
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		254,213	242,666
Minority interest		80	113
		254,293	242,779

	Cents	Cents
Basic earnings per share	24.35	23.47
Diluted earnings per share	24.32	23.48

Information on earnings per share, including net operating result per share, can be found in Note 26.

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
* Total tax expense for the year	5	5,904	6,961

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2014

	Year to 30 June 2014			Year to 30 June 2013		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Profit for the year	254,220	73	254,293	234,263	8,516	242,779
Other comprehensive income (OCI)						
Items that will not be recycled through the Income Statement						
Unrealised gains for the period on securities in the portfolio at 30 June	-	650,849	650,849	-	846,094	846,094
Deferred tax expense on above	-	(195,882)	(195,882)	-	(257,127)	(257,127)
Plus gains for the period on securities realised	-	15,045	15,045	-	20,822	20,822
Tax expense on above	-	(4,529)	(4,529)	-	(6,328)	(6,328)
Items that may be recycled through the Income Statement						
Gross movement in fair value for interest rate swaps[4]	-	1,731	1,731	-	143	143
Tax expense on above	-	(519)	(519)	-	(43)	(43)
Total other comprehensive income[1,3]	-	466,695	466,695	-	603,561	603,561
Total comprehensive income[2]	254,220	466,768	720,988	234,263	612,077	846,340

1. Net capital gains not recorded through the Income Statement.
2. This is the Company's net return for the year, which includes the net operating result plus the net realised and unrealised gains or losses on the Company's investment portfolio.
3. Total tax movement in other comprehensive income: 2014: $(200.9) million; 2013: $(263.5) million.
4. It is currently anticipated that the swaps will be held to maturity and consequently that they will not be recycled through the Income Statement.

	Year to 30 June 2014			Year to 30 June 2013		
	Revenue $'000	Capital $'000	Total $000	Revenue $'000	Capital $'000	Total $000
Total Comprehensive Income is attributable to:						
Equity holders of Australian Foundation Investment Company Limited	254,140	466,768	720,908	234,150	612,077	846,227
Minority interest	80	-	80	113	-	113
	254,220	466,768	720,988	234,263	612,077	846,340

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2014

	Note	Consolidated 2014 $'000	2013 $'000
Cash	6	69,084	256,440
Receivables	7	65,758	52,271
Trading portfolio	8	-	50,019
Total current assets		134,842	358,730
Non-current assets			
Fixtures and fittings	9	76	206
Investment portfolio	10	6,326,268	5,360,906
Deferred tax assets	16	864	1,332
Total non-current assets		6,327,208	5,362,444
Total assets		6,462,050	5,721,174
Current liabilities			
Payables	11	6,128	9,334
Tax payable		13,419	8,487
Borrowings	6	100,000	100,000
Trading portfolio	8	1,980	-
Provisions	12	2,598	2,553
Interest rate hedging contracts	22	281	1,493
Total current liabilities		124,406	121,867
Non-current liabilities			
Provisions	13	1,704	1,310
Convertible notes	14	203,779	219,544
Deferred tax liabilities – investment portfolio	15	948,009	751,761
Total non-current liabilities		1,153,492	972,615
Total liabilities		1,277,898	1,094,482
Net assets		5,184,152	4,626,692
Shareholders' equity			
Share capital	17	2,064,936	2,002,128
Revaluation reserve	19	2,253,053	1,801,692
Realised capital gains reserve	20	317,624	334,243
General reserve	21	23,637	23,637
Interest rate hedging reserve	22	(281)	(1,493)
Retained profits	23	524,319	465,701
Parent entity interest		5,183,288	4,625,908
Minority interest		864	784
Total equity		5,184,152	4,626,692

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

Year Ended 30 June 2014	Note	Attributable to Equity Holders of Australian Foundation Investment Company Limited Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		2,002,128	1,801,692
Dividends paid	25	-	-
Shares issued – Dividend Reinvestment Plan	17	46,064	-
Shares issued – conversion of convertible notes	17	16,660	-
Other share capital adjustments	17	84	-
Total transactions with shareholders		62,808	-
Profit for the year		-	73
Other comprehensive income for the year (net of tax)			
Net unrealised gains for the period for stocks held at 30 June		-	454,967
Net gains for the period on investments realised		-	10,516
Transfer of cumulative gains on investments realised		-	(14,195)
Net movement in fair value of swap contracts		-	-
Other comprehensive income for the year		-	451,288
Total equity at the end of the year		2,064,936	2,253,053

Year Ended 30 June 2013	Note	Attributable to Equity Holders of Australian Foundation Investment Company Limited Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		1,956,931	1,231,372
Dividends paid	25	-	-
Shares issued – Dividend Reinvestment Plan	17	45,068	-
Other share capital adjustments	17	129	-
Total transactions with shareholders		45,197	-
Profit for the year		-	8,516
Other comprehensive income for the year (net of tax)			
Net unrealised gains for the period for stocks held at 30 June		-	588,967
Net gains for the period on investments realised		-	14,494
Transfer of cumulative gains on investments realised		-	(41,657)
Net movement in fair value of swap contracts		-	-
Other comprehensive income for the year		-	561,804
Total equity at the end of the year		2,002,128	1,801,692

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

Attributable to Equity Holders of Australian Foundation Investment Company Limited						
Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
334,243	23,637	(1,493)	465,701	4,625,908	784	4,626,692
(30,814)	-	-	(195,522)	(226,336)	-	(226,336)
-	-	-	-	46,064	-	46,064
-	-	-	-	16,660	-	16,660
-	-	-	-	84	-	84
(30,814)	-	-	(195,522)	(163,528)	-	(163,528)
-	-	-	254,140	254,213	80	254,293
-	-	-	-	454,967	-	454,967
-	-	-	-	10,516	-	10,516
14,195	-	-	-	-	-	-
-	-	1,212	-	1,212	-	1,212
14,195	-	1,212	-	466,695	-	466,695
317,624	23,637	(281)	524,319	5,183,288	864	5,184,152

Attributable to Equity Holders of Australian Foundation Investment Company Limited						
Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
292,586	23,637	(1,593)	447,886	3,950,819	671	3,951,490
-	-	-	(216,335)	(216,335)	-	(216,335)
-	-	-	-	45,068	-	45,068
-	-	-	-	129	-	129
-	-	-	(216,335)	(171,138)	-	(171,138)
-	-	-	234,150	242,666	113	242,779
-	-	-	-	588,967	-	588,967
-	-	-	-	14,494	-	14,494
41,657	-	-	-	-	-	-
-	-	100	-	100	-	100
41,657	-	100	-	603,561	-	603,561
334,243	23,637	(1,493)	465,701	4,625,908	784	4,626,692

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2014

	Note	Consolidated 2014 $'000 Inflows/ (Outflows)	Consolidated 2013 $'000 Inflows/ (Outflows)
Cash flows from operating activities			
Sales from trading portfolio		77,672	170,662
Purchases for trading portfolio		-	(87,448)
Interest received		5,886	7,089
Dividends and distributions received		244,715	213,882
		328,273	304,185
Other receipts/(payments)		4,213	4,000
Administration expenses		(13,669)	(11,473)
Finance costs paid		(19,830)	(19,990)
Taxes paid		(4,616)	(5,297)
Net cash inflow/(outflow) from operating activities	31	294,371	271,425
Cash flows from investing activities			
Sales from investment portfolio		175,794	251,234
Purchases for investment portfolio		(477,264)	(247,868)
Net cash inflow/(outflow) from investing activities		(301,470)	3,366
Cash flows from financing activities			
Share issues transaction costs		(57)	(56)
Dividends paid		(180,200)	(171,188)
Net cash inflow/(outflow) from financing activities		(180,257)	(171,244)
Net increase/(decrease) in cash held		(187,356)	103,547
Cash at the beginning of year		256,440	152,893
Cash at the end of year	6	69,084	256,440

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant 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 as per the Directors' Declaration and is presented in the Australian currency. The Company has the power to amend and reissue the Financial Report.

In this report, 'Group' refers to the consolidated entity and 'Company' refers to the parent entity, Australian Foundation Investment Company Ltd (AFIC). This Financial Report consists of financial statements for the consolidated entity consisting of AFIC and its subsidiary. The financial information for the parent entity, disclosed in Note 38 on page 88, has been prepared on the same basis as the Consolidated Financial Statements. The Group has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market value	Fair value for actively traded securities
Cash	Cash and cash equivalents
Share capital	Contributed equity
Hybrids	Equity instruments that are not ordinary securities

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards (IFRS). The Group is a 'for profit' entity.

The Group 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 2014 ('the inoperative standards'), except for AASB 9 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. The Group only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

(a) Basis of Accounting

The financial statements are prepared using the valuation methods described below for holdings of securities, including options. All other items have been treated in accordance with the historical cost convention.

(b) Principles of Consolidation

The Consolidated Financial Statements incorporate the assets and liabilities of the Company's subsidiary, Australian Investment Company Services Ltd (AICS) as at 30 June 2014, and its results for the year then ended. AICS is a 75 per cent owned subsidiary of the Company. No other subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

(c) Holdings of Securities

(i) Balance Sheet Classification

The Group has two discrete portfolios of securities, the investment portfolio and the trading portfolio. The purchase and the sale of securities are accounted for at the date of trade.

The investment portfolio relates to holdings of securities which the Directors intend to retain on a long term basis and includes a small sub-component over which options may be written.

The trading portfolio comprises securities held for short term trading purposes, including exchange traded options contracts over securities that are held in the specific sub-component of the investment portfolio noted above, and that are entered into as described in Note 8.

Securities within the investment portfolio (with the exception of puttable instruments and convertible instruments classified as debt) are classified as 'financial assets measured at fair value through other comprehensive income', and are designated as such upon initial recognition, whereas puttable instruments, convertible instruments classified as debt and securities held within the trading portfolio are classified as 'mandatorily measured at fair value through profit or loss in accordance with AASB 9'.

The designation of securities within the investment portfolio as 'financial assets measured at fair value through other comprehensive income' is consistent with the Directors' view of these assets as being held for the long term for both capital growth and for the provision to the Group of dividends and distribution income rather than to make a profit from the sale of such securities, which is the purpose of securities held within the trading portfolio. Puttable instruments and convertible instruments classified as debt are required to be classified at 'fair value through profit or loss' although the Directors also view these assets as being held for the long term for both capital growth and for the provision to the Group of distribution income and their being managed as part of the investment portfolio.

(ii) Valuation of Investment Portfolio

Securities, including listed and unlisted shares and notes, are initially brought to account at market value, which is the cost of acquisition, and are revalued to market values continuously or fair value using a variety of methodologies if there is no active market. Increments and decrements on equity instruments are recognised as other comprehensive income and taken to the revaluation reserve.

Gains and losses on puttable instruments and convertible instruments classified as debt are recognised in profit or loss. However, they are subsequently transferred from retained earnings to the revaluation reserve.

Where disposal of an investment occurs, any revaluation increment or decrement relating to it is transferred from the revaluation reserve to the realisation reserve. The amounts of such transfers are noted in the Statement of Changes in Equity, and are done primarily to isolate the realised gains out of which the Company can pay a 'listed investment company' or 'LIC' gain as part of its dividend, which conveys certain taxation benefits to many of the Company's shareholders.

(iii) Valuation of Trading Portfolio

Securities, including listed and unlisted shares and options, are initially brought to account at market value, which is the cost of acquisition, or proceeds in the case of options written, and are revalued to market values continuously.

Increments and decrements on the value of securities, which includes the realised and unrealised gains or losses from securities in the trading portfolio are taken to Profit or Loss through the Income Statement. These securities include options written over certain equities in the investment portfolio.

(iv) Income from Holdings of Securities

Distributions relating to listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis unless the dividend clearly represents a recovery of part of the cost of the investment, in which case the relevant portion is treated as proceeds from a sale. If the distributions are capital returns on ordinary shares the amount of the distribution is treated as an adjustment to the carrying value of the shares.

The realised gain or loss on options written in the trading portfolio is not recognised until the option expires, is exercised or is closed out. All unrealised gains or losses which represent movements in the market value of the options are recognised through the Income Statement.

(d) Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income adjusted by any unused tax losses and changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities (excluding 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.

Deferred tax assets or liabilities are recognised for the unrealised gain or loss on securities valued at fair value through the Income Statement – e.g. the trading portfolio.

A deferred tax asset or liability has to be made for any taxes that could arise on disposal of securities in the investment portfolio, even though there is no intention to dispose of them. Where the Group 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.

(e) Cash Flows

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

(f) Fair Value of Financial Assets and Liabilities

The fair value of cash, borrowings and non-interest bearing monetary financial assets and liabilities of the Group approximates their carrying value.

The fair value for assets that are actively traded on-market is defined by IFRS as 'last bid price'.

(g) 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.

(h) 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 Executive Short Term 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 Executive Short Term 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 Executive Short Term 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 Short Term Incentive Plan is recognised on the Balance Sheet.

For the Investment Team Long Term Incentive Plan, the incentives are based on the performance of the Group and investment companies to which the Group provides administration services over a four year period. The incentives may be settled in shares (but based on a cash amount) or cash. Expenses are recognised over the four year assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the Balance Sheet over the assessment period.

Under the Senior Executive Long Term Incentive Plan which was introduced for the year ended 30 June 2013, the amount awarded is represented by performance shares. The 30 day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30 day VWAP price to determine the number of performance shares that may vest at the vesting point in four years' time. The value of each performance shares will be adjusted by the Accumulation Return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30 day VWAP price up to 30 June.

The expense will be charged directly through the Group's profit and loss account in the following manner – 25 per cent of the total estimated cost in Year 1, 50 per cent of the total estimated cost in Year 2 less the expense charged in Year 1, 75 per cent of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100 per cent of the total estimated cost in Year 4 less the expense charged in Years 1, 2 and 3.

Shares are no longer awarded under the previous Senior Executive Long Term Incentive Plan but expenses will continue to be incurred under it until the conclusion of the vesting period in August 2015. 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.

(i) 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.

(j) 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.

(k) 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.

(l) Interest Rate Swaps

The Company has hedged a proportion of its short term borrowings against changes in interest rates by entering into interest rate swap agreements. Interest rate swaps are shown at 'fair value' on the Balance Sheet representing the cost of unwinding the swap. For that portion of the Company's swap agreements that are effective hedges (which is 100 per cent), the fair value of the unused portion of the swap agreement is recognised in equity. Otherwise the fair value is recognised in net profit. A portion of the accumulated amounts in equity are recycled in the Income Statement as the interest on the borrowings becomes due and payable and the hedge is used. The amount recognised is accounted for as finance costs during the period along with the interest on the borrowings. The net amount receivable or payable under interest rate swap agreements is also recognised at this time and is included in 'other receivables' or 'other payables' at each balance date.

