Australian Foundation
Investment Company Limited
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29 August 2016

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 2016 Statutory Annual Report, Annual Shareholder Review, Notice of Meeting and Proxy Form being sent to shareholders.

Yours faithfully

Matthew Rowe
Company Secretary

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Report 2016

EXPERIENCE
INCOME
GROWTH

CONTENTS

Australian Foundation Investment Company Limited ABN 56 004 147 120

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.

YEAR IN SUMMARY

PROFIT FOR THE YEAR

$265.8m

▼ Down 9.5% from 2015

TOTAL SHAREHOLDER RETURN

-4.4%

Share price plus dividend

FULLY FRANKED DIVIDEND

14¢ Final

24¢ Total

▲ Up 1 cent up from 2015

MANAGEMENT EXPENSE RATIO

0.16%

0.16% in 2015

TOTAL PORTFOLIO RETURN

-1.6%

S&P/ASX 200 Accumulation Index +0.6%

TOTAL PORTFOLIO

$6.4b Including cash at 30 June

$6.6 billion in 2015

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.

5 YEAR SUMMARY

	2016	2015	2014	2013	2012
Net profit after tax ($ million)	**265.8**	293.6	254.3	242.8	219.9
Net profit per share (cents)	**23.8**	27.2	24.4	23.5	21.5
Dividends per share (cents)[a]	**24**	23	22	22	21
Investments at market value ($ million)[b]	**6,250**	6,414	6,324	5,411	4,570
Net asset backing (cents)[c]	**550.4**	585.1	584.5	518.5	435.1
Number of shareholders (30 June)	**113,482**	107,622	103,188	96,668	93,513

Notes

(a) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2016: 2.1 cents, 2015: 7.1 cents, 2014: nil, 2013: 4.3 cents and 2012: nil.

(b) Excludes cash.

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

ABOUT THE COMPANY

Australian Foundation Investment Company Limited (AFIC) specialises in investing in Australian equities. We have been investing in Australian companies for over 80 years and is Australia's largest listed investment company.

Investment Aims

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

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 $150 million, which allows it to borrow money when appropriate investment returns are available. The Company also has on issue $190.5 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 2016 was 0.16 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 100 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, the New Zealand Securities Exchange and the Company's website afi.com.au

REVIEW OF OPERATIONS AND ACTIVITIES

Profit

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

Income from investments (excluding demerger dividends), which consists primarily of franked dividends, was up 0.1 per cent over the year. In volatile markets, there was an increased use of the trading portfolio which contributed $12.3 million compared to $8.4 million last year.

Earnings per share for the year were 23.8 cents per share compared with 27.2 cents per share last year.

Dividend

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

One of the key objectives of AFIC is to grow the dividend over time. Figure 1 highlights AFIC's dividend growth over various periods. This also incorporates the period where companies substantially reduced their dividends during the GFC from late 2007 to 2009.

Market and Portfolio Performance

The Fifty Leaders segment of the market was down 2.6 per cent over the year. Within this segment materials and energy have been impacted by low commodity and energy prices. The banking sector has also declined as there are concerns about profit growth in a slow economy and the potential for increasing bad debts. In stark contrast the combined Small and Mid Cap 50 sectors produced a positive return of 16.1 per cent. In particular, interest rate-sensitive areas such as the Real Estate Investment Trusts (REITs) and utility stocks were up strongly over the year. Many small and mid-sized resources were also strong,

Figure 1: Dividend growth per annum – compound average growth rate

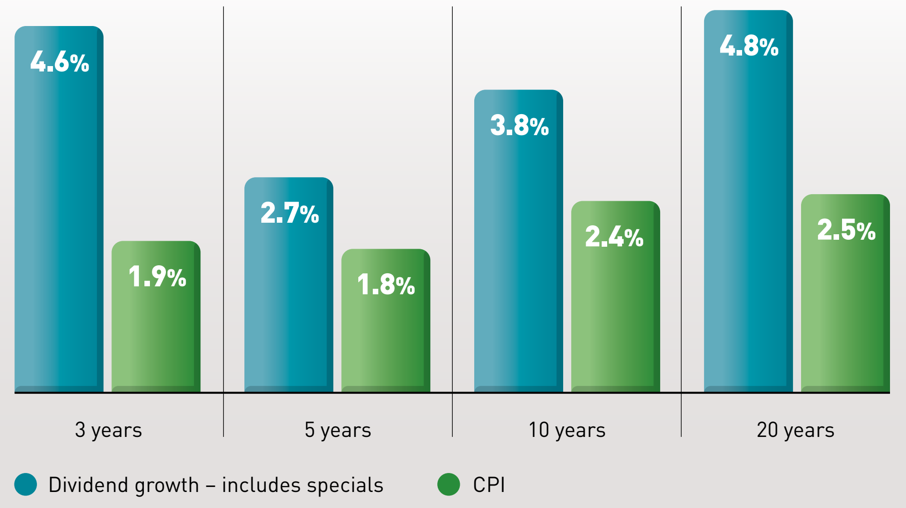
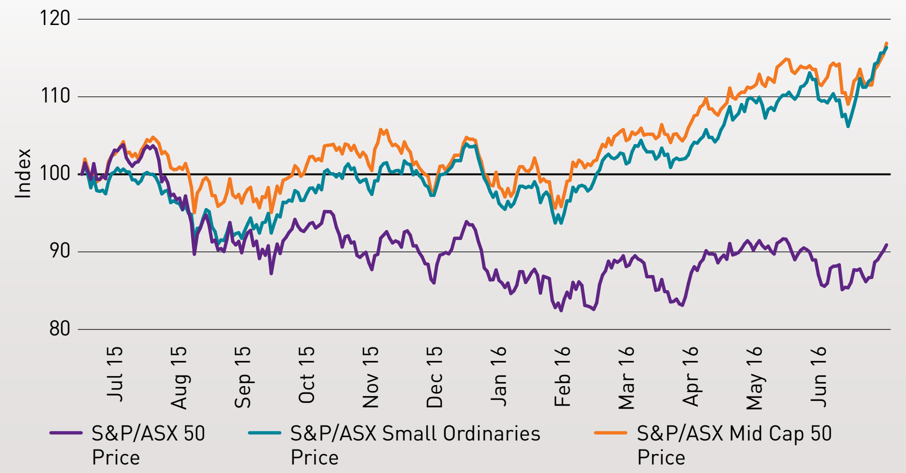


Figure 2: Performance of different sectors of the market by size of company



Source: FactSet

particularly gold companies. AFIC does not have large exposure to REITs given the general lack of franked income and lower longer term returns than industrial companies. The Company also has no exposure to the small resources sector because of its highly speculative nature.