(m) Rounding of Amounts

The Group is of the kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Class Order, to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(n) Split Between Revenue and Capital in Other Comprehensive Income

'Capital' relates to realised or unrealised gains (and the tax thereon) on securities within the investment portfolio and excludes income in the form of distributions and dividends which are recorded as 'Revenue'. 'Capital' also includes movements in the fair value of the Group's swap contracts. All other items, including expenses, are recorded as net operating result, which is categorised under 'revenue'.

(o) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

2. Critical Accounting Estimates and Judgements

The preparation of Financial Reports in conformity with AIFRS requires the use of certain critical accounting estimates. This requires the Board and management to exercise their judgement in the process of applying the Group's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB112 *Income Taxes* deferred tax liabilities have been recognised for capital gains tax (CGT) or income tax on the unrealised gain in the investment portfolio at current tax rates. As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 15. In addition, the tax liability that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

3. Segment Reporting

(a) Description of Segments

The Board makes the strategic resource allocations for the Group. The Group has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board considers the business to have a single operating segment, being the entire portfolio of investments. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Group's performance is evaluated on an overall basis.

The Group invests in equity securities and other instruments to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

(b) Segment Information Provided to the Board

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

The Board considers the Group's net operating result after tax to be a key measure of the Group's performance. This amount excludes the impact of unrealised gains/losses on options and any gains or losses on the Group's investment portfolio and reconciles to the Group's profit before tax as follows:

	2014 $'000	2013 $'000
Net operating result after income tax	254,220	234,263
Add back income tax expense	5,873	3,311
Net gains on puttable instruments and non-equity investments	104	12,166
Profit before tax	260,197	249,740

In addition, the Investment Committee regularly reviews the net asset value per share both before and after provision for deferred tax on the unrealised gains in the Group's long term investment portfolio. Deferred tax is calculated as set out in Notes 1(d) and 2. The relevant amounts as at 30 June 2014 and 30 June 2013 were as follows:

	2014 $	2013 $
Net tangible asset backing per share		
Before tax	5.85	5.18
After tax	4.94	4.46

(c) Other Segment Information

Segment Revenue

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

The Company is domiciled in Australia and all of the Group's dividend and distribution income is from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group's investment in Westpac (11.6 per cent) and Commonwealth Bank (11 per cent) comprising more than 10 per cent of the Group's income (including trading portfolio) in 2014 (2013: Westpac: 12.3 per cent and Commonwealth Bank: 11.4 per cent).

4. Operating Result Before Income Tax Expense

		Consolidated	
		2014 $'000	2013 $'000
Dividends and distributions			
– securities in investment portfolio		274,925	246,399
– securities held in trading portfolio		622	3,645
		275,547	250,044
Interest income			
– income from cash investments		4,898	6,919
– interest on securities in investment portfolio		246	246
		5,144	7,165
Net gains on trading portfolio			
– net realised gains from trading portfolio	– shares	4,321	5,285
	– options	5,190	3,758
– unrealised gains from trading portfolio	– shares	-	1,189
	– options	330	71
		9,841	10,303
Administration fees		4,204	3,974
Other income		4	26
		4,208	4,000
Income from operating activities		294,740	271,512
Finance costs		(20,525)	(20,998)
Rental expense (excluding GST) relating to non-cancellable operating leases		(512)	(512)
Employee benefits expense		(8,323)	(7,671)
Depreciation charge		(130)	(130)
Other administration expenses		(5,157)	(4,627)
Operating result before income tax expense		260,093	237,574

Further information relating to remuneration of auditors is set out in Note 30, Directors and Executives in Note 27.

5. Tax Expense

	Consolidated 2014 $'000	2013 $'000
(a) Reconciliation of Income Tax Expense to Prima Facie Tax Payable		
Operating result before income tax expense	260,093	237,574
Tax at the Australian tax rate of 30 per cent (2013: 30 per cent)	78,028	71,272
Tax offset for franked dividends	(66,473)	(63,485)
Demerger dividends not taxable	(3,294)	-
Tax effect of other sundry items not taxable in calculating taxable income	76	(729)
	8,337	7,058
Over provision in prior years	(2,464)	(3,747)
Income tax expense on operating result	5,873	3,311
Net gains on investments	104	12,166
Tax at the Australian tax rate of 30 per cent (2013: 30 per cent)	31	3,650
Tax expense on net gains on investments	31	3,650
Total tax expense	5,904	6,961

(b) Tax Expense Composition

	2014 $'000	2013 $'000
Charge for tax payable relating to the current year	7,869	1,368
Over provision in prior years	(2,464)	(3,747)
Increase in deferred tax liabilities – puttable instruments	31	3,650
Decrease in deferred tax assets – other	468	5,690
	5,904	6,961

(c) Amounts Recognised Directly Through Other Comprehensive Income

	2014 $'000	2013 $'000
Increase in tax liabilities relating to capital gains tax on the fair value movement in the investment portfolio	200,411	263,455
	200,411	263,455

6. Current Assets and Liabilities – Cash

	Consolidated 2014 $'000	2013 $'000
Cash at bank and in hand	1,967	97
Fixed term deposits	67,117	256,343
	69,084	256,440

Cash holdings yielded an average floating interest rate of 3.5 per cent (2013: 4.3 per cent).

(a) Credit Risk Exposure

All cash investments not held in a transactional account are invested in short term deposits with Australia's big four commercial banks or their wholly-owned subsidiaries, all rated 'AA-' by S&P.

(b) Standby Arrangements and Credit Facilities

The Group was party to agreements under which Commonwealth Bank of Australia and Westpac Bank will extend a cash advance facility. $50 million is a 12 month facility that expires on 31 December 2014. Another $50 million is a one year facility that expires on 30 June 2015. A further $50 million is a three year facility that expires on 6 October 2014. The remaining $100 million are three year facilities expiring 30 June 2016.

	Consolidated 2014 $'000	Consolidated 2013 $'000
Commonwealth Bank of Australia – cash advance facility	165,000	165,000
Amount drawn down	100,000	95,000
Undrawn facilities	65,000	70,000
Westpac Bank – cash advance facility	85,000	85,000
Amount drawn down	0	5,000
Undrawn facilities	85,000	80,000
Total short term loan facilities	250,000	250,000
Total drawn down	100,000	100,000
Total 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.

7. Current Assets – Receivables

	Consolidated 2014 $'000	Consolidated 2013 $'000
Dividends and distributions receivable	46,172	42,363
Interest receivable/pre-paid	259	1,064
Outstanding settlements – investment portfolio	19,262	6,555
Outstanding settlements – trading portfolio	42	2,112
Other receivables/pre-payments	23	177
	65,758	52,271

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction. There are no receivables that are past due.

8. Current Liabilities – Trading Portfolio

	Consolidated 2014 $'000	Consolidated 2013 $'000
Listed securities at market value		
– shares and trust units	-	51,338
– options sold by the Group		
– calls	(1,943)	(1,294)
– puts	(37)	(25)
	(1,980)	50,019

Options Sold

The Group enters into option contracts in the trading portfolio as part of its trading activities to generate profits on premium income. Options are written over stock in a specific sub-component of the investment portfolio. Where the Group sells a call option it is obligated to deliver securities at an agreed price if the taker exercises the option. Whereas if the Group sells a put option it is obligated to buy the underlying shares at an agreed price if the taker exercises the option. Exchange Traded Options are valued using observable market data which is obtained from an independent third-party data provider.

As at balance date there were call options outstanding which potentially required the Group if they were exercised to deliver securities to the value of $79.9 million (2013: $42.7 million) held by the Group in a sub-component of its investment portfolio. There were also put options outstanding which potentially required the Company if they were exercised to purchase $1.95 million of securities (2013: $2.4 million). As at balance date the majority of these contracts were exchange-traded options and are entered into within the constraints and controls imposed by the Australian Securities Exchange. Dealing and administrative (including settlement) functions are separated. The total exposure position is determined daily. The Investment Committee meets regularly to consider, review and approve the transactions of the Group and related matters. $126.5 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2013: $108.3 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.

9. Non-current Assets – Fixtures and Fittings

	Consolidated	
	2014 $'000	2013 $'000
Opening balance	206	336
Additions	-	-
Depreciation charge	(130)	(130)
Book cost of furniture and fittings, plus leasehold expenses	76	206

10. Non-current Assets – Investment Portfolio

	Consolidated	
	2014 $'000	2013 $'000
Equity investments		
– equity instruments (excluding below) at market value	6,179,489	5,308,105
– securities over which options may be written	131,824	38,042
– hybrids	12,225	12,133
– convertible notes classified as debt	2,730	2,626
– puttable instruments	-	-
	6,326,268	5,360,906

For a detailed list of the fair value of the Company's investments valued at fair value through other comprehensive income see Note 37.

11. Current Liabilities – Payables

	Consolidated	
	2014 $'000	2013 $'000
Dividends payable	547	474
Outstanding settlements – investment portfolio	-	2,554
Outstanding settlements – trading portfolio	38	-
Directors' retirement benefits	223	567
Interest accrued/payable	5,083	5,594
Other payables	237	145
	6,128	9,334

Payables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

	Consolidated	
	2014 $'000	2013 $'000
Movement on amount payable for Directors' retirement benefits during the year:		
Opening balance	567	567
Amount paid during year	(344)	-
	223	567

12. Current Liabilities – Provisions

	Consolidated 2014 $'000	Consolidated 2013 $'000
Employee entitlements	2,598	2,553

13. Non-current Liabilities – Provisions

	2014 $'000	2013 $'000
Employee entitlements	1,704	1,310

14. Convertible Notes

	2014 $'000	2013 $'000
Non-current unsecured – convertible notes at amortised cost	203,779	219,544

There were 2,059,906 convertible notes outstanding at 30 June 2014 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 2014, the face value of the convertible notes on issue was $206 million (2013: $222.7 million). Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd.

As per Note 1(g), at issuance the residual value of the equity component of the convertible notes was calculated as nil.

15. Deferred Tax Liabilities – Investment Portfolio

	Consolidated 2014 $'000	Consolidated 2013 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	948,009	751,761
Refer Note 2 for further detail on the nature of the deferred tax liabilities on the investment portfolio		
Opening balance at 1 July	751,761	519,671
Charged to Income Statement for puttable instruments	31	3,650
Tax movement on realised gains or losses	(4,194)	(35,015)
Charged to OCI for equity instruments	200,411	263,455
	948,009	751,761

16. Deferred Tax Assets

	Consolidated 2014 $'000	Consolidated 2013 $'000
The Group's net deferred tax assets (DTA) arise from temporary differences in the recognition of items for taxation and accounting purposes, as described in Note 1 (d).The key components are:		
(a) The difference in the value of the trading portfolio for tax and accounting purposes/unrealised loss	(99)	256
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,375	1,532
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(412)	(456)
	864	1,332
Movements:		
Opening balance at 1 July	1,332	27,666
Credited/(charged) to Income Statement	(468)	(5,690)
Credited/(charged) through OCI	-	(20,644)
	864	1,332

Any deferred tax asset arising from provisions and expenses charged but not yet tax deductible will be obtained when the relevant items become tax deductible, provided that the Group derives sufficient assessable income to enable the benefit from the deductions to be taken in that year and there are no intervening changes in tax legislation adversely affecting the Group's ability to claim the tax deduction.

The portion of deferred tax liability likely to be reversed within the next 12 months is $0.5 million (2013: $0.2 million). This relates primarily to items described in items (a) and (c) above.

17. Shareholders' Equity – Share Capital

	Consolidated and Parent Entity		Consolidated and Parent Entity	
	2014 Shares '000	2014 $'000	2013 Shares '000	2013 $'000
(a) Share Capital				
Ordinary shares – fully paid	1,049,055	2,065,017	1,037,326	2,002,350
Less ELTIP shares adjustment	-	(81)	-	(222)
	1,049,055	2,064,936	1,037,326	2,002,128

There are no shares that have not been fully paid, all shares rank *pari passu* and have no par value.

(b) Movements in Share Capital of the Group During the Past Two Years were as Follows

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/07/2012	Balance		1,027,733		1,957,338
31/08/2012	Dividend Reinvestment Plan	i	6,386	4.36	27,844
22/02/2013	Dividend Reinvestment Plan	i	3,207	5.37	17,224
Various	Share issue costs		-		(56)
30/06/2013	Balance		1,037,326		2,002,350
30/08/2013	Dividend Reinvestment Plan	i	5,182	5.64	29,224
30/08/2013	Dividend Substitution Share Plan	ii	252	N/A	-
31/08/2013	Convertible note conversion	iv	2	5.09	12
4/10/2013	Cancellation of forfeited shares under ELTIP		(5)	N/A	(27)
21/02/2014	Dividend Reinvestment Plan	i	2,874	5.86	16,840
21/02/2014	Dividend Substitution Share Plan	ii	151	N/A	-
28/02/2014	Convertible note conversion	iv	3,273	5.09	16,648
Various	Share issue costs		-		(30)
			1,049,055		2,065,017

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

(ii) For the final dividend for the year ended 30 June 2013, and for future dividends, the Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forego a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

(iii) The Group introduced an on-market Buy-Back Program in December 2000. During the 2014 financial year the Group bought back no shares (2013: nil).

(iv) See Note 14. 166,605 February 2017 convertible notes were converted into shares during the year. (2013: nil).

(c) Movements in Executive Long Term Incentive Plan Shares Adjustment During the Past Two Years were as Follows ($)

2012–13 Award Date	Opening Balance	Acquired On-market	Expense Recognised	Cancelled	Residual Transferred	Closing Balance
August 2008	4,428	-	4,428	-	-	0
October 2009	64,295	-	51,434	-	-	12,861
August 2010	122,435	-	58,769	-	-	63,666
August 2011	215,857	-	70,008	-	-	145,849
Total for 2012–2013	407,015	-	184,639	-	-	222,376

2013–14 Award Date	Opening Balance	Acquired On-market	Expense Recognised	Cancelled	Residual Transferred	Closing Balance
October 2009	12,861	-	12,861	-	-	0
August 2010	63,666	-	58,768	-	-	4,898
August 2011	145,849	-	70,008	-	-	75,841
Total for 2013–2014	222,376	-	141,637	-	-	80,739

18. Capital Management

The Group's objectives in managing capital is to continue to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested, with goals of paying dividends which over time grow faster than the rate of inflation and providing attractive total returns over the medium to long term.

The Group recognises that its capital will fluctuate in accordance with market conditions, and may adjust the amount of dividends paid, issue new shares from time to time or buy-back its own shares or sell assets to reduce debt.

The Group's capital consists of its shareholders equity less the fair value of the interest rate swaps, plus any net borrowings. The change in this capital is as noted in Notes 6, 14, 17, 19, 20, 21, and 23.

19. Revaluation Reserve

	Consolidated	
	2014 $'000	2013 $'000
Opening balance at 1 July	**1,801,692**	1,231,372
Revaluation of investment portfolio – equity instruments	**665,894**	866,916
Revaluation of investment portfolio – puttable instruments	**104**	12,166
Transfer to realised capital gains reserve	**(14,195)**	(41,657)
Provision for tax on unrealised gains	**(200,442)**	(267,105)
	2,253,053	1,801,692

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy Note 1 (c)(ii).

20. Realised Capital Gains Reserve

	Consolidated	
	2014 $'000	2013 $'000
Opening balance at 1 July	**334,243**	292,586
Dividends paid	**(30,814)**	-
Cumulative taxable realised gains for period (net of tax)	**14,195**	41,657
	317,624	334,243

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in accounting policy Note 1 (c)(ii).

21. General Reserve

	Consolidated 2014 $'000	2013 $'000
Opening balance at 1 July	23,637	23,637
	23,637	23,637

This reserve relates to past profits or gains set aside by Directors. It reflects realised surpluses.

22. Interest Rate Swaps

	Consolidated 2014 $'000	2013 $'000
Opening balance on 1 July	(1,493)	(1,593)
Movement for the year (net of tax)	1,212	100
Fair value of interest rate swap agreements	(281)	(1,493)

The Company has entered into interest rate hedging contracts at a rate of 4.415 per cent and 4.1775 per cent with the Commonwealth Bank of Australia and Westpac Bank, under which the Company will pay a fixed interest rate on $100 million worth of short term borrowings, which have a floating interest rate. They have been designated as an effective hedge and any movements in their fair value will be shown as an adjustment against equity. These swaps commenced in August and September 2011 and have a three-year effective life. The reserve and the corresponding asset or liability are measured as the fair value of the interest rate swaps net of associated tax. They cover 100 per cent of the loan principal outstanding. During the year, a net amount of $1.6 million was paid to the counter-parties under these interest rate swaps (2013: $0.95 million paid). Expense paid or income earned under the current and previous swaps appear as part of 'finance costs' in the Income Statement.

It is currently anticipated that the swaps will be held to maturity and consequently that they will have no impact, under current Accounting Standards, on the Income Statement.

23. Retained Profits

	Consolidated 2014 $'000	2013 $'000
Opening balance at 1 July	465,701	447,886
Dividends paid	(195,522)	(216,335)
Statutory profit for the year	254,213	242,666
Transfer to revaluation reserve – puttable instruments (net of tax)	(73)	(8,516)
	524,319	465,701

This reserve relates to past profits.

24. Financial Instruments

(a) Financial Risk Management

Accounting Standards identify three types of risk associated with financial instruments (i.e. the Group's investments, receivables, payables and borrowings):

Credit Risk

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is managed as set out below with respect to cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue.

Cash

All cash investments not held in a transactional account are invested in short term deposits with Australia's big four commercial banks or their wholly-owned subsidiaries. The credit risk exposure of the Group in relation to cash and deposits is the carrying amount and any accrued unpaid interest.

Receivables

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

The credit risk exposure of the Group in relation to receivables is the carrying amount.

Trading and Investment Portfolios

Credit risk exposures of the Group arise in relation to converting and convertible notes and other interest-bearing securities that are not equity securities to the extent of their carrying values, in the event of a shortfall on winding-up of the issuing companies.

Liquidity Risk

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group monitors its cash flow requirements daily. Furthermore, the Investment Committee regularly monitors the level of contingent payments by reference to known sales and purchases of securities, dividends and distributions to be paid or received, put options that may require the Group to purchase securities and facilities that need to be repaid. The Group ensures that it has either cash or access to short term borrowing facilities sufficient to meet these contingent payments.

The relatively low level of gearing that the Group has ensures that covenant levels associated with facilities are very unlikely to be breached. In the unlikely event that a fall in the value of the stock market is such that a breach would appear possible, the Group would amend its cash flows through the sale of securities and the cessation of purchases to ensure that any short term debt is extinguished.

The Group's inward operating cash flows depend upon the level of dividends and distributions received. Should these drop by a material amount, the Group would amend its outward cash flows accordingly. As the Group's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is manageable by the Board and management. Furthermore, the assets of the Group are largely in the form of readily tradeable securities which can be sold on-market if necessary. The current financial liabilities are shown in Notes 6 and 11. The table below analyses the Group'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.

	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
30 June 2014					
Non-derivatives					
Payables	6,128	-	-	6,128	6,128
Borrowings	100,000	-	-	100,000	100,000
Convertible notes	-	-	205,991	205,991	203,779
	106,128	-	205,991	312,119	309,907
Derivatives					
Trading portfolio*	1,950	-	-	1,950	1,980
Interest rate swaps	264	-	-	264	281
	2,214	-	-	2,214	2,261
30 June 2013					
Non-derivatives					
Payables	9,334	-	-	9,334	9,334
Borrowings	100,000	-	-	100,000	100,000
Convertible notes	-	-	222,651	222,651	219,544
	109,334	-	222,651	331,985	328,878
Derivatives					
Interest rate swaps	743	743	263	1,749	1,493
	743	743	263	1,749	1,493

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

Market Risk

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

By its nature as a Listed Investment Group that invests in tradeable securities, the Group can never be free of market risk as it invests its capital in securities which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5 per cent and 10 per cent , if spread equally over all assets in the investment portfolio would lead to a reduction in the Group's other comprehensive income of $221.3 million and $442.6 million respectively, at a tax rate of 30 per cent (2013: $187.5 million and $375.1 million) and a reduction in profit after tax of $96,000 and $191,000 million respectively, at a tax rate of 30 per cent (2013: $92,000 and $184,000). A fall of 5 per cent and 10 per cent in the trading portfolio would lead to an increase in profit after tax of $69,000 and $139,000 respectively (2013: $1.8 million and $3.5 million fall). The revaluation reserve at 30 June 2014 was $2.3 billion (2013: $1.8 billion). It would require a fall in the value of the investment portfolio of 51 per cent after tax to fully deplete this (2013: 48 per cent).

The Group 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 regularly monitored by the Investment Committee, and risk can be managed by reducing exposure where necessary. The Group does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The Group's investment by sector is as below:

	2014 %	2013 %
Energy	9.34	8.41
Materials	17.46	17.75
Industrials	8.31	7.44
Consumer discretionary	1.10	0.68
Consumer staples	9.61	10.40
Banks	29.71	28.97
Other financials (including property trusts)	10.52	10.29
Telecommunications	4.83	4.56
Other – healthcare, information technology, utilities	8.04	6.98
Cash	1.08	4.52

Securities representing over 5 per cent of the combined investment and trading portfolio at 30 June were:

Commonwealth Bank	10.8	10.8
Westpac	9.8	9.7
BHP Billiton	8.1	8.7

No other security represents over 5 per cent of the Group's investment and trading portfolios.

In the trading portfolio, the writing of call options provides some protection against a fall in market prices of securities in the specific sub-category of the investment portfolio over which options have been written as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in this sub-category (or in the trading portfolio).

The Group is also not directly exposed to currency risk as all its investments are quoted in Australian dollars.

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings are short term for a fixed interest rate but it has entered into interest rate hedging contracts with the Commonwealth Bank of Australia and Westpac Bank, under which the Group will pay a fixed interest rate on $100 million worth of short term borrowings, $50 million of which commenced in August 2011 and $50 million which commenced in September 2011. This locked in a longer term fixed rate for a substantial proportion of the Group's debt and will expire respectively in August and September 2014. Should interest rates move to the extent that the Board feel that the swaps are uneconomical, they would be unwound and the cost of unwinding them would be reflected through the Income Statement. Interest rate risk on hybrid securities held by the Group is reflected in their market value. The hedge was fully effective for the year.

(b) Fair Value Measurements

Accounting standards require the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liabilities that are not based on observable market data (unobservable inputs) (level 3).

30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through other comprehensive income				
Investment portfolio (equities)	6,323,538	-	-	6,323,538
Financial assets/(liabilities) at fair value through profit or loss				
Trading portfolio	-	(1,980)	-	(1,980)
Investment portfolio (puttables and convertible notes classified as debt)	2,730	-	-	2,730
Derivatives used for hedging	-	(281)	-	(281)
Total	6,326,268	(2,261)	-	6,324,007

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value through other comprehensive income				
Investment portfolio (equities)	5,358,280	-	-	5,358,280
Financial assets/(liabilities) at fair value through profit or loss				
Trading portfolio	50,019	-	-	50,019
Investment portfolio (puttables and convertible notes classified as debt)	2,626	-	-	2,626
Derivatives used for hedging	-	(1,493)	-	(1,493)
Total	5,410,925	(1,493)	-	5,409,432

The fair value of financial instruments traded in active markets (including publicly traded derivatives) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. These instruments are included in level 2 and comprise cash flow hedges. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

(c) Numerical Disclosures – Investment Portfolio

The fair value of each investment held at fair value through other comprehensive income (investment portfolio) is disclosed in Note 37. Dividend income for the period on those investments held at period end was $273.2 million (2013 : $245.1 million). Dividend income on those investments sold during the period was $2.6 million (2013 : $4.3 million).

Certain securities within the investment portfolio were disposed of during the period, either during the normal course of the Company's activities as a listed investment company or as the result of takeovers or acquisitions. The fair value of the investments sold during this period was $163.6 million (2013 : $172.7 million). No puttable instruments were also sold during the period (2013 : $83.6 million). The cumulative gain on these disposals was $18.4 million for the period before tax (2013 : $36.8 million), which has been transferred from the revaluation reserve to the realisation reserve (refer to Statement of Changes in Equity).

The Group has two classes of investments in the investment portfolio – (i) assets that are able to be defined under AASB 9 as 'equity instruments', the fair value of which is valued through other comprehensive income and at 30 June 2014 was $6,324 million (30 June 2013: $5,358 million) and ii) puttable instruments and convertible notes that cannot be classified as equity instruments under AASB 9 and are consequently accounted for at fair value through profit or loss. The fair value of these at 30 June 2014 was $2.7 million (30 June 2013: $2.6 million).

25. Dividends

	2014 $'000	2013 $'000
(a) Dividends Paid During the Year		
Final dividend for the year ended 30 June 2013 of 14 cents fully franked at 30 per cent paid on 30 August 2013 (2013: 13 cents fully franked at 30 per cent paid on 31 August 2012).	143,800	133,605
Interim dividend for the year ended 30 June 2014 of 8 cents per share fully franked at 30 per cent , paid 21 February 2014 (2013: 8 cents fully franked at 30 per cent paid 22 February 2013)	82,536	82,730
	226,336	216,335
Dividends paid in cash or reinvested in shares under the Dividend Reinvestment Plan:		
Paid in cash	180,272	171,267
Reinvested in shares	46,064	45,068
	226,336	216,335

(b) Franking Credits

	2014 $'000	2013 $'000
Opening balance of franking account at 1 July	126,024	123,168
Franking credits on dividends received	95,833	91,408
Tax paid during the year	4,277	4,163
Franking credits paid on ordinary dividends paid	(97,001)	(92,715)
Franking credits deducted on DSSP Shares issued	(990)	-
Closing balance of franking account	128,143	126,024
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	28,167	25,216
Adjusted closing balance	156,310	151,240
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(62,943)	(62,240)
Net available	93,367	89,000
These franking account balances would allow the Group to frank additional dividend payments up to an amount of:	217,856	207,667

The Group's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the investment portfolio and the Group paying tax.

(c) New Zealand Imputation Account

	2014 $'000	2013 $'000
Opening balance	630	-
Imputation credits on dividends received	6,131	630
Imputation credits on dividends paid	-	-
Closing balance	6,761	630

Note: All figures in A$ at the year-end exchange rate of NZ$1.077: A$1.

	2014 $'000	2013 $'000

(d) Dividends Declared After Balance Date

	2014 $'000	2013 $'000
Since the end of the year Directors have declared a final dividend of 14 cents per share, fully franked at 30 per cent. The aggregate amount of the final dividend for the year to 30 June 2014 to be paid on 29 August 2014, but not recognised as a liability at the end of the financial year.	146,868	

(e) Listed Investment Company Capital Gain Account

	2014 $'000	2013 $'000
Balance of the listed investment company (LIC) capital gain account	10,254	38,164
This would equate to an attributable amount of:	14,649	54,520

Distributed LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the dividend statement. LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains or the receipt of LIC distributions from LIC securities held in the portfolios.

26. Earnings Per Share

	2014	2013
Basic earnings per share	Number	Number
Weighted average number of ordinary shares	1,044,013,116	1,034,158,957
	$'000	$'000
Profit for the year attributable to members	254,213	242,666
	Cents	Cents
Basic earnings per share	24.35	23.47
Basic net operating result per share	$'000	$'000
Net operating result before net gains on investment portfolio	254,220	234,263
	Cents	Cents
Basic net operating result per share	24.35	22.65

Diluted

	2014	2013
	Number	Number
Weighted average number of ordinary shares attributable to members of the Company	1,044,013,116	1,034,158,957
Weighted maximum number of potential shares as a result of possible conversion	42,677,765	43,773,809
	1,086,690,881	1,077,932,766
	$'000	$'000
Profit after tax for the year attributable to members of the Company	254,213	242,666
Interest and costs on convertible notes (after tax)	10,027	10,392
Adjusted profit after tax attributable to members of the Company	264,240	253,058
	Cents	Cents
Diluted earnings per share	24.32	23.48
	$'000	$'000
Net operating result after tax for the year	254,220	234,263
Interest and costs on convertible notes (after tax)	10,027	10,392
Adjusted net operating result after tax	264,247	244,655
	Cents	Cents
Diluted net operating result per share	24.32	22.70

27. Directors and Executives

The sub-totals of remuneration for the Directors and Executives of the Group are as follows:

	Short Term Benefits $	Other Long Term Benefits $	Post Employment Benefits $	Share-based Payments $	Total $
2014					
Non-Executive Directors	665,509	-	84,984	-	750,493
Executives	3,708,215	160,734	125,692	698,336	4,692,977
Total	4,373,724	160,734	210,676	698,336	5,443,470
2013					
Non-Executive Directors	676,975	-	43,025	-	720,000
Executives	3,573,202	190,110	116,470	545,153	4,424,935
Total	4,250,177	190,110	159,495	545,153	5,144,935

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group does not make loans to Directors or Executives.