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

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

Figure 3a: Banks, materials and energy sectors in comparison to interest rate-sensitive sectors like REITs and utilities

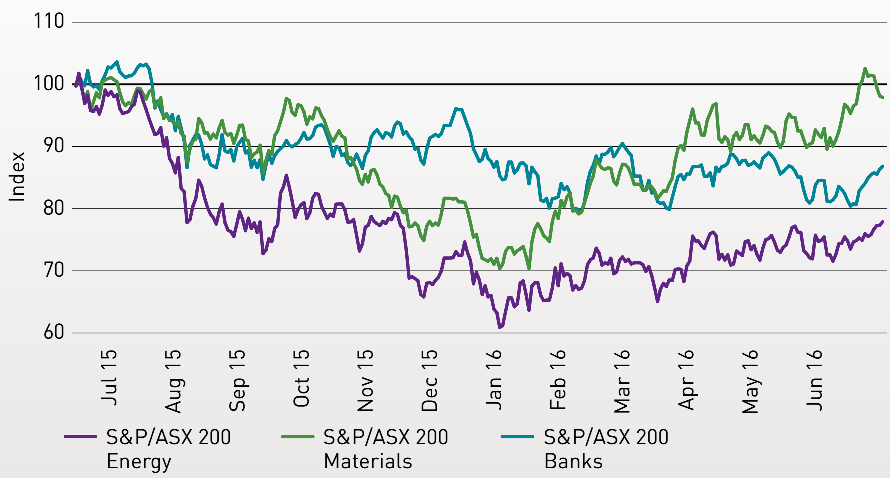
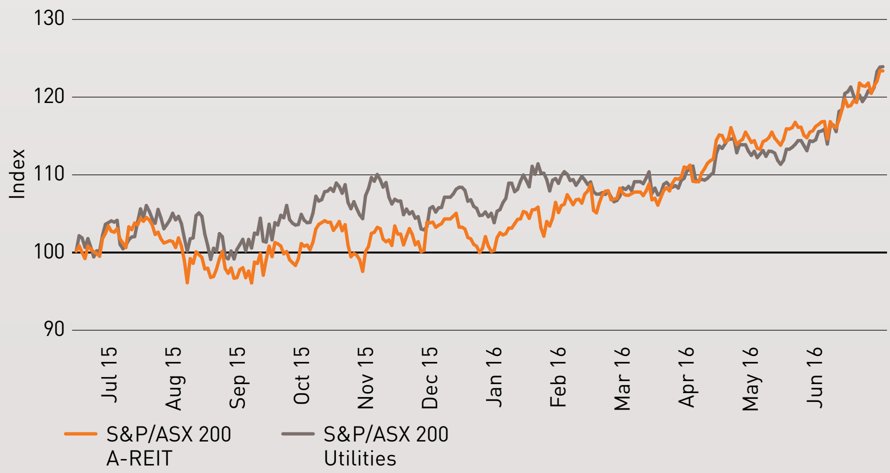


Figure 3b



Source: FactSet

The long term performance of the portfolio, which is more in line with the Company's investment horizon, was 5.7 per cent per annum for the 10 years to 30 June 2016 versus the Index return of 4.9 per cent per annum (Figure 4). Including the benefit of the franking credits for those who can fully utilise them, the 10 year return is 7.6 per cent per annum, whereas the Index is 6.4 per cent per annum. AFIC's performance numbers are after expenses and tax paid, whereas the Index does not have expenses or tax.

The share price underperformed the portfolio return as the share price premium to the net asset backing (before tax on unrealised gains) fell from 4.6 per cent to 1.9 per cent over the course of the financial year (Figure 5). Importantly over the long term the share price has also performed well with its return close to the longer term portfolio returns.

Positioning the Portfolio for Long Term Opportunities

AFIC has for some time been broadening its portfolio exposure. Many of the larger companies are facing competitive headwinds in a lower growth environment, which may well persist for some time. However, there are a number of mid-sized and smaller companies that are, in our opinion, well positioned to achieve growth despite the subdued economy. We have added a number of these to the portfolio during the year. This has included increasing exposure to companies in the health and retirement living sectors. Macquarie Group was also added as a larger new company to the portfolio during the year.

The Company also participated in a number of capital raisings. These included Qube Holdings, Mayne Pharma Group, Treasury Wines, Origin Energy (entitlement subsequently sold) and Freedom Foods Group.

Details of some of the new stocks added to the portfolio in the second half of the year are:

- Mayne Pharma which is as a pharmaceutical company that develops and manufactures proprietary and generic products. It operates in the manufacturing and selling of branded and generic pharmaceutical products globally and provides contract manufacturing services to third-party customers within Australia. It also provides contract pharmaceutical development services to third-party customers.
- REA Group which engages in the provision of real estate online advertising and related services. It owns and operates real estate and commercial property advertising sites in Australia through realestate.com.au and realcommercial.com.au. The company also has digital sites and investments in offshore markets including China, Italy, France and Germany. More recently the company acquired iProperty Group, which has operations throughout Asia.
- Australian Agricultural Company owns and operates properties, feedlots and farms for the production of beef products. It operates through different segments including the sale of cattle to domestic and overseas markets, and increasingly in producing grain finished and Wagyu beef for overseas customers.