During the current financial year the following numbers of AFIC shares were purchased by Executives as part of the Short Term Incentive Plan based on an assessment of performance:

	Number 2014	Number 2013
RE Barker	10,306	10,922
GN Driver	4,312	4,685
AJB Porter	5,312	5,855
SM Pordage	2,929	3,144
Shares purchased during the year	22,859	24,606

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

Award Date	Assessment Period	Balance at Start of the Year Number	Awarded During the Year Number	Vested During the Year Number	Lapsed During the Year Number	Balance at End of the Year Number
2014						
August 2008	August 2012 – August 2013	5,112	-	-	5,112	-
October 2009	October 13 – October 2014	39,502	-	39,502	-	-
August 2010	August 2014 – August 2015	48,700	-	-	-	48,700
August 2011	August 2015 – August 2016	66,845	-	-	-	66,845
Total		160,159	-	39,502	5,112	115,545

Award Date	Assessment Period	Balance at Start of the Year Number	Awarded During the Year Number	Vested During the Year Number	Lapsed During the Year Number	Balance at End of the Year Number
2013						
August 2008	August 2012 – August 2013	40,887	-	35,775	-	5,112
October 2009	October 2013 – October 2014	39,502	-	-	-	39,502
August 2010	August 2014 – August 15	48,700	-	-	-	48,700
August 2011	August 2015 – August 2016	66,845	-	-	-	66,845
Total		195,934	-	35,775	-	160,159

The maximum number of shares that may vest is as above. The minimum is nil.

Shareholdings

At balance date, shares issued by the Group and held directly, indirectly or beneficially by Non-Executive Directors and Executives of the Group, or by entities to which they were related were:

	Opening Balance	Changes During Year	Closing Balance	Subject to Vesting
2014				
TA Campbell	353,537	10,027	363,564	-
RE Barker	858,395	9,600	867,995	52,535
DR Argus	521,369	N/A	N/A	-
BB Teele	2,536,269	N/A	N/A	-
JC Hey	N/A	5,405	5,405	-
GR Liebelt	59,250	-	59,250	-
J Paterson	408,410	-	408,410	-
DA Peever	N/A	1,730	1,730	-
FD Ryan	86,767	-	86,767	-
CM Walter	150,738	5,851	156,589	-
PJ Williams	14,422	-	14,422	-
GN Driver	115,707	3,253	118,960	22,485
RM Freeman	127,157	620	127,777	-
SM Pordage	23,372	2,967	26,339	11,610
AJB Porter	132,342	3,949	136,291	28,915

	Opening Balance	Changes During Year	Closing Balance	Subject to Vesting
2013				
BB Teele	2,444,439	91,830	2,536,269	-
DR Argus	521,369	-	521,369	-
RE Barker	847,473	10,922	858,395	74,224
TA Campbell	342,374	11,163	353,537	-
GR Liebelt	25,000	34,250	59,250	-
J Paterson	383,410	25,000	408,410	-
FD Ryan	86,767	-	86,767	-
CM Walter	144,226	6,512	150,738	-
PJ Williams	14,422	-	14,422	-
GN Driver	193,259	(77,552)	115,707	31,617
RM Freeman	121,665	5,492	127,157	-
SM Pordage	20,228	3,144	23,372	12,998
AJB Porter	126,485	5,857	132,342	41,320

Holdings of 6.25 per cent 2017 Convertible Notes

	Opening Balance	Changes During Year	Closing Balance
2014			
RE Barker	250	-	250
BB Teele	2,000	N/A	N/A
CM Walter	6,262	-	6,262
J Paterson	4,500	-	4,500
GN Driver	250	-	250

	Opening Balance	Changes During Year	Closing Balance
2013			
BB Teele	2,000	-	2,000
RE Barker	250	-	250
CM Walter	4,262	2,000	6,262
J Paterson	-	4,500	4,500
GN Driver	250	-	250

Other Arrangements with Non-Executive Directors

Non-Executive Directors John Paterson, Fergus Ryan and Catherine Walter have rented office space and, in some cases, 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 during the year was:

	2014 $	2013 $
FD Ryan	**3,832**	15,320
CM Walter	**26,069**	25,569
J Paterson	**32,241**	31,706
	62,142	72,595

28. Employee Information

	2014 Number	2013 Number
Employee numbers		
Number of employees at balance date	**18**	17

29. Related Parties

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

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

	2014 $'000	2013 $'000
(a) Administration expenses charged for the year	**2,234**	2,221

30. Remuneration of Auditors

	Consolidated	
	2014 $	2013 $
During the year the auditor earned the following remuneration:		
PricewaterhouseCoopers		
Audit or review of financial reports	**177,770**	174,284
Non-audit services		
Taxation compliance services	**66,670**	60,995
Other assurance services #	**9,683**	9,493
Total non-audit services	**76,353**	70,488
Total remuneration	**254,123**	244,772

The other assurance service relates to work regarding the Group's compliance with its Australian Financial Services Licence obligations.

The Group's Audit Committee oversees the relationship with the Group's External Auditors. The Audit Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm to ensure they do not compromise independence. Other non-audit services would not normally be provided by the external audit firm. However, if for special reasons such services were to be proposed, the Audit Committee would review the proposal to also ensure they did not affect the independence of the external audit function. The Group also conforms to legal requirements regarding audit partner rotation every five years.

31. Reconciliation of Net Cash Flows from Operating Activities to Profit

	Consolidated 2014 $'000	Consolidated 2013 $'000
Profit for the year	254,293	242,779
– Fair value movement in puttable instruments	(73)	(8,516)
– Add back depreciation	130	130
– Net decrease in trading portfolio	51,999	57,830
– Dividends received as securities under DRP investments	(11,047)	(28,284)
– Decrease (increase) in current receivables	(13,487)	2,213
– Less increase (decrease) in receivables for investment portfolio	12,707	6,003
– Increase (decrease) in deferred tax liabilities	196,716	258,424
– Less (increase) decrease in deferred tax liability on investment portfolio	(196,248)	(232,090)
– Increase (decrease) in current payables	(3,206)	459
– Less decrease (increase) in payables for investment portfolio	2,554	(1,127)
– Less (increase) decrease in dividends payable	(73)	(77)
– Increase (decrease) in provision for tax payable	4,932	7,381
– Movement in ELTIP account	141	185
– Capital gains tax charge taken through equity	(4,194)	(35,015)
– Increase (decrease) in other provisions/non-cash items	(773)	1,130
Net cash flows from operating activities	294,371	271,425

32. Performance Bond

The Group's subsidiary, AICS, has under the terms of its Australian Financial Services Licence in place a performance bond to the sum of $20,000 underwritten by the Commonwealth Bank of Australia in favour of the Australian Securities and Investments Commission (ASIC), payable on demand to ASIC.

33. Contingencies

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

34. Lease Commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for four years with a further option, which has been exercised, of four years. Current Commitment relating to leases at balance date, for the current lease (including GST), is:

	Consolidated 2014 $'000	Consolidated 2014 $'000
Due within one year	563	563
Later than one year but less than five	563	1,187
Greater than five years	-	-
	1,126	1,750

35. Subsidiaries

The Consolidated Financial Statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy noted in Note 1 (b):

			Equity Holding	
Name of Entity	Country of Incorporation	Class of Shares	2014	2013
Australian Investment Company Services Limited	Australia	Ordinary	75%	75%

The investment in AICS is accounted for at cost in the individual financial statements of AFIC.

36. Share-based Payments

The Group has a number of share incentive arrangements, these are accounted for in accordance with Note 1 (h). 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) Short Term Incentive Plan

At the start of each financial year, the Remuneration Committee sets the target (cash) amount of remuneration that could be paid should all performance targets and measures be achieved. If all are achieved, 100 per cent of the remuneration will be awarded. If stretch levels of performance are achieved above target, then higher amounts may be paid. On the other hand there is no set minimum that will be paid regardless of performance.

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

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

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

Executives purchased 22,859 shares (2013: 24,606 shares) in the year (in relation to the prior year) with a fair value (being the acquisition price) of $131,877 (2013: $108,577).

(ii) Executive Long Term Incentive Plan

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

The performance shares 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 Note 27.

Under the new Senior Executive Long Term Incentive Plan, the amount awarded is represented by performance rights. 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 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 expense will be charged in accordance with AASB 2 directly through the Group's profit and loss account in the following manner – 25 per cent of the total estimated cost in Year 1, 50 per cent of the total estimated cost in Year 2 less the expense charged in Year 1, 75 per cent of the total estimated cost in Year 3 less the expense charged in Years 1 and 2 and 100 per cent of the total estimated cost in Year 4 less the expense charged in Years 1, 2 and 3.

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.

Under the plan 74,223 rights were awarded during the year ended 30 June 2014 (2013: 93,463). An expense of $299,884 (2013: $118,722) was incurred.

(iii) Investment Team Long Term Incentive Plan

Similar to the Short Term Executive Plan, 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.

Under this plan $415,657 vested in the period (2013: $469,500) and was paid in cash.

(b) Employee Share Scheme

Under the current Employee Share 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.

(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:

	Consolidated	
	2014 $'000	2013 $'000
Share-based payment expense	723	563

(d) Liability

The total liability arising from share-based payment transactions is disclosed in Notes 12 and 13.

37. Holdings of Securities at 30 June 2014

The securities listed below are those held in the investment portfolio that are valued at fair value through other comprehensive income. They do not include securities in the trading portfolio, puttable instruments or convertible notes classified as debt in the investment portfolio (which are held at 'fair value through profit or loss').

Individual holdings in the portfolio may change during the course of the year.

	2014 $'000	2013 $'000
AGL Energy	78,687	73,604
Amalgamated Holdings	7,231	6,409
ALS	42,762	41,372
Alumina	19,336	14,108
Amcor	134,173	128,004
AMP	106,532	87,552*
Australia & New Zealand Banking Group	282,980	242,579
Ansell	25,459	19,543
APA Group	80,222	69,743
AP Eagers	1,854	-
ARB Corporation	7,139	6,649
Asciano	15,820*	8,107
ASX Limited	19,587*	15,169
Auckland International Airport	4,259	-
Aurizon (formerly QR National)	14,840*	9,630
Bega Cheese	10,728	3,400
BHP Billiton	510,532*	449,248*
Blackmores	985	958
Boral	21,044	16,876
Bradken	22,800	25,860
Brambles	102,685	104,361
Brickworks	20,546	18,770
Buru Energy	4,433	3,507
Caltex Australia	14,128	6,408
Cedar Woods Properties	29,680	19,957
CFS Retail Property Trust	38,760	38,000
Coca-Cola Amatil	48,814	65,584
Commonwealth Bank of Australia	686,097	586,847
Computershare	101,791	83,766
CSL	66,707*	48,578
CSR	8,698	5,454
Diversified United Investment	43,309	36,091
Djerriwarrh Investments	40,490	36,535
DuluxGroup	14,467	10,563
Equity Trustees	30,556	12,048
Fisher & Paykel Healthcare	3,544	-
Fleetwood Corporation	-	3,197
Fletcher Building	9,122	7,823
Flight Centre Travel	5,820	-
GUD Holdings	-	7,487
GWA International	-	12,528

	2014 $'000	2013 $'000
iCar Asia	4,653	-
Iluka Resources	19,244	23,646
Incitec Pivot	64,407*	60,659
Insurance Australia Group	24,850*	18,225
Invocare	12,931	14,556
iProperty Group	13,733	-
Iress Market Technology	22,190	16,626
James Hardie	15,916	-
Japara Healthcare	14,100	-
Lifestyle Communities	4,268	-
Milton Corporation	65,389	53,003
Mirrabooka Investments	23,391	20,510
National Australia Bank	312,826*	277,272*
Oil Search	159,386	123,616*
Orica	52,822	55,995
Origin Energy	105,073*	85,917
Orora	18,331	-
Perpetual	48,853	21,768
Pulse Health Limited	2,144	-
QBE Insurance Group	84,743	107,268*
Qube Holdings	27,628	-
Ramsay Health Care	61,880	48,702
Ramsay Health CARES	12,225	12,133
Recall Holdings	10,682	-
ResMed	12,056*	-
Rio Tinto	216,585	193,115*
SAI Global	12,775	-
Santos	116,621*	100,826*
Scentre Group	36,598	-
Seek	16,563	4,535
Senex Energy Ltd	32,468	27,563
Soul Pattinson	25,201	-
Sonic Healthcare	31,627*	21,845
Suncorp Group	30,596*	20,650*
Sydney Airport	28,620	21,210
Telstra Corporation	287,045*	257,914*
Templeton Global Growth Fund	12,445	8,295
Toll Holdings	41,476	43,265
Tox Free Solutions	36,035	36,781
TPG Telecom	19,818	-
Transurban Group	146,287*	108,331
Treasury Wine Estates	16,320	12,661
Trust Company	-	12,554
Twenty-First Century Fox	17,101	-
Vocus Communications	2,218	-
Wesfarmers	316,027	247,419

	2014 $'000	2013 $'000
Wesfarmers PPS	-	56,481
Westfield Corp	30,335	-
Westfield Group	-	48,535
Westfield Retail	-	16,437
Westpac Banking Corporation	617,844	526,662
Woodside Petroleum	134,828	117,076*
Woolworths	222,370*	203,872
WorleyParsons	5,397	6,042
Total	6,323,538	5,358,280
Puttable instruments and convertible notes classified as debt	2,730	2,626
Total investment portfolio	6,326,268	5,360,906
Trading portfolio	(1,980)	50,019
Total investments	6,324,288	5,410,925

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

38. Parent Entity Financial Information

Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

	2014 $'000	2013 $'000
Balance sheet		
Current assets	128,376	351,445
Total assets	6,454,712	5,712,715
Current liabilities	121,636	117,702
Total liabilities	1,273,866	1,089,008
Shareholders' equity		
Issued capital	2,064,936	2,002,128
Reserves		
Revaluation reserve	2,253,053	1,801,692
Realised capital gains reserve	317,624	334,243
General reserve	23,637	23,637
Interest rate hedging reserve	(281)	(1,493)
Retained earnings	521,877	463,500
	3,115,910	2,621,579
Total shareholders' equity	5,180,846	4,623,707
Profit or loss for the year	253,973	242,327
Total comprehensive income	720,668	845,888

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 55 to 88 are in accordance with the *Corporations Act 2001* including:

   (a) complying with the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   (b) giving a true and fair view of the entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

(2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and the Chief Financial Officer regarding the financial statements in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014. The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer to the best of their knowledge, the financial records of the Company have been properly maintained, that the financial statements comply with accounting standards and that they give a true and fair view.

Terrence Campbell AO
Chairman

Melbourne
21 July 2014

INDEPENDENT AUDIT REPORT

pwc

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 balance sheet as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 1, 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Auditor's opinion

In our opinion:

1. 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 2014 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
21 July 2014

INFORMATION ABOUT SHAREHOLDERS AND NOTEHOLDERS

At 18 July 2014 there were 103,414 holdings of ordinary shares and 4,373 holders of February 2017 6.25 per cent unsecured convertible notes. These holdings were distributed in the following categories:

Size of Holding			Shareholdings	Noteholdings
1	to	1,000	25,976	4,082
1,001	to	5,000	36,007	252
5,001	to	10,000	17,851	31
10,001	to	100,000	22,620	8
100,000 and over			960	0
Total			103,414	4,373

Percentage held by the 20 largest holders	5.57%	12.44%
Average share or noteholding	10,144	471

There were 2,356 shareholdings of less than a marketable parcel of $500 (81 shares).

There was one noteholding of less than a marketable parcel of $500 (five notes).

Voting Rights of Ordinary Shares

The Constitution provides for votes to be cast:

(i) on a show of hands, one vote for each shareholder; and

(ii) on a poll, one vote for each fully paid ordinary share.

Voting Rights of Convertible Notes

Noteholders have certain rights to vote at meetings of noteholders but are not entitled to vote at general meetings, unless provided for by the ASX Listing Rules or the Corporations Act.

Major Shareholders

The 20 largest registered holdings of ordinary shares and unsecured convertible notes as at 18 July 2014 are listed below:

Ordinary Shares	Shares Held	%
Questor Financial Services Limited <TPS RF A/C>	6,334,209	0.60
Bougainville Copper Limited	4,757,570	0.45
National Nominees Limited	4,439,273	0.42
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	4,413,021	0.42
Navigator Australia Ltd <MLC Investment Sett A/C>	3,854,337	0.37
Trustees of The Redemptorist Fathers	2,878,000	0.27
HSBC Custody Nominees (Australia) Limited	2,877,282	0.27
Investment Custodial Services Limited <C A/C>	2,653,994	0.25
Invia Custodian Pty Limited <RISF A/C>	2,647,583	0.25
Citicorp Nominees Pty Limited	2,612,154	0.25
Bruce Teele	2,586,365	0.25
Custodial Services Limited <Beneficiaries Holding A/C>	2,470,785	0.24
Bushways Pty Ltd	2,420,841	0.23
Investment Custodial Services Limited <C A/C>	2,384,780	0.23
New Zealand Central Securities Depository Limited	2,339,153	0.22
Netwealth Investments Limited <Wrap Services A/C>	1,908,456	0.18
Kalymna Pty Ltd	1,852,186	0.18
CBH Superannuation Holdings Pty Ltd	1,775,000	0.17
UBS Wealth Management Australia Nominees Pty Ltd	1,641,721	0.16
Questor Financial Services Limited <TPS PIP A/C>	1,596,657	0.15

Unsecured Convertible Notes – (February 2017, 6.25%)	Notes Held	%
UBS Nominees Pty Ltd	30,435	1.48
Custodial Services Limited <Beneficiaries Holding A/C>	22,920	1.11
HSBC Custody Nominees (Australia) Limited	20,390	0.99
Netwealth Investments Limited <Super Services A/C>	16,751	0.81
Questor Financial Services Limited <TPS RF A/C>	16,460	0.80
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	14,700	0.71
Netwealth Investments Limited <Wrap Services A/C>	14,127	0.69
The Beach Retreat Pty Ltd <Rob Noble Super Fund A/C>	12,370	0.60
Invia Custodian Pty Limited <RISF A/C>	10,000	0.49
Wintol Pty Ltd <G & P Burg Super Fund A/C>	10,000	0.49
The Wyatt Benevolent Institution Inc	10,000	0.49
Company B Ltd	9,831	0.48
Jeffrey Feuerheerdt Pty Ltd <JWF Family Super A/C>	9,642	0.47
HSBC Custody Nominees (Australia) Limited – A/C 2	8,800	0.43
National Nominees Limited	8,786	0.43
Mr Abraham Yahalom + Mrs Channa Hanna Yahalom <Yahalom Super Fund A/C>	8,736	0.42
Nabe Pty Ltd <The Glass A/C>	8,500	0.41
Hedgewick Pty Ltd	8,000	0.39
Pamtol Pty Ltd <Sundberg Family A/C>	8,000	0.39
Sandhurst Trustees Ltd <LMA A/C>	7,896	0.38

HOLDINGS OF SECURITIES
At 30 June 2014

Individual investments for the combined Investment and trading portfolios as at 30 June 2014 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
AGK	AGL Energy	5,083	5,083	78,687
AHD	Amalgamated Holdings	775	775	7,231
AIA	Auckland International Airport	0	1,170	4,259
AIO*	Asciano	1,615	2,810	15,637
ALQ	ALS	4,319	4,826	42,762
AMC	Amcor	12,624	12,864	134,173
AMP	AMP	20,644	20,100	106,532
ANN	Ansell	1,109	1,284	25,459
ANZ	Australia & New Zealand Banking Group	8,516	8,488	282,980
APA	APA Group	11,643	11,643	80,222
APE	AP Eagers	0	325	1,854
ARP	ARB Corporation	583	583	7,139
ASX*	ASX	459	550	19,569
AWC	Alumina	14,323	14,323	19,336
AZJ*	Aurizon Holdings	2,315	2,980	14,747
BGA	Bega Cheese	1,318	2,203	10,728
BHP*	BHP Billiton	15,052	14,221	510,504
BKL	Blackmores	36	36	985
BKN	Bradken	6,000	6,000	22,800
BKW	Brickworks	1,478	1,503	20,546
BLD	Boral	4,008	4,008	21,045
BRU	Buru Energy	2,875	3,994	4,433
BXB	Brambles	11,174	11,174	102,685
CBA	Commonwealth Bank of Australia	8,483	8,483	686,097
CCL	Coca-Cola Amatil	5,160	5,160	48,814
CFX	CFS Retail Property Trust	19,000	19,000	38,760
CPU	Computershare	8,156	8,156	101,791
CSL*	CSL	789	1,002	66,642
CSR	CSR	2,446	2,492	8,698
CTX	Caltex Australia	355	655	14,128
CWP	Cedar Woods Properties	3,860	4,060	29,680
DJW	Djerriwarrh Investments	8,597	8,597	40,490

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
DLX	DuluxGroup	2,509	2,556	14,467
DUI	Diversified United Investment	12,030	12,030	43,309
EQT	Equity Trustees	809	1,456	30,556
FBU	Fletcher Building	1,096	1,115	9,122
FLT	Flight Centre Travel Group	0	131	5,820
FOX	Twenty-First Century Fox	0	459	17,101
FPH	Fisher & Paykel Healthcare	0	800	3,544
IAG*	Insurance Australia Group	3,350	4,255	24,764
ICQ	iCar Asia	0	2,855	4,653
ILU	Iluka Resources	2,367	2,367	19,244
IPL*	Incitec Pivot	21,209	22,209	64,217
IPP	iProperty Group	0	4,488	13,733
IRE	IRESS	2,217	2,709	22,190
IVC	InvoCare	1,279	1,279	12,931
JHC	Japara Healthcare	0	6,000	14,100
JHX	James Hardie Industries	0	1,150	15,916
LIC	Lifestyle Communities	0	2,659	4,269
MIR	Mirrabooka Investments	8,728	8,728	23,391
MLT	Milton Corporation	2,881	14,403	65,389
NAB*	National Australia Bank	9,608	9,543	312,768
ORA	Orora	0	12,864	18,331
ORG*	Origin Energy	6,835	7,187	105,030
ORI	Orica	2,933	2,712	52,822
OSH	Oil Search	16,605	16,483	159,386
PHG	Pulse Health	0	3,933	2,144
PPT	Perpetual	615	1,031	48,853
QBE	QBE Insurance Group	7,641	7,796	84,743
QUB	Qube Holdings	0	12,118	27,628
REC	Recall Holdings	0	2,235	10,682
RHC	Ramsay Health Care	1,360	1,360	61,880
RIO	Rio Tinto	3,693	3,652	216,585
RMD*	ResMed	0	2,200	12,032
SAI	SAI Global	0	2,500	12,775
SCG	Scentre Group	0	11,437	36,598
SEK	Seek	500	1,045	16,563
SHL*	Sonic Healthcare	1,475	1,825	31,491
SOL	Washington H Soul Pattinson	0	1,709	25,201
STO*	Santos	8,142	8,178	116,463
SUN*	Suncorp Group	1,732	2,260	30,286

HOLDINGS OF SECURITIES continued

At 30 June 2014

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
SXY	Senex Energy	46,717	46,717	32,469
SYD	Sydney Airport	6,275	6,782	28,620
TCL*	Transurban Group	16,025	19,795	145,962
TGG	Templeton Global Growth Fund	7,900	9,685	12,445
TLS*	Telstra Corporation	54,220	55,095	286,797
TOL	Toll Holdings	8,133	8,133	41,476
TOX	Tox Free Solutions	10,661	10,661	36,035
TPM	TPG Telecom	0	3,597	19,818
TWE	Treasury Wine Estates	2,176	3,258	16,320
VOC	Vocus Communications	0	466	2,217
WBC	Westpac Banking Corporation	18,236	18,236	617,844
WES	Wesfarmers	6,247	7,553	316,027
WFD	Westfield Corporation	0	4,243	30,334
WOR	WorleyParsons	310	310	5,397
WOW*	Woolworths	6,214	6,314	222,354
WPL	Woodside Petroleum	3,344	3,283	134,828
Total				6,309,333

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

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
PPCG	Peet 9.5 per cent convertible notes	26	26	2,730
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	115	12,225
Total				14,955

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
Wesfarmers [a]	57,675
Transurban	28,508
Qube Holdings [e]	26,056
Washington H Soul Pattinson & Company [e]	23,317
Perpetual [b]	18,383
James Hardie Industries [e]	17,003
TPG Telecom [e]	16,781
Twenty-First Century Fox [e]	16,005
CSL	14,512
Telstra Corporation	12,622
Japara Healthcare [e]	12,440
ResMed [e]	12,072
Equity Trustees	11,016
SAI Global [e]	10,548

New Holdings as a Result of Demergers (Above $10 Million)	Cost $'000
Scentre Group [c]	38,229
Westfield Corporation [c]	29,736
Orora [d]	15,697

Disposals (Above $10 Million)	Proceeds $'000
Wesfarmers PPS [a]	57,675
Westfield Group [c]	45,990
BHP Billiton (from the buy and write portfolio)	29,503
Westfield Retail Trust [c]	21,976
Trust Company [b]	18,383
GWA Group [f]	14,108

(a) Conversion of WES Partially Protected Securities (WESN) to WES Ordinary Shares.
(b) Takeover of Trust Company by Perpetual.
(c) Westfield restructure.
(d) Demerger from Amcor.
(e) New stocks in the portfolio.
(f) Complete disposal from portfolio.

SUB-UNDERWRITING

During the year the Company did not participate as a sub-underwriter of issues of securities.

SUBSTANTIAL SHAREHOLDERS

The Company has not been notified of any substantial shareholders.

TRANSACTIONS IN SECURITIES

During the year ended 30 June 2014, the Company recorded 966 transactions in securities. $1,179,466 in brokerage (including GST) was paid or accrued for the year.

ISSUES OF SECURITIES

Date of Issue	Type	Price	Remarks
21 February 2014	DRP/DSSP	$5.86	2.5 per cent discount
30 August 2013	DRP/DSSP	$5.64	2.5 per cent discount. DSSP: Dividend Substitution Share Plan
22 February 2013	DRP	$5.37	
31 August 2012	DRP	$4.36	
24 February 2012	DRP	$4.26	
19 December 2011	Convertible notes	$100 face value	Mature 28 February 2017. Interest rate 6.25 per cent per annum. Conversion price: $5.0864
31 August 2011	DRP	$4.18	
25 February 2011	DRP	$4.72	2.5 per cent discount
1 September 2010	DRP	$4.65	2.5 per cent discount
2 June 2010	SPP	$4.62	2.5 per cent discount. SPP = Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 rights issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

* Note for issues of securities in earlier years please consult the Company's website, www.afi.com.au or via telephone (03) 9650 9911.

COMPANY PARTICULARS

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

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

Company Secretaries
Simon M Pordage
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office
Level 21, 101 Collins Street
Melbourne Victoria 3000

Mailing Address
Mail Box 146
101 Collins Street
Melbourne Victoria 3000

Contact Details

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

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

Telephone 1800 780 784 (toll free)

Share Registrar
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	www.investorcentre.com.au/contact

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

Australian and New Zealand Securities Exchange Codes

AFI	Ordinary shares (ASX and NZX)
AFIG	Unsecured convertible notes (ASX)

Annual General Meeting

Time	10.00am
Date	Wednesday 8 October 2014
Venue	RACV City Club
Location	501 Bourke Street Melbourne

Brisbane Shareholder Meeting

Time	10.00am
Date	Friday 10 October 2014
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

Adelaide Shareholder Meeting

Time	10.00am
Date	Monday 13 October 2014
Venue	Adelaide Festival Centre
Location	King William Road Adelaide

Sydney Shareholder Meeting

Time	10.00am
Date	Monday 20 October 2014
Venue	Four Seasons Hotel
Location	199 George Street Sydney

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Design: MDM Investor Connect
Printed on environmentally friendly paper.

Annual Review 2014

EXPERIENCE
INCOME
GROWTH

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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.