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

Figure 4: Portfolio and share price performance to 30 June 2016

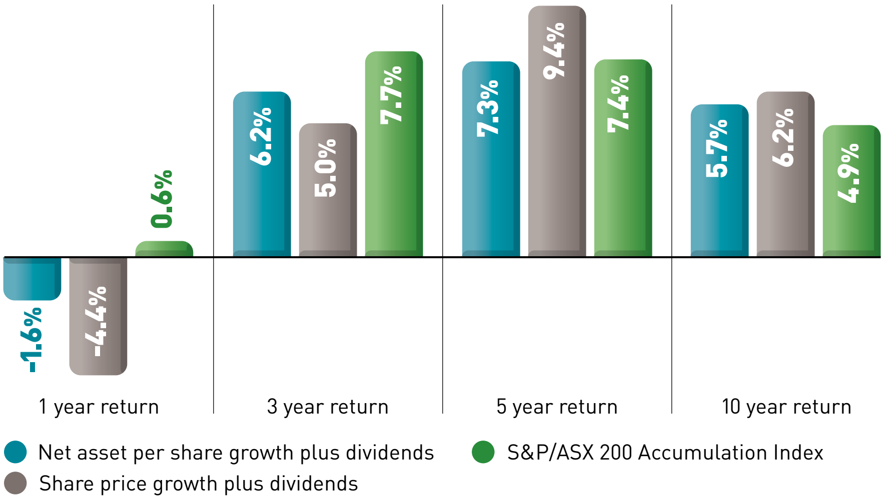
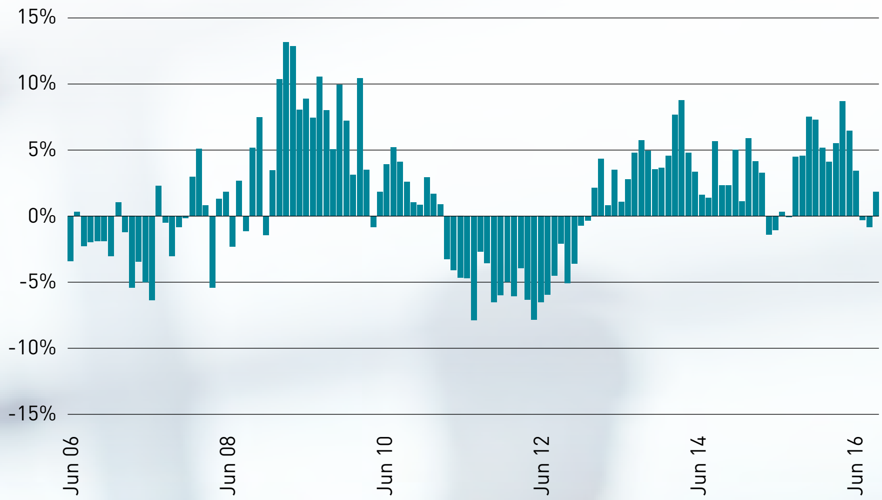


Figure 5: Share price premium/discount to net asset backing



Overall purchases for the year totalled $819.0 million, with sales totalling $596.6 million.

The changing exposure of the AFIC portfolio by company size is highlighted in Figures 6 and 7, which show the percentage of the portfolio invested in small and mid cap companies increasing from 15 per cent to 22 per cent.

Figure 8 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 portfolio weightings in Healthcare (up from 5.9 per cent last year) and Industrials (up from 8.1 per cent last year) sectors. The biggest reductions were in Banks (down from 29.2 per cent last year), Materials (down from 16.7 per cent last year) and Energy (down from 6.7 per cent last year).

Figure 6: Exposure by company size 30 June 2016

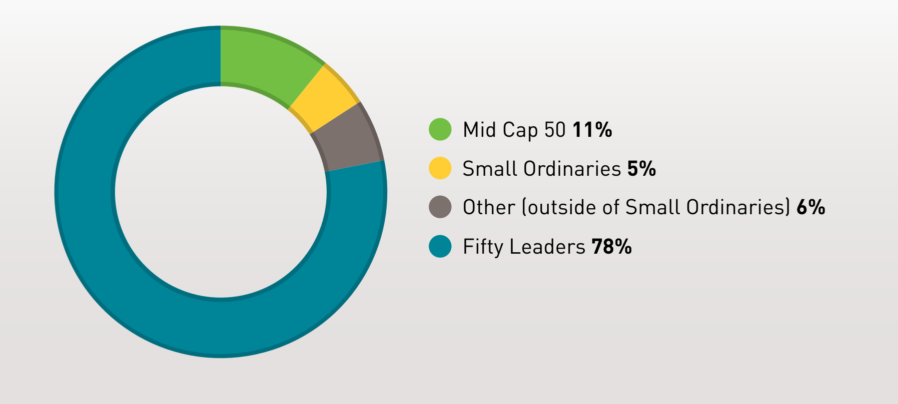
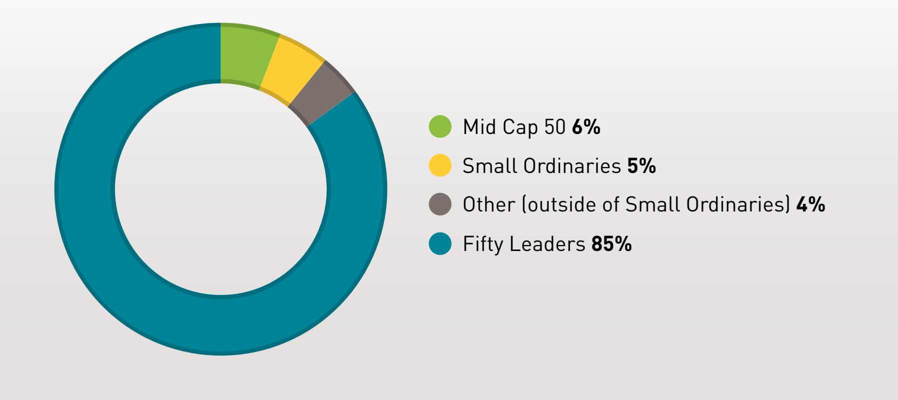


Figure 7: Exposure by company size 30 June 2015



How are we Seeing the Market?

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

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

From a long term perspective, Figure 9 shows the price return of the Australian All Ordinaries Price Index market since 1936. The long term compound average return over this period is approximately 6.5 per cent in price terms (that is, excluding dividends). It also shows that during different stages of the cycle the market can sometimes trade well outside expected return parameters.

Currently the market is trading close to the bottom of the long term average and therefore suggests a market where there is some long term value on offer. However, much of the recent decline has occurred in larger companies, which for reasons outlined earlier we remain cautious about.

In contrast the price earnings ratio (P/E), which shows how much investors are willing to pay per dollar of earnings, is at the upper end of the average (Figure 10).

These conditions currently present an interesting dilemma for investors.

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

Company Position Capital Changes

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

Under the Company's Dividend Substitution Share Plan, 365,585 new shares were issued at nil cost in August 2015 and 275,275 new shares were issued at nil cost in February 2016.

1,877,664 new shares were issued at a price of $5.09 per share in August 2015, and 695,991 new shares were issued at a price of $5.09 per share in February 2016 as a result of the conversion of convertible notes.

Under the Company's Dividend Reinvestment Plan (DRP), 5,252,118 new shares were issued at a price of $6.03 in August 2015, and 4,171,978 new shares were issued at a price of $5.43 in February 2016.

27,839,301 shares were issued at a price of $5.51 as a result of the Share Purchase Plan (SPP) in November 2015.

Figure 8: Investment by sector as at 30 June 2016

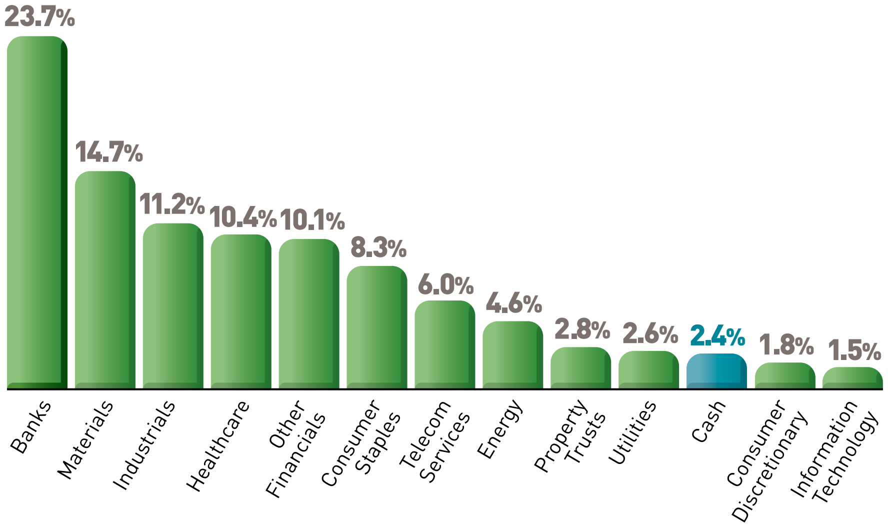
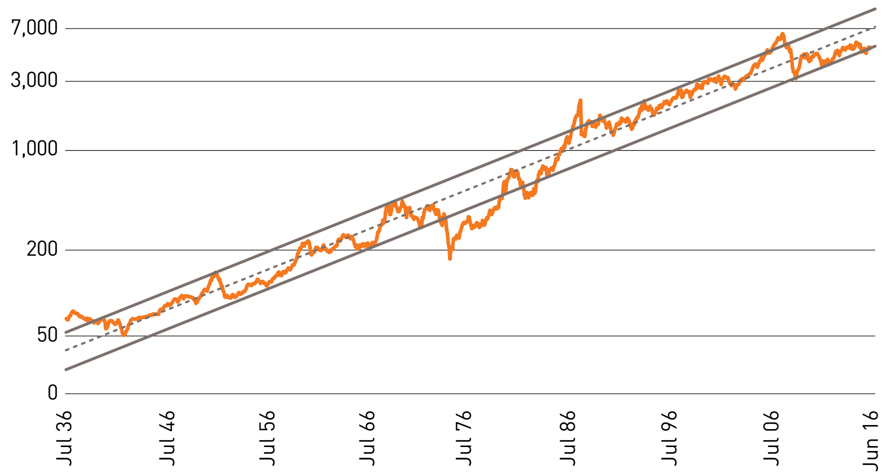
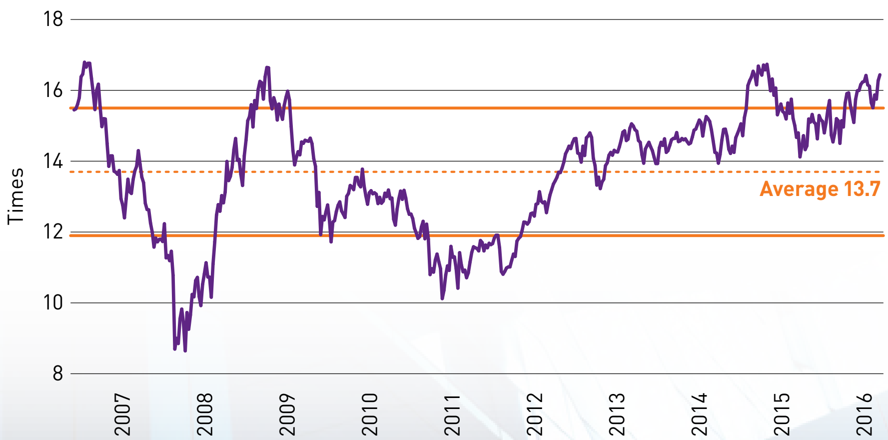


Figure 9: Long term chart of Australian all ordinaries price index



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

Figure 10: S&P/ASX 200 Price earnings ratio



Source: FactSet

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 $220.2 million to $2.5 billion from $2.3 billion. At the close of the year the Company had 1,130 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 2016 were as follows:

	$'000
Final dividend for the year ended 30 June 2015 of 14 cents fully franked at 30 per cent, paid 28 August 2015	150,372
Interim dividend for the year ended 30 June 2016 of 10 cents per share fully franked at 30 per cent, paid 19 February 2016	108,238
	258,610

Dividend Substitution Share Plan (DSSP)

The Company has in place a Dividend Substitution Share Plan.

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

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

Financial Condition

The Company's primary source of funds consists of its shareholders' funds as noted above, plus the convertible notes. However, the Company also had agreements with Westpac and Commonwealth Bank of Australia for loan facilities totalling $150 million (see Note D2). At various points during the year, some of these facilities were drawn down. The Board takes a prudent and conservative approach to the use of borrowed funds. Currently, when used, they are maintained within a limit of 10 per cent of total assets. Total borrowings are currently well below this limit.

Listed Investment Company Capital Gains

Listed investment companies (LIC) that 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 a '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 'LIC', 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. In respect of this year's final dividend of 14.0 cents per share for the year ended 30 June 2016, it carries with it a 2.1 cents per share LIC capital gain attributable part (2015: 7.1 cents). The amount that shareholders may be able to claim as a tax deduction depends on their individual situation. Further details are provided in the dividend statements.

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 that has arisen since the end of the financial year that has affected or may affect the operations, or the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental Regulations

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

Rounding of Amounts

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

Corporate Governance Statement

The Company's Corporate Governance Statement for the financial year ended 30 June 2016 will be found on the Company's website at:

afi.com.au/Corporate-Governance.aspx

TOP 25 INVESTMENTS

As at 30 June 2016

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 June 2016

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

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

BOARD AND MANAGEMENT

Directors

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

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

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

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

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

Ms Hey was appointed to the Board in July 2013. She is a Non-Executive Director of Qantas Limited, Bendigo and Adelaide Bank Limited, AGL, Melbourne Business School Ltd and Cricket Australia. She was formerly Managing Director of Ericsson United Kingdom and Ireland and Managing Director of Ericsson Australia and New Zealand.