CONTENTS

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

YEAR IN SUMMARY

PROFIT FOR THE YEAR

$254.3m

▲ Up 4.7% from 2013

TOTAL SHAREHOLDER RETURN

+17.9%

Share price plus dividend

NET OPERATING RESULT

$254.2m

▲ Up 8.5% from 2013

MANAGEMENT EXPENSE RATIO

0.17%

0.18% in 2013

FULLY FRANKED DIVIDENDS

14¢ Final

22¢ Total

■ Same as 2013

TOTAL PORTFOLIO

$6.4b Including cash at 30 June

$5.7 billion in 2013

TOTAL PORTFOLIO RETURN

+17.3%

S&P/ASX 200 Accumulation Index +17.4%

REVIEW OF OPERATIONS AND ACTIVITIES

Profit

Profit for the year increased 4.7 per cent to $254.3 million from $242.8 million last year. The net operating result which measures the underlying income generated by the portfolio was $254.2 million, up 8.5 per cent from the previous year's result of $234.3 million. Income from investments which consists primarily of franked dividend income was up 10.2 per cent over the year. This increase included one off dividends received of $11 million from Amcor and Brambles as part of the demerger of Orora and Recall respectively.

The trading portfolio contributed $9.8 million compared to $10.3 million last year. Whilst there were less realised and unrealised gains in the trading portfolio this year, option income was up as more buy and write activity was undertaken into the rising market as part of a strategy to add further income into the portfolio. The buy and write portfolio at $132 million is very small relative to the total portfolio.

Earnings per share based on the net operating result were 24.4 cents per share compared with 22.7 cents per share last year.

Dividends

The Company has maintained its final dividend at 14 cents per share fully franked bringing total dividends for the year to 22 cents per share fully franked, the same as last year. The Board notes the increase in earnings provides scope to increase the dividend. It is the Board's current intention to apply a 1 cent increase to the interim dividend to be paid in February 2015 to adjust the disparity between the interim and final dividends.

Market and Portfolio Performance

The market remained buoyant over the year. AFIC's portfolio return for the 12 months to 30 June 2014 was 17.3 per cent compared with the S&P ASX 200 Accumulation Index of 17.4 per cent. These returns built further on last year's strong performance which delivered returns in excess of 20 per cent. Consistent with its approach as a long term investor, the 10 year return for AFIC was 9.8 per cent per annum versus the index return of 9 per cent per annum. AFIC's performance numbers are after expenses and tax paid.

Figure 1: Comparative changes in sector returns – % change

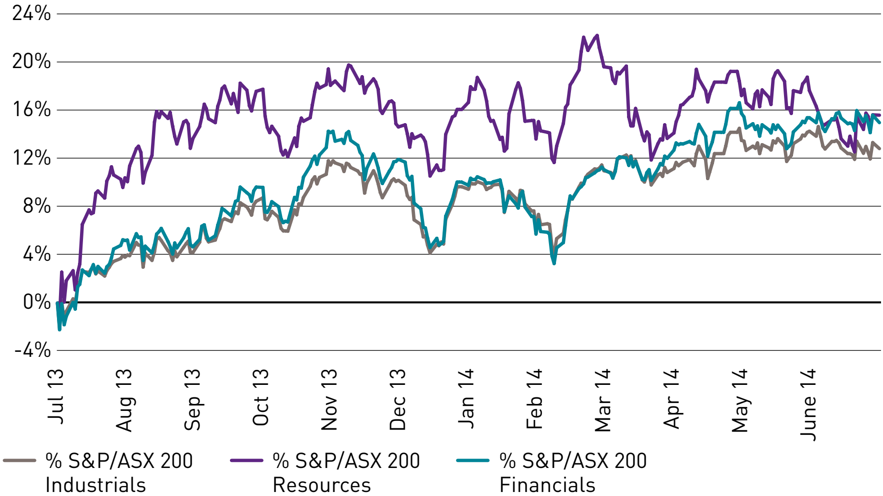
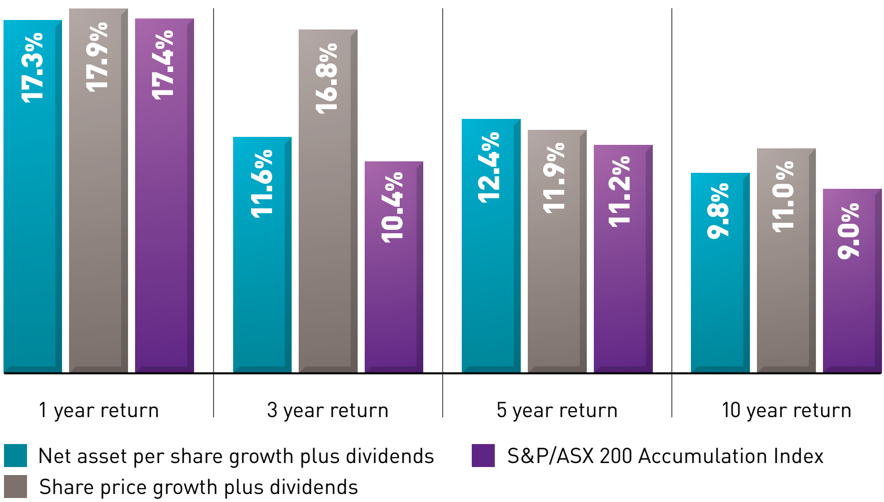


Figure 2: Portfolio and share price performance to 30 June 2014



REVIEW OF OPERATIONS AND ACTIVITIES
continued

All of the major sectors of the market delivered very good returns with the resources sector pulling back slightly after a strong start to the financial year.

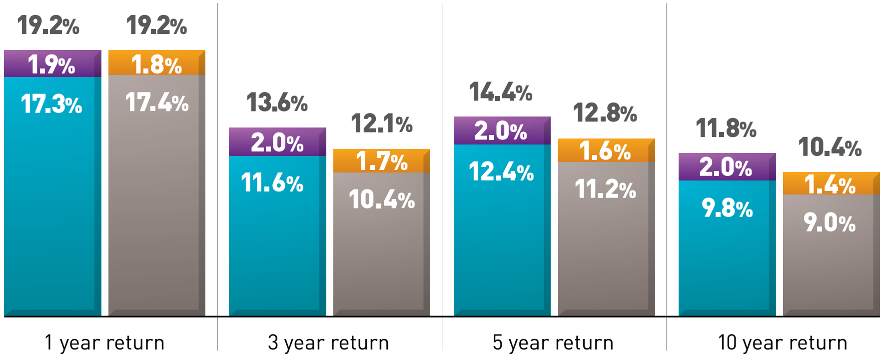
Given continued low interest rates in Australia, companies with high dividend yield remained in demand. The local market was driven largely by the performance of the major banks, Telstra and the major resource companies, BHP Billiton and Rio Tinto. The most significant contributors to AFIC's portfolio performance over the year were these companies as well as Oil Search, Wesfarmers and Woodside Petroleum. Holdings with the biggest negative impact in AFIC's portfolio performance were QBE Insurance and Coca-Cola Amatil.

The share price performed well over the year as it traded at a premium to the net asset backing (before tax on unrealised gains). Shareholder numbers continued to rise with a 6.7 per cent increase over the year. Our view is that this increase is a product of the growth in self-managed superannuation sector as well as the changing regulatory environment for financial advisors, which makes low cost investment vehicles such as AFIC, an attractive alternative to managed funds.

Importantly, the share price over the long term has also performed well with this return aligned to the long term portfolio return.

The generation of fully franked income is one of the key aspects of AFIC's investment approach. Figure 3 highlights the additional benefits franking credits can make to portfolio returns. The chart assumes an investor can fully utilise the distributed franking credits and these have been added to the AFIC portfolio and index returns. This adds approximately another 0.6 per cent per annum over the long term to investor returns when compared with the overall market.

Figure 3: Portfolio performance percentage per year periods ended 30 June 2014 – including the benefit of franking credits



- Net asset per share growth plus dividends
- Franking credit grossed up return from dividends in AFIC's net asset per share growth
- S&P/ASX 200 Accumulation Index
- Franking credit grossed up return from dividends in the S&P/ASX 200 Accumulation Index

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 and tax.

REVIEW OF OPERATIONS AND ACTIVITIES
continued

Figure 4 is one we have been communicating for some time to shareholders. It shows the share price return of the Australian All Ordinaries Price Index market since 1936. The long term compound average return over this period is approximately 6.7 per cent per annum in price terms (that is excluding dividends). It also shows that during different stages of market cycles it can sometimes trade well outside expected return parameters. At present, whilst the market has moved back toward the long term average, with its rise over the past two years, it is still trading below this level.

In comparison, the United States market (Figure 5) has moved very strongly above the long term trend line to reach a record high, although it has not reached the upper limit of the trend range as it did prior to the global financial crisis.

Whilst it is always difficult to directly compare markets, it does suggest some caution about the United States, with any adjustment there likely to impact sentiment in Australia.

Investment Portfolio Activity

New additions to the portfolio included Qube Holdings, Washington H Soul Pattinson, James Hardie Industries, TPG Telecom, Twenty-First Century Fox, Japara Healthcare and ResMed.

The addition of new holdings is part of the strategy to add some smaller companies to the portfolio given larger companies are becoming more dominant in the portfolio. This concentration is somewhat reflective of the trend that is happening in the broader Australian market, particularly as companies are taken over and merged with others. Smaller companies quite often have the ability to grow over the long term and are often in attractive segments of the economy.

Figure 4: All ordinaries price index – long term performance

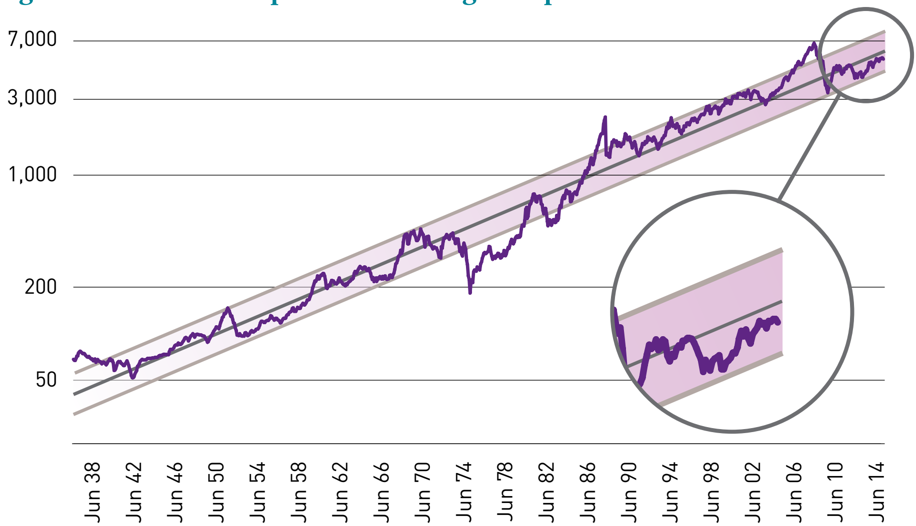
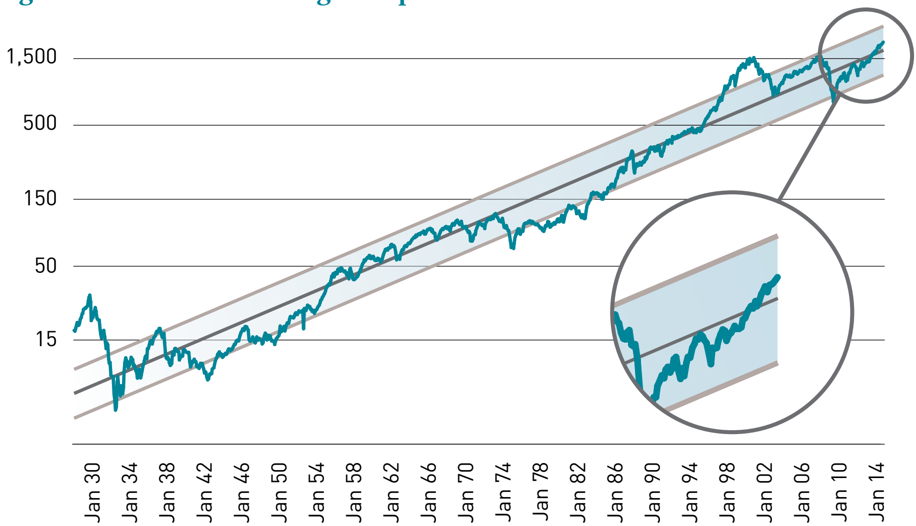


Figure 5: US S&P 500 – long term performance



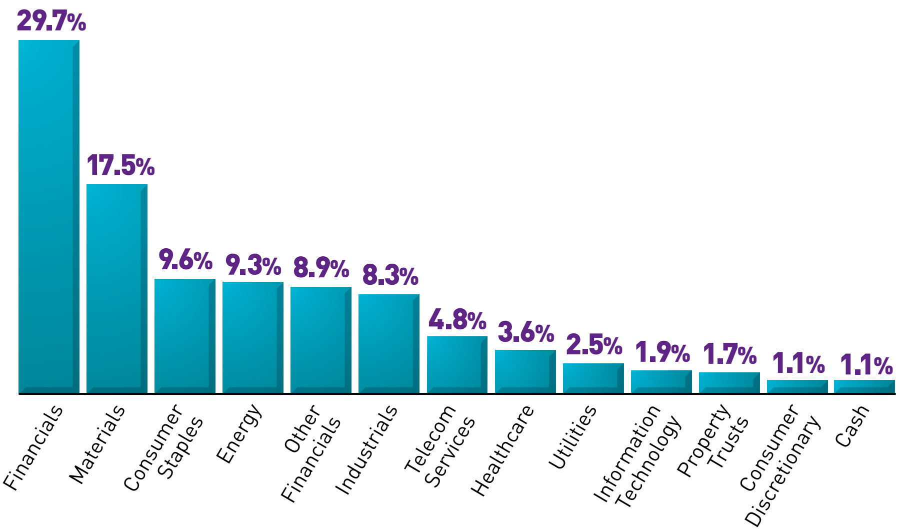
Note: A semi log scale has been used in Figure 4 and 5 to better show a comparison of the relative size of the percentage changes over the period.

Details of the new stocks added to the portfolio during year, which have not been previously reported to shareholders at the half year, are:

- Japara Healthcare is one of Australia's largest enterprises in the aged care and retirement industry. It owns and operates 35 aged care facilities and four retirement complexes throughout Victoria, South Australia, New South Wales and Tasmania.
- Qube Holdings is an integrated provider of import and export logistics services with national operations that provide a broad range of services. Qube operates across three divisions, covering Automotive, Bulk and General Stevedoring, Landside Logistics and Strategic Development Assets.
- SAI Global provides organisations globally with information services and solutions for managing risk, achieving compliance and driving business improvement. SAI's business is supported by the increasing need to meet regulations, standards and legislation in all their locations. The company is currently subject to a takeover bid by Pacific Equity Partners and has reportedly also been approached by a number of other interested parties.