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

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

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

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

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

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

He is Chairman of Cricket Australia and a Non-Executive Director of the Melbourne Business School. Mr Peever is a member of the Foreign Investment Review Board. He chaired Minister of Defence's First Principles Review of Defence and following the acceptance of the Review by Government now chairs the Oversight Board, which helps guide implementation of the Review's recommendations. Mr Peever is also a Non-Executive Director of Stars Foundation, a not-for-profit body that promotes education of Indigenous girls.

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

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

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 to the Board in February 2010. He is Chairman of MIPS Advisory Committee, Fiig Securities Limited and Olympic Park Sports Medical Centre Pty Ltd. He is 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, a Director of the Trustee Corporations Association of Australia and a General Manager with AXA/National Mutual in Australia and Hong Kong.

Senior Executives

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

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

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

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

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

Mr Porter joined the Company in January 2005. He is a Chartered Accountant and has had over 20 years' 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 and a member of the National Executive of the G100, the peak body for CFOs.

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

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

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2016 and the numbers of meetings attended by each Director were:

	Board		Investment Committee		Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
RE Barker	13	13	28	25	-	4[1]	-	2[1]	-	-
TA Campbell	13	13	28	27	-	1[1]	2	2	1	1
JC Hey[5]	13	13	4	24[3]	-	-	-	-	-	-
GR Liebelt	13	13	-	22[1]	-	-	2	2	-	-
J Paterson[2]	13	13	28	26	3	3	2	2	1	1
DA Peever	13	13	-	19[1]	4	4	-	-	-	-
FD Ryan[4]	5	5	9	8	1	1	-	-	-	-
CM Walter	13	13	28	24	4	4	2	2	-	-
PJ Williams	13	13	28	25	4	4	-	2[1]	1	1

1. Attended meetings by invitation.
2. J Paterson appointed to Audit Committee on 18 November 2015.
3. JC Hey attended the Investment Committee meetings as a member from 25 May 2016.
4. FD Ryan retired as a Director of the Board on 6 October 2015.
5. JC Hey appointed to Nomination Committee on 25 May 2016.

Retirement, Election and Continuation in Office of Directors

JC Hey and PJ Williams, having been elected and re-elected respectively by shareholders at the 2013 AGM, will retire and, being eligible, will offer themselves for re-election at the forthcoming 2016 AGM.

Insurance of Directors and Officers

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

REMUNERATION REPORT

Contents

The Directors present AFIC's 2016 Remuneration Report, which outlines key aspects of our remuneration policy and remuneration awarded this year. Shareholders should be aware that AFIC does not bear the total cost of remuneration alone. Due to agreements that the Group's subsidiary, Australian Investment Company Services Limited (AICS) also has with Djerriwarrh Investments Limited, Mirrabooka Investments Limited and AMCIL Limited, a substantial proportion of the total remuneration cost (usually 30 per cent to 40 per cent, depending on the individual) is borne by these other companies. AICS expenses the total amount and recovers the proportion borne by the investment companies through the fees that it charges. This report, therefore, shows the total expense that is borne by AICS and that an individual receives.

The report is structured as follows:

1. Remuneration Policy and Link to Performance
2. Structure of Remuneration
3. Executive Remuneration Expense
4. Contract Terms
5. Non-Executive Director Remuneration

Appendix

A. Remuneration Governance
B. Annual Incentives: Details of Outcomes and Conditions
C. Long Term Incentives: Details of Outcomes and Conditions
D. Directors and Executives: Equity Holdings and Other Transactions
E. Detailed Performance Measures by Investment Company

1. Remuneration Policy and Link to Performance

1.1 What is Our Remuneration Policy?

AFIC is an investor in securities listed primarily in Australia and New Zealand. Our primary objectives are to grow dividends at a faster rate than inflation and provide shareholders with capital growth over the medium to long term. To achieve this, we need to attract and retain professional, competent and highly motivated executives and staff through offering attractive remuneration arrangements which:

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

Generally, we seek to set total remuneration at the upper or second quartile of the sectors in which we operate.

Remuneration for the Group's Executives has two main elements:

- fixed annual remuneration (FAR); and
- performance-related pay, being annual incentives and long term incentives (LTI).

FAR is determined with reference to levels necessary to recruit and retain staff with the relevant skills and experience in the industry in which the Group operates. We seek external input to ensure that the FAR meets these conditions. This includes industry data provided by the Financial Institutions Remuneration Group Inc. (FIRG) and McLagan for the financial services industry.

Through performance-related pay, the remuneration is adjusted to reflect the risks that the Company and its shareholders face and how the Company has responded to those risks. In particular:

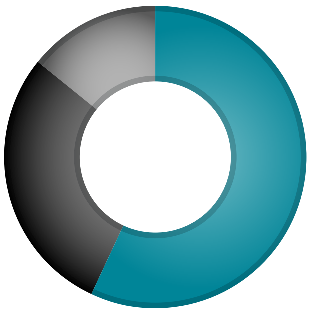
- The key performance indicators chosen to determine performance-related pay are those that the Company considers most relevant to its objectives of improving shareholder wealth over the medium to long term.
- The focus is on performance over the medium to long term with only a minor proportion of both Annual Incentives and LTI being dependent on a single year's performance.
- Executives other than the Chief Investment Officer (CIO) agree to invest 50 per cent of the annual cash incentive (after tax) in AFIC shares and shares of the other investment companies (including AMCIL Limited, Djerriwarrh Investments Limited and Mirrabooka Investments Limited) and to hold these shares for a minimum of two years. The CIO and other members of the investment team are not required under any of the remuneration schemes to purchase shares in the investment companies, but are encouraged to do so.

The Remuneration Committee may, at its discretion, cancel any performance rights that are yet to vest or to be tested in the event of any negative issues that may arise, including material mis-statement of the Company's financial statements.

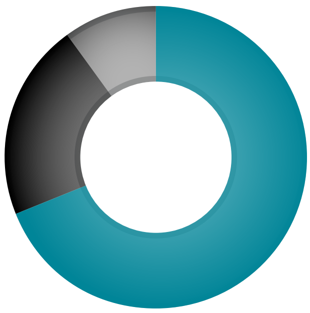
1.2 What is Our Target Remuneration Mix?

The target remuneration mix for Executives is as follows:

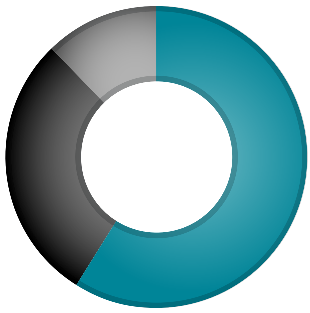
Managing Director's target remuneration mix



Other Executives' target remuneration mix



Investment team's target remuneration mix



1.3 How is the Remuneration Paid in 2016 Linked to Performance?

Table 1 discloses the actual remuneration outcomes received by the Company's Executives during the year and the LTI that may vest in future years. These amounts are different to the statutory remuneration expense disclosed in Table 7. The Board considers the information about remuneration outcomes in Table 1 relevant for users because the statutory remuneration expense includes accounting charges for long term incentives that may or may not be received in future years. See page 15 for details of the differences.

Table 1: Actual Executive Remuneration Outcomes

	Total FAR $	Other[1] $	Annual Incentive $	Prior Years' LTI Received[3] $	Dividends on Unvested ELTIP Shares $	Total Remuneration[4] $	LTI Forfeited $	Possible Future LTI (to Vest Over Next Four Years)[5] $
Ross Barker – Managing Director								
2016	**722,227**	**-**	**244,826**	**103,424**	**6,811**	**1,077,288**	**34,025**	**917,069**
2015	704,445	5,438	317,281	85,411	10,555	1,123,130	0	930,921
Mark Freeman – Chief Investment Officer								
2016	**816,000**	**-**	**302,900**	**126,886**	**-**	**1,245,786**	**-**	**539,425**
2015	800,000	-	338,800	151,570	-	1,290,370	-	601,350
Andrew Porter – Chief Financial Officer								
2016	**625,000**	**-**	**125,888**	**56,587**	**3,728**	**811,203**	**18,951**	**472,394**
2015	612,000	-	164,036	47,574	5,928	829,538	0	484,714
Geoff Driver – General Manager – Business Development and Investor Relations								
2016	**515,000**	**-**	**103,113**	**44,947**	**2,958**	**666,018**	**14,107**	**382,940**
2015	505,000	-	134,760	35,408	4,634	679,802	0	389,385
Simon Pordage – Company Secretary[2]								
2016	**333,333**	**58,354**	**-**	**26,967**	**1,762**	**420,416**	**178,316**	**0**
2015	376,000	-	101,096	11,959	2,489	491,544	0	268,908

1. Other relates to a refund of charges in respect of parking for 2015 and prior for Ross Barker, and accumulated entitlements for Simon Pordage, paid to him following his cessation of employment
2. Resigned with effect from 29 April 2016.

   The value of LTI forfeited during the year in Table 1 was determined based on the closing price of AFIC shares on the last possible vesting date and in the case of Simon Pordage, the amount accrued in respect of performance shares as at the end of April 2016 and unvested shares at the closing price of AFI on 29 April 2016. It does not include amount forfeited under the investment team LTIP.

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

3. Prior year's LTI received in Table 1 shows the value of performance shares that vested during the year, measured at the closing price on the day that they were received. In respect of the investment team, it shows the cash payment received during the year for the previous financial year. In contrast, Table 7 shows the accounting expense recognised in relation to the LTI plans during the year.
4. Total remuneration in Table 1 includes the amount of dividends paid to Executives in relation to unvested ELTIP shares. For accounting purposes, the dividends are recognised as distributions in equity and not as an expense.
5. The future LTI in Table 1 reflects potential future remuneration that may be received by the Executives over the next four years if the performance conditions are satisfied. This includes the performance shares that are yet to vest under the old ELTIP plan, valued at the closing price of AFIC shares as at 30 June 2016 (30 June 2015), plus the estimated amounts payable under the new ELTIP plan and the investment team LTI plan assuming the performance conditions will be satisfied at the time of vesting. For accounting purposes, these amounts are recognised as expense over the vesting period.

Information about Non-Executive Director remuneration is provided in Section 5 Non-Executive Director Remuneration.

1.3.1 Fixed Remuneration

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

1.3.2 Performance-related Pay

This section shows:

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

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

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

- The outcomes for the two long term incentive awards (LTI) that were tested for vesting during the year (Table 4).

Refer to Sections 2.2 and 2.3 for explanations of the measures used.

The tables show that whilst the medium to long term targets were achieved, the shorter term (one to three year) figures were not. The reasons for this have been set out elsewhere in the Annual Report. This has resulted in nearly 40 per cent of the target Annual Incentive not being paid. It should be noted that AFIC's returns are after taxes and expenses and represent the 'net' return to the shareholders, whereas Index returns do not include either, and many returns quoted by managed funds exclude either tax or expenses, or both. The use of 'gross returns' mitigates the tax disparity to some extent, as it adds back franking credits to the nominal dividend that the Index pays, and also that AFIC pays.

With regard to the other investment companies, Djerriwarrh did not meet most of its short to medium term benchmarks, although the eight to 10 year longer term investment metrics exceeded benchmark. Both AMCIL and Mirrabooka performed very strongly. Mirrabooka outperformed its benchmarks for all periods bar the one year. AMCIL outperformed all of its metrics.

The new Executive Long term Incentive Plan (ELTIP) is available for vesting as of 30 June 2016. However, the calculations needed to determine how much actually vests are not performed until after the date of the Annual Report. Vesting details will therefore be reported on an arrears basis.

Executives did not receive all of their LTIP under the old plan this year – 50 per cent of the 2011 award may still vest in July or August 2016, but the full targets were not achieved during the year (see Table 4). If the full targets are not achieved by August 2016, the shares will be forfeited. In addition, of the 2010 award a further 12.5 per cent vested whilst 25 per cent was forfeited.

For the investment team whose ELTIP encompasses all of the investment companies (unlike Executives, for whom only the AFIC performance is counted), the continued strong out-performance over time of AMCIL and Mirrabooka was offset in part by the (almost) in-line performance of AFIC and the underperformance of Djerriwarrh on a gross return basis. This resulted in 36 per cent of the LTIP vesting this year. Detailed information about the performance of each investment company is provided in Section E of the Appendix (Table 18).