Major additions to existing holdings were Transurban, CSL, Telstra and Equity Trustees (primarily through their rights issue). There were also a number of corporate actions through the year that resulted in changes to the portfolio.

Figure 6: AFIC investment by sector as at 30 June 2014



Major sales were some BHP Billiton, from the Company's buy and write portfolio and the complete disposal of GWA Group.

Overall purchases for the year totalled $519.8 million with sales totalling $254.3 million.

Figure 6 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year. In comparison to last year there has been an increase in the portfolio weighting toward Energy, Financials, Industrials and Healthcare sectors. The biggest reduction was the fall in the holding of cash, which went from 4.5 per cent of the portfolio at the beginning of the year to 1.1 per cent at year end. There were 88 companies in the portfolio at 30 June 2014, whereas at the end of last year there were 74.

Outlook

We have had two strong years in the equity markets particularly in the United States and Australia. This is reflected in the AFIC portfolio total return which was up 24.4 per cent in the 2012–13 year and then 17.3 per cent in the year just passed. History would suggest that following years of higher than normal returns, there can be a period of consolidation or correction.

One of the main drivers of the market's performance has been very low interest rates in Australia and in most developed economies and reinforced by the quantitative easing programs in the United States, Japan and Europe. Current expectations are that interest rates will stay at this very low level for some time to come. We think interest rates are unlikely to rise until there is a return to stronger economic growth including improved employment conditions and central banks move from seeing deflation as the most important challenge to an outlook where higher inflation becomes the key focus of monetary policy.

The market's resilience in recent years has also been the outcome of the large quantum of investor cash looking for satisfactory returns. This has provided a buffer for markets. If there has been a prospect of a significant fall there seems to have been sufficient investors willing to take the risk and invest further. As a result, market volatility is currently very low. This implies that investors are not expecting any of the economic or geopolitical risks to prompt a major market setback.

REVIEW OF OPERATIONS AND ACTIVITIES
continued

Another feature of the current market is that few listed companies have been raising new funds for capital investment within their businesses because of the lack of a satisfactory return. This may well cause them to look for merger and acquisition opportunities. Within Australia, there is also the likelihood that both state and federal governments will privatise existing assets to raise capital for new infrastructure projects or to reduce debt. The buoyant markets have also facilitated an active initial public offering (IPO) market encouraging many new companies to list.

As a long term investor with a stable capital structure, we are able tap the opportunities presented by the cycles in markets. With the funds raised from the Share Purchase Plan, we should be well placed to take advantage of any market pull back, should that occur, and to take up the other investments which may come to the market, as indicated above, if they are attractively priced.

Share Purchase Plan

A Share Purchase Plan (SPP) for shareholders has been initiated and is due to close on 25 September 2014. Details of the SPP have been sent separately to shareholders. These should be read before participating in the SPP.

The SPP issue price will be the lower of the Dividend Reinvestment Plan price for the 2014 final dividend or a 2.5 per cent discount to the volume weighted average price of AFIC shares traded on the Australian Securities Exchange and Chi-X Australia automated trading systems over the five trading days up to, and including, the day on which the SPP offer is scheduled to close, rounded down to the nearest cent.

TOP 25 INVESTMENTS
As at 30 June 2014

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 June 2014

		Total Value $ Million	% of Portfolio
1	Commonwealth Bank of Australia	686.1	10.8
2	Westpac Banking Corporation	617.8	9.8
3	BHP Billiton*	510.5	8.1
4	Wesfarmers	316.0	5.0
5	National Australia Bank*	312.8	4.9
6	Telstra Corporation*	286.8	4.5
7	Australia & New Zealand Banking Group	283.0	4.5
8	Woolworths*	222.4	3.5
9	Rio Tinto	216.6	3.4
10	Oil Search	159.4	2.5
11	Transurban Group*	146.0	2.3
12	Woodside Petroleum	134.8	2.1
13	Amcor	134.2	2.1
14	Santos*	116.5	1.8
15	AMP	106.5	1.7
16	Origin Energy*	105.0	1.7
17	Brambles	102.7	1.6
18	Computershare	101.8	1.6
19	QBE Insurance Group	84.7	1.3
20	APA Group	80.2	1.3
21	AGL Energy	78.7	1.2
22	CSL*	66.6	1.1
23	Milton Corporation	65.4	1.0
24	Incitec Pivot*	64.2	1.0
25	Ramsay Health Care	61.9	1.0
Total		5,060.6	
As a percentage of total portfolio value (excludes cash)			80.0%

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

INCOME STATEMENT
For the year ended 30 June 2014

	2014 $'000	2013 $'000
Dividends and distributions	**275,793**	250,290
Revenue from deposits and bank bills	**4,898**	6,919
Other revenue	**-**	24
Net gains on trading portfolio (including unrealised gains)	**9,841**	10,303
Total income	**290,532**	267,536
Finance costs	**(20,525)**	(20,998)
Administration expenses (net of recoveries)	**(9,914)**	(8,964)
Operating result before income tax	**260,093**	237,574
Income tax	**(5,873)**	(3,311)
Net operating result	**254,220**	234,263
Net gains on puttable instruments and non-equity investments*	**104**	12,166
Tax expense on above	**(31)**	(3,650)
	73	8,516
Profit for the year	**254,293**	242,779

	Cents	Cents
Net operating result per share	**24.35**	22.65
Profit for the year per share	**24.35**	23.47

* Consists of investments in Hastings Diversified Utilities Fund (sold during the year ended 30 June 2013) and Peet convertible notes.

BALANCE SHEET
As at 30 June 2014

	2014 $'000	2013 $'000
Current assets		
Cash	69,084	256,440
Receivables	65,758	52,271
Trading portfolio	-	50,019
Total current assets	134,842	358,730
Non-current assets		
Fixtures and fittings	76	206
Investment portfolio	6,326,268	5,360,906
Deferred tax assets	864	1,332
Total non-current assets	6,327,208	5,362,444
Total assets	6,462,050	5,721,174
Current liabilities		
Payables	6,128	9,334
Tax payable	13,419	8,487
Borrowings	100,000	100,000
Trading portfolio	1,980	-
Provisions	2,598	2,553
Interest rate hedging contracts	281	1,493
Total current liabilities	124,406	121,867
Non-current liabilities		
Provisions	1,704	1,310
Convertible notes	203,779	219,544
Deferred tax liabilities – investment portfolio	948,009	751,761
Total non-current liabilities	1,153,492	972,615
Total liabilities	1,277,898	1,094,482
Net assets	5,184,152	4,626,692
Shareholders' equity		
Share capital	2,064,986	2,002,178
Revaluation reserve	2,253,053	1,801,692
Realised capital gains reserve	317,624	334,243
General reserve	23,637	23,637
Interest rate hedging reserve	(281)	(1,493)
Retained profits	525,133	466,435
Total shareholders' equity (including minority interests)	5,184,152	4,626,692

SUMMARISED STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2014

	2014 $'000	2013 $'000
Total equity at the beginning of the year	4,626,692	3,951,490
Dividends paid	(226,336)	(216,335)
Dividend Reinvestment Plan/convertible notes	62,724	45,068
Other share capital adjustments	84	129
Total transactions with shareholders	(163,528)	(171,138)
Profit for the year	254,293	242,779
Revaluation of investment portfolio	665,894	866,916
Provision for tax on revaluation	(200,411)	(263,455)
Revaluation of investment portfolio (after tax)	465,483	603,461
Net movement in fair value for interest rate swaps	1,212	100
Total comprehensive income for the year	720,988	846,340
Realised gains on securities sold	18,389	76,672
Tax expense on realised gains on securities sold	(4,194)	(35,015)
Net realised gains on securities sold	14,195	41,657
Transfer from revaluation reserve to realised gains reserve	(14,195)	(41,657)
Total equity at the end of the year	5,184,152	4,626,692

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

HOLDINGS OF SECURITIES
At 30 June 2014

Individual investments for the combined Investment and trading portfolios as at 30 June 2014 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
AGK	AGL Energy	5,083	5,083	78,687
AHD	Amalgamated Holdings	775	775	7,231
AIA	Auckland International Airport	0	1,170	4,259
AIO*	Asciano	1,615	2,810	15,637
ALQ	ALS	4,319	4,826	42,762
AMC	Amcor	12,624	12,864	134,173
AMP	AMP	20,644	20,100	106,532
ANN	Ansell	1,109	1,284	25,459
ANZ	Australia & New Zealand Banking Group	8,516	8,488	282,980
APA	APA Group	11,643	11,643	80,222
APE	AP Eagers	0	325	1,854
ARP	ARB Corporation	583	583	7,139
ASX*	ASX	459	550	19,569
AWC	Alumina	14,323	14,323	19,336
AZJ*	Aurizon Holdings	2,315	2,980	14,747

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
BGA	Bega Cheese	1,318	2,203	10,728
BHP*	BHP Billiton	15,052	14,221	510,504
BKL	Blackmores	36	36	985
BKN	Bradken	6,000	6,000	22,800
BKW	Brickworks	1,478	1,503	20,546
BLD	Boral	4,008	4,008	21,045
BRU	Buru Energy	2,875	3,994	4,433
BXB	Brambles	11,174	11,174	102,685
CBA	Commonwealth Bank of Australia	8,483	8,483	686,097
CCL	Coca-Cola Amatil	5,160	5,160	48,814
CFX	CFS Retail Property Trust	19,000	19,000	38,760
CPU	Computershare	8,156	8,156	101,791
CSL*	CSL	789	1,002	66,642
CSR	CSR	2,446	2,492	8,698
CTX	Caltex Australia	355	655	14,128
CWP	Cedar Woods Properties	3,860	4,060	29,680
DJW	Djerriwarrh Investments	8,597	8,597	40,490
DLX	DuluxGroup	2,509	2,556	14,467
DUI	Diversified United Investment	12,030	12,030	43,309
EQT	Equity Trustees	809	1,456	30,556
FBU	Fletcher Building	1,096	1,115	9,122
FLT	Flight Centre Travel Group	0	131	5,820
FOX	Twenty-First Century Fox	0	459	17,101
FPH	Fisher & Paykel Healthcare	0	800	3,544
IAG*	Insurance Australia Group	3,350	4,255	24,764

HOLDINGS OF SECURITIES continued
At 30 June 2014

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
ICQ	iCar Asia	0	2,855	4,653
ILU	Iluka Resources	2,367	2,367	19,244
IPL*	Incitec Pivot	21,209	22,209	64,217
IPP	iProperty Group	0	4,488	13,733
IRE	IRESS	2,217	2,709	22,190
IVC	InvoCare	1,279	1,279	12,931
JHC	Japara Healthcare	0	6,000	14,100
JHX	James Hardie Industries	0	1,150	15,916
LIC	Lifestyle Communities	0	2,659	4,269
MIR	Mirrabooka Investments	8,728	8,728	23,391
MLT	Milton Corporation	2,881	14,403	65,389
NAB*	National Australia Bank	9,608	9,543	312,768
ORA	Orora	0	12,864	18,331
ORG*	Origin Energy	6,835	7,187	105,030
ORI	Orica	2,933	2,712	52,822
OSH	Oil Search	16,605	16,483	159,386
PHG	Pulse Health	0	3,933	2,144
PPT	Perpetual	615	1,031	48,853
QBE	QBE Insurance Group	7,641	7,796	84,743
QUB	Qube Holdings	0	12,118	27,628
REC	Recall Holdings	0	2,235	10,682
RHC	Ramsay Health Care	1,360	1,360	61,880
RIO	Rio Tinto	3,693	3,652	216,585
RMD*	ResMed	0	2,200	12,032

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2013 '000	Number Held 2014 '000	Market Value 2014 $'000
SAI	SAI Global	0	2,500	12,775
SCG	Scentre Group	0	11,437	36,598
SEK	Seek	500	1,045	16,563
SHL*	Sonic Healthcare	1,475	1,825	31,491
SOL	Washington H Soul Pattinson	0	1,709	25,201
STO*	Santos	8,142	8,178	116,463
SUN	Suncorp Group	1,732	2,260	30,286
SXY	Senex Energy	46,717	46,717	32,469
SYD	Sydney Airport	6,275	6,782	28,620
TCL*	Transurban Group	16,025	19,795	145,962
TGG	Templeton Global Growth Fund	7,900	9,685	12,445
TLS*	Telstra Corporation	54,220	55,095	286,797
TOL	Toll Holdings	8,133	8,133	41,476
TOX	Tox Free Solutions	10,661	10,661	36,035
TPM	TPG Telecom	0	3,597	19,818
TWE	Treasury Wine Estates	2,176	3,258	16,320
VOC	Vocus Communications	0	466	2,217
WBC	Westpac Banking Corporation	18,236	18,236	617,844
WES	Wesfarmers	6,247	7,553	316,027
WFD	Westfield Corporation	0	4,243	30,334
WOR	WorleyParsons	310	310	5,397
WOW*	Woolworths	6,214	6,314	222,354
WPL	Woodside Petroleum	3,344	3,283	134,828
Total				6,309,333

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

HOLDINGS OF SECURITIES continued
At 30 June 2014

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held 2013 '000	**Number Held 2014 '000**	**Market Value 2014 $'000**
PPCG	Peet 9.5 per cent convertible notes	26	**26**	**2,730**
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	**115**	**12,225**
Total				**14,955**

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
Wesfarmers [a]	57,675
Transurban	28,508
Qube Holdings [e]	26,056
Washington H Soul Pattinson & Company [e]	23,317
Perpetual [b]	18,383
James Hardie Industries [e]	17,003
TPG Telecom [e]	16,781
Twenty-First Century Fox [e]	16,005
CSL	14,512
Telstra Corporation	12,622
Japara Healthcare [e]	12,440
ResMed [e]	12,072
Equity Trustees	11,016
SAI Global [e]	10,548

New Holdings as a Result of Demergers (Above $10 Million)	Cost $'000
Scentre Group [c]	38,229
Westfield Corporation [c]	29,736
Orora [d]	15,697

(a) Conversion of WES Partially Protected Securities (WESN) to WES Ordinary Shares.
(b) Takeover of Trust Company by Perpetual.
(c) Westfield restructure.
(d) Demerger from Amcor.
(e) New stocks in the portfolio.

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO continued

Disposals (Above $10 Million)	Proceeds $'000
Wesfarmers PPS [(a)]	57,675
Westfield Group [(c)]	45,990
BHP Billiton (from the buy and write portfolio)	29,503
Westfield Retail Trust [(c)]	21,976
Trust Company [(b)]	18,383
GWA Group [(d)]	14,108

(a) Conversion of WES Partially Protected Securities (WESN) to WES Ordinary Shares.
(b) Takeover of Trust Company by Perpetual.
(c) Westfield restructure.
(d) Complete disposal from portfolio.

5 YEAR SUMMARY

	2014	2013	2012	2011	2010
Net profit after tax ($ million)	**254.3**	242.8	219.9	233.3	183.8
Operating result after tax ($ million)	**254.2**	234.3	204.8	228.4	179.5
Investments at market value ($ million) [(a)]	**6,324**	5,411	4,570	4,885	4,436
Net operating result per share (cents)	**24.4**	22.7	20.0	22.5	18.2
Dividends per share (cents) [(b)]	**22**	22	21	21	21
Net asset backing per share (cents) [(c)]	**584.5**	518.5	435.1	478.9	449.2
Number of shareholders (30 June)	**103,188**	96,668	93,513	93,092	92,442

Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was:
2014: nil, 2013: 4.3 cents, 2012 and 2011: nil, 2010: 1.4 cents.

(c) Net asset backing per share is based on year-end data before the provision for the final dividend. The figures do not include a provision for capital gains tax that would apply if all securities held as non-current investments had been sold at balance date as Directors do not intend to dispose of the portfolio.

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
Fergus D Ryan AO
Catherine M Walter AM
Peter J Williams

Company Secretaries
Simon M Pordage
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office
Level 21, 101 Collins Street
Melbourne Victoria 3000

Mail Address
Mail Box 146
101 Collins Street
Melbourne Victoria 3000

Contact Details

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

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

Telephone	1800 780 784 (toll free)

Share Registrar
Computershare Investor Services 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	www.investorcentre.com.au/contact

Share Registrar
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)
AFIG	Unsecured convertible notes (ASX)

SHAREHOLDER MEETINGS

Annual General Meeting

Time	10.00am
Date	Wednesday 8 October 2014
Venue	RACV City Club
Location	501 Bourke Street Melbourne

Brisbane Meeting

Time	10.00am
Date	Friday 10 October 2014
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

Adelaide Meeting

Time	10.00am
Date	Monday 13 October 2014
Venue	Adelaide Festival Centre
Location	King William Road Adelaide

Sydney Meeting

Time	10.00am
Date	Monday 20 October 2014
Venue	Four Seasons Hotel
Location	199 George Street Sydney

The Annual Report for 2014 is available on AFIC's website www.afi.com.au or by contacting the Company on (03) 9650 9911.

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY
ABN 56 004 147 120

NOTICE OF ANNUAL GENERAL MEETING 2014

The Annual General Meeting of Australian Foundation Investment Company Limited (the Company) will be held at:

RACV CITY CLUB, LEVEL 17, 501 BOURKE STREET, MELBOURNE, VICTORIA 3000

At **10.00am (AEDT) on Wednesday 8 October 2014.**

The Company has determined that, for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register at **7.00pm (AEDT)** on **Monday 6 October 2014**.

BUSINESS OF THE MEETING

1. FINANCIAL STATEMENTS AND REPORTS

To consider the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2014.
(Please note that no resolution will be required to be passed on this matter)

2. ADOPTION OF REMUNERATION REPORT

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

"That the Remuneration Report for the financial year ended 30 June 2014 be adopted."
(Please note that the vote on this item is advisory only)

3. ELECTION OF DIRECTOR

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

"That David Peever, a Director appointed to the Board since the last Annual General Meeting and retiring from office in accordance with Rule 45 of the Constitution, being eligible is elected as a Director of the Company."

4-5. RE-ELECTION OF DIRECTORS

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

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

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

By Order of the Board

Simon Pordage
Company Secretary
28 August 2014

EXPLANATORY NOTES

The Explanatory Notes below provide additional information regarding the items of business proposed for the Annual General Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

During this item there will be an opportunity for shareholders to ask questions and comment on the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2014. No resolution will be required to be passed on this matter.

Shareholders who have not elected to receive a hard copy of the Company's 2014 Annual Report can view or download it from the Company's website at:

www.afi.com.au/Reports-by-year.aspx

2. ADOPTION OF REMUNERATION REPORT

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of item 2.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of item 2.**

During this item there will be an opportunity for shareholders at the meeting to comment on and ask questions about the Remuneration Report which commences on page 13 of the Company's 2014 Annual Report. The vote on the proposed resolution is advisory only.

Voting Exclusions on Item 2

Pursuant to section 250R(4) of the Corporations Act 2001, the Company is required to disregard any votes cast on item 2 (in any capacity) by or on behalf of either a member of the key management personnel, details of whose remuneration are included in the remuneration report; or a closely related party of such a member (together "prohibited persons").

However, the Company will not disregard a vote if:

- the prohibited person does so as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution; and
- the vote is not cast on behalf of a prohibited person.

Undirected Proxies on Item 2

If the Chairman of the meeting is appointed, or taken to be appointed, as a proxy, the shareholder can direct the Chairman of the meeting to vote for or against, or to abstain from voting on, the resolution on item 2 (Adoption of Remuneration Report) by marking the appropriate box opposite item 2 in the proxy form.

Pursuant to section 250R(5) of the Corporations Act 2001, if the Chairman of the meeting is a proxy and the relevant shareholder does not mark any of the boxes opposite item 2, the relevant shareholder will be expressly authorising the Chairman to exercise the proxy in relation to item 2.

The Chairman intends to exercise such proxies by voting them in favour of the adoption of the Remuneration Report.

3. ELECTION OF DIRECTOR

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of item 3.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of item 3.**

David Peever was appointed to the Board since the 2013 AGM and so is required to seek election by shareholders at this AGM. His biographical details are set out below:

David Peever BEc MSC(Mineral Economics). Independent Non-Executive Director. Member of the Audit Committee.

Mr Peever was appointed to the Board on 20 November 2013. He was Managing Director of Rio Tinto Australia of Rio Tinto Limited from 2009 until his retirement in 2014. He had been with Rio Tinto since 1987 working in an extensive range of senior roles.

He is Deputy Chairman of Cricket Australia, Director of the Business Council of Australia and Melbourne Business School, member of the Prime Minister's Indigenous Advisory Council and member of the Chief of Defence's Gender Equality Advisory Board. He is a former Senior Vice Chairman of the Minerals Council of Australia.

4-5. RE-ELECTION OF DIRECTORS

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of items 4 & 5.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of items 4 & 5.**

Catherine Walter AM and John Paterson were both last re-elected as Directors by shareholders at the 2011 AGM. As such they are required to seek re-election by shareholders at this AGM. Their biographical details are set out below:

Catherine Walter AM LLB (Hons), LLM, MBA (Melb) FAICD. Independent Non-Executive Director. Member of the Investment Committee, Remuneration Committee and the Audit Committee.

Mrs Walter is a solicitor and company Director who was appointed to the Board in August 2002. Mrs Walter is Chair of Federation Square Pty Ltd, a Director of the RBA's Payment Systems Board, Victorian Funds Management Corporation and Walter and Eliza Hall Institute of Medical Research. She was formerly Chair of Australian Synchrotron Company Ltd, a Director of ASX, National Australia Bank Ltd, Orica Ltd and Melbourne Business School.

John Paterson BCom (Hons) (Melb), CPA, F Fin. Independent Non-Executive Director. Chairman of the Nomination Committee. Member of the Remuneration Committee and Investment Committee. Chairman of the Company's subsidiary, Australian Investment Company Services Limited.

Mr Paterson is a company Director who was appointed to the Board in June 2005. He was a former Alternate Director of the Company for Mr Campbell from April 1987 to June 2005. He is Chairman of Djerriwarrh Investments Limited. He was formerly a Director of Goldman Sachs JBWere and is a former member of the Board of Guardians of Australia's Future Fund.

Further information regarding the Company's Corporate Governance arrangements and the Board's role can be found in the Company's 2014 Annual Report and on the Company's website at:

www.afi.com.au/Corporate-Governance.aspx

SHAREHOLDER INFORMATION

IMPORTANT: Shareholders are urged to vote and if lodging a proxy to direct their proxy how to vote by clearly marking the relevant box in respect of each item on the proxy form.

Proxies

1. A shareholder entitled to attend and vote at this meeting is entitled to appoint not more than two proxies (who need not be shareholders of the Company) to attend, vote and speak in the shareholder's place and to join in any demand for a poll.

2. Where a shareholder appoints more than one representative, proxy or attorney, those appointees are entitled to vote on a poll but not on a show of hands.

3. A shareholder who appoints two proxies may specify a proportion or number of the shareholder's votes each proxy is appointed to exercise. Where no such specification is made, each proxy may exercise half of the votes (any fractions of votes resulting from this are disregarded).

4. Proxy forms may be lodged online by visiting **www.investorvote.com.au** or by scanning the QR Code on the proxy form with a mobile device.

5. Relevant custodians may lodge their proxy forms online by visiting **www.intermediaryonline.com**

6. Proxy forms and any authorities (or certified copies of those authorities) under which they are signed may be delivered in person, by mail or by fax to the Company's Share Registry (see details below) no later than 48 hours before the meeting, being **10.00am (AEDT)** on **Monday 6 October 2014.** More details are on the proxy form.

7. A proxy need not vote in that capacity on a show of hands on any resolution nor (unless the proxy is the Chairman of the meeting) on a poll. However, if the proxy's appointment specifies the way to vote on a resolution, and the proxy decides to vote in that capacity on that resolution, the proxy must vote the way specified (subject to the other provisions of this Notice, including the voting exclusions noted above).

8. If a proxy does not attend the meeting or does not vote on a poll on a resolution, then the Chairman of the meeting will be taken to have been appointed as the proxy of the relevant shareholder in respect of the meeting or the poll on that resolution, as applicable. If the Chairman of the meeting is appointed, or taken to be appointed, as a proxy, but the appointment does not specify the way to vote on a resolution, then the Chairman intends to exercise the relevant shareholder's votes in the manner set out in this document (subject to the other provisions of this Notice, including the voting exclusions noted above).

Corporate Representatives
A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. Unless it has previously been given to the Company, the representative should bring evidence of their appointment to the meeting, together with any authority under which it is signed. The appointment must comply with section 250D of the Corporations Act 2001.

Attorneys
A shareholder may appoint an attorney to vote on their behalf. To be effective for the meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the deadline for the receipt of proxy forms (see above), being no later than 48 hours before the meeting.

Share Registry
The Company's Share Registry details are as follows:

Computershare Investor Services Pty Limited

Street address: Yarra Falls 452 Johnston Street Abbotsford VIC 3067	Postal address: GPO Box 242 Melbourne VIC 3001
Telephone:	1300 662 270 (within Australia) 0800 333 501 (within New Zealand) +61 3 9415 4373 (outside Australia)
Facsimile:	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)
Internet:	**www.investorcentre.com/contact**

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN 56 004 147 120

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your proxy:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

In Person:
Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, Victoria

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online users only (Custodians)
www.intermediaryonline.com

For all enquiries call:

(within Australia) 1300 662 270
(within New Zealand) 0800 333 501
(outside Australia) +61 3 9415 4373

Proxy Form

Appoint your proxy and view the Annual Report online

Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
Follow the instructions on the secure website to appoint your proxy.

Your access information that you will need to appoint your proxy online:

Control Number: 999999

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential. Please dispose of this form carefully if you appoint your proxy online.

For your proxy form to be effective it must be received by 10.00am (AEDT) on Monday 6 October 2014

How to direct your proxy to vote

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of shares you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of shares for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of shares for each in Step 1 overleaf.

A proxy need not be a shareholder of the Company.

Lodgement of proxy form

This proxy form (and any authority under which it is signed or a certified copy of it) must be received at an address given above by 10.00am (AEDT) on Monday 6 October 2014, being not later than 48 hours before the commencement of the meeting. Any proxy form received after that time will not be valid for the scheduled meeting.

Signing instructions for postal forms

Individual: Where the holding is in one name, the shareholder or attorney must sign.

Joint Holding: Where the holding is in more than one name, all of the shareholders or attorneys should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the meeting

If a representative of a corporate shareholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at **www.investorcentre.com** under the help tab, “Printable Forms”.

Comments & Questions: If you have any comments or questions for the Company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO APPOINT YOUR PROXY, or turn over to complete the form →

183026_01M13E

MR JOHN SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Shareholders sponsored by a broker (reference number commences with '**X**') should advise their broker of any changes.

I 9999999999 IND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a proxy to vote on your behalf

XX

I/We being a shareholder/s of AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED hereby appoint

☐ **the Chairman of the meeting** **OR** ______

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the meeting. Do not insert your own name(s).

or failing the individual or body corporate named in relation to the meeting generally or in relation to a poll on a given resolution, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to act generally at the meeting or in relation to a poll on the given resolution (as applicable) on my/our behalf, including to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit), at the Annual General Meeting of **Australian Foundation Investment Company Limited** to be held at **RACV City Club, Level 17, 501 Bourke Street, Melbourne, Victoria at 10.00am (AEDT) on Wednesday 8 October 2014** and at any adjournment or postponement of that meeting.

Chairman to vote undirected proxies as follows: I/We acknowledge that the Chairman of the meeting intends to vote undirected proxies in favour of each item of business, to the extent permitted by law.

Chairman authorised to exercise proxies on remuneration related matters: If I/we have appointed the Chairman of the meeting as my/our proxy (or the Chairman of the meeting becomes my/our proxy by default), I/we expressly authorise the Chairman of the meeting, to the extent permitted by law, to exercise my/our proxy in respect of item 2 even though the item is connected directly or indirectly with the remuneration of a member of key management personnel of Australian Foundation Investment Company Limited and its consolidated group, which includes the Chairman of the meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority

Board recommendations and undirected proxies: To fully inform shareholders in exercising their right to vote, the Board recommends that shareholders vote, and the Chairman of the Meeting intends to vote undirected proxies (to the extent permitted by law), in the manner set out beside each item of business.

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

SIGN Signature of Shareholder(s) *This section must be completed.*

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______ Contact Daytime Telephone ______ Date ___/___/___

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Computershare