Table 2: Executive Team Performance (Excluding Investment Returns)

Performance Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Total shareholder return (14.6 per cent)			
Share price return – one year	0.56%	-4.44%	Unfavourable
Share price return – three years	7.66%	5.01%	Unfavourable
Share price return – five years	7.40%	9.37%	Favourable
Share price return – eight years	4.69%	5.82%	Favourable
Share price return – ten years	4.86%	6.17%	Favourable
Growth in net operating result per share (8.3 per cent)	1.5%	-12.4%	Unfavourable
Management expense ratio compared to base of 0.19 per cent (5.6 per cent)	0.19%	0.16%	Favourable

Outcome
- Achieved
- Partially achieved
- Not achieved

Table 3: Investment Team Performance (Including Investment Returns Used for Executives)

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Investment return – one year	0.56%	-1.04%	Unfavourable
Investment return – three years	7.66%	6.59%	Unfavourable
Investment return – five years	7.40%	7.50%	Favourable
Investment return – eight years	4.69%	5.77%	Favourable
Investment return – ten years	4.86%	6.22%	Favourable
Gross return – one year	2.16%	0.23%	Unfavourable
Gross return – three years	9.33%	8.04%	Unfavourable
Gross return – five years	9.08%	9.18%	Favourable
Gross return – eight years	6.28%	7.33%	Favourable
Gross return – ten years	6.40%	7.59%	Favourable
Reward to risk – three years	1st qtr	114th/161 3rd qtr	Unfavourable
Reward to risk – five years	1st qtr	65th/140 2nd qtr	Unfavourable
Reward to risk – eight years	1st qtr	34th/112 2nd qtr	Unfavourable
Reward to risk – ten years	1st qtr	19th/93 1st qtr	Favourable

Outcome
- Achieved
- Partially achieved
- Not achieved

Table 4: Vesting and Forfeiture of Long Term Incentives During the Year[1]

Award Date	Assessment Dates	Measure Tested 2016	Benchmark Result	AFIC Result	% Vested	% Forfeited
Old ELTIP – Performance shares[2]						
25 August 2010	August 2014 – August 2015	Total shareholder return	8.16%	9.40%	12.5%	12.5%
		Total portfolio return	9.36% (top quartile)	8.45%	0%	12.5%
22 August 2011	August 2015 – August 2016	Total shareholder return	9.78%	14.38%	50%	0%
		Total portfolio return	10.27%	10.17%	0%	n/a
Investment team LTI						
1 July 2012	30 June 2016	Gross return	12.98%	12.43%	36.4%	63.6%

1. Shares under the new ELTIP have not vested as yet as the benchmark figures had not been processed at the date of the report. Vesting of shares will therefore be reported annually in arrears.
2. Of the shares awarded in August 2010, 62.5 per cent of the total award had vested during the year ended 30 June 2015 (see 2015 Annual Report for details). Of the remaining 37.5 per cent, 12.5 per cent vested as the total shareholder return for the five years to 31 August 2015 was 9.4 per cent, a 15.2 per cent out-performance of the S&P/ASX 200 Accumulation Index over the same period. The remaining 25 per cent did not vest, and were forfeited.

   Of the shares awarded in August 2011, 50 per cent vested as the total shareholder return for the four years to 31 August 2015 was 14.4 per cent, a 47 per cent out-performance of the S&P/ASX 200 Accumulation Index over the same period. The remaining 50 per cent available for vesting under the total portfolio return measure have yet to meet the required hurdles. The last possible date for measurement is 31 August 2016. If the shares do not vest by then, they will be forfeited.

2. Structure of Remuneration

2.1 Fixed Annual Remuneration (FAR)

The FAR component of an Executive's remuneration comprises base salary, superannuation guarantee contributions and fringe benefits. Executives can elect to receive a portion of their FAR in form of additional superannuation contributions or fringe benefits. This will not affect the gross amount payable by the Group. Dividends received by the Executives in relation to unvested shares awarded under the old ELTIP are taken into account when setting remuneration levels.

2.2 Annual Incentive

There are two Annual Incentive plans, one for the Executives (excluding the CIO) and one for the investment team (including the CIO). As the roles and objectives of the Senior Executives and investment team are different, it is desirable to provide separate incentives to focus each team on the different business-critical measures they are able to impact. Table 5 below outlines the key terms and conditions.

Table 5: Annual Incentives – Key Terms and Conditions

	Manging Director	Other Executives	Investment Team
Targeted % of FAR	50%	30%	50%
Objectives	Align remuneration with the creation of shareholder wealth over the past year and over a longer period.		Align remuneration with the outcomes of the Group's investment objectives over a period of between one and 10 years.
	Measures reflect the management of the Group and the other investment companies, as well as the key investment returns that reflect the creation of shareholder wealth.		The key metrics for portfolio performance, which also includes dividends paid and franking credits, as well as actual portfolio return and the risk profile of the investments.

Targeted % of FAR	Manging Director 50%	Other Executives 30%	Investment Team 50%
Performance measures	• Company performance (43 per cent). • Investment performance (37 per cent). • Personal objectives (20 per cent). • See Table 11 for details.		See Table 12
Relative weightings of investment companies for investment related performance	AFIC: 53 per cent Djerriwarrh Investments Limited: 16 per cent AMCIL Limited: 4 per cent Mirrabooka Investments Limited: 7 per cent Personal objectives: 20 per cent		
Delivery of award	Incentive is paid in cash, but 50 per cent of the after tax amount received is used by recipients to acquire shares in AFIC and the other investment companies, which they agree to hold for minimum of two years.		Paid in cash or shares or combination of both, at discretion of the Remuneration Committee.
Performance measured in 2016	Majority of longer term measures achieved but shorter term measures with the exception of the MER were not (see Tables 2 and 3 above).		Majority of longer term measures achieved but shorter term measures were not (see Tables 2 and 3 above).
Outcomes for 2016 (see Table 10 for details)	67.1 per cent	Average 66.9 per cent	74.2 per cent (CIO)

The performance measures of each Annual Incentive plan are reviewed by the Remuneration Committee. The Committee may, from time to time, revise the performance conditions and weightings in order to better meet the objectives of the annual incentive policies. They may also change or suspend any part of the incentive payment arrangements. If relevant targets are not achieved but performance is close to the target, some of the incentive may be paid. This is noted as 'partially achieved' in Table 3. Where stretch levels of performance are achieved above target, then higher amounts may be paid. To date, total Annual Incentives paid to each Executive have never exceeded target.

For more detailed information about the Annual Incentive performance conditions and outcomes for 2016, please refer to Section B Annual Incentives: Details of Outcomes and Conditions in the Appendix.

2.3 Long Term Incentive Plans (LTIP)

As for the Annual Incentives, there are also two LTI plans, one for the Executives (excluding the CIO), which is called the ELTIP, and one for the investment team (including the CIO). A new ELTIP was introduced in 2012. Table 6 outlines the purpose and the key terms and conditions of each plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executives New ELTIP (Performance Rights)	Old ELTIP (Performance Shares)	Investment Team LTI Plan
Target	50 per cent of targeted STI	50 per cent of gross amount awarded under STI plan	20 per cent of FAR
Objectives	Align remuneration with growth in shareholder wealth over a forward-looking period of four years (four to five years for the old ELTIP). Reward out-performance.		
Performance measures	See Table 15 in the Appendix for details.	See Table 15 in the Appendix for details.	See Table 15 in the Appendix for details.
Performance for awards tested in 2016 (Table 4)	To be determined.	August 2010: 12.5 per cent vested in current year, 25 per cent forfeited (see Table 4). Note: 62.5 per cent vested in previous year. August 2011: 50 per cent vested in current year, 50 per cent still eligible for vesting.	July 2012: 36.4 per cent vested (see Table 4).

For more detailed information about the LTI plans and their performance conditions, including vesting schedules and outcomes for 2016, please refer to Section C Long Term Incentives: Details of Outcomes and Conditions in the Appendix.

3. Executive Remuneration Expense

This section discloses the remuneration expense recognised under accounting standards for each Executive (Table 7). These amounts are different to the remuneration outcomes disclosed in Table 1 as noted in that table.

Table 7: Remuneration Expense

	Short Term	Short Term	Short Term	Post Employment
	Base Salary $	Non-cash Benefits[1] $	Other[4] $	Superannuation $
Ross Barker – Managing Director				
2016	676,826	10,401	-	35,000
2015	658,182	10,705	558	35,000
Mark Freeman – Chief Investment Officer				
2016	791,000	-	-	25,000
2015	775,000	-	-	25,000
Andrew Porter – Chief Financial Officer				
2016	600,000	-	-	25,000
2015	587,000	-	-	25,000
Geoff Driver – General Manager – Business Development and Investor Relations				
2016	485,000	-	-	30,000
2015	475,000	-	-	30,000
Simon Pordage – Company Secretary[2]				
2016	317,243	-	-	16,090
2015	357,217	-	-	18,783

1. Non-cash benefits relate to the provision of a car parking space.
2. Resigned effective 29 April 2016.
3. Includes amounts credited for non-vesting.
4. Other relates to a refund of charges in respect of parking.

Total Fixed Remuneration $	Short Term Annual Incentives $	Long Term Share Based Payments LTI Cash Settled $	LTI Equity Settled $	Other Long Term Payments[3] $	Total Remuneration $	Percentage Fixed/ Performance Related
722,227	244,826	196,447	2,572	-	1,166,072	62%/38%
704,445	317,281	185,947	33,187	-	1,240,860	57%/43%
816,000	302,900	-	-	135,606	1,254,506	65%/35%
800,000	338,800	-	-	154,216	1,293,016	62%/38%
625,000	125,888	100,623	1,402	-	852,913	73%/27%
612,000	164,036	95,123	18,121	-	889,280	69%/31%
515,000	103,113	81,690	1,128	-	700,931	73%/27%
505,000	134,760	76,824	14,497	-	731,081	69%/31%
333,333	-	-	731	-	334,064	100%/0%
376,000	101,096	55,951	9,100	-	542,147	69%/31%

4. Contract Terms

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

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

5. Non-Executive Director Remuneration

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

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

The amount approved at the AGM in October 2007 was $1,000,000 per annum, which is the maximum amount that may be paid in total to all NEDs. Retirement allowances for Directors were frozen at 30 June 2004.

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

The amounts paid to each NED, and the figures for the corresponding period, are set out in Table 8.

Table 8: Non-Executive Director Remuneration

	Primary (Fee/Base Salary) $	Post Employment (Superannuation) $	Total Remuneration $
TA Campbell AO – Chairman			
2016	159,817	15,183	175,000
2015	155,251	14,749	170,000
JC Hey – Non-Executive Director			
2016	79,909	7,591	87,500
2015	77,626	7,374	85,000
GR Liebelt – Non-Executive Director			
2016	79,909	7,591	87,500
2015	77,626	7,374	85,000
J Paterson – Non-Executive Director			
2016	79,909	7,591	87,500
2015	77,626	7,374	85,000
DA Peever – Non-Executive Director			
2016	79,909	7,591	87,500
2015	77,626	7,374	85,000
FD Ryan AO – Non-Executive Director (retired 7 October 2015)			
2016	13,451	9,416	22,867
2015	50,000	35,000	85,000
CM Walter AM – Non-Executive Director			
2016	79,909	7,591	87,500
2015	77,626	7,374	85,000
PJ Williams – Non-Executive Director			
2016	79,909	7,591	87,500
2015	77,626	7,374	85,000
Total Remuneration of Non-Executive Directors			
2016	652,722	70,145	722,867
2015	671,007	93,993	765,000

Amounts Payable on Retirement

The amounts payable to the current NEDs who were in office at 30 June 2004, which will be paid when they retire, are set out in Table 9. These amounts were expensed in prior years as the retirement allowances accrued. FD Ryan AO retired during the year ended 30 June 2016 and was paid the retirement allowance of $66,329 that had accrued to him at 30 June 2004. Neither of the other two NEDs listed below are expected to retire in the forthcoming year.

Table 9: Non-Executive Director Retirement Allowance

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

Appendix

A. Remuneration Governance

Responsibilities of the Board and the Remuneration Committee

The Board's primary responsibilities include:

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

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

The Remuneration Committee's primary responsibilities include:

- reviewing the level of fees for NEDs and the Chairman;
- reviewing the Managing Director's remuneration arrangements;
- evaluating the Managing Director's performance;
- reviewing the remuneration arrangements for other Senior Executives;
- monitoring legislative developments with regards to Executive remuneration; and
- ensuring 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 (GR Liebelt (Chairman), TA Campbell AO, J Paterson and CM Walter AM) and meets at least twice per year.

Policy on Hedging

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

Use of Remuneration Consultants

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

Specifically, Ernst & Young would provide advice on:

(a) proposed remuneration levels and remuneration structure for the Managing Director;

(b) proposed remuneration levels and remuneration structure for the Managing Director's direct reports; and

(c) proposed remuneration levels of NEDs.

The Remuneration Committee has not thought it necessary to engage Ernst & Young to provide advice in these areas this year.

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

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

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

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

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

(c) proposed remuneration levels for employees other than designated Senior Executives; and

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

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

Ernst & Young also reviews the calculations used in determining the vesting of awards and certifies them as being correct and in accordance with the terms and conditions of the LTI plan.

Ernst & Young was paid $21,017 during the year ended 30 June 2016 for general remuneration advice including confirmation of vesting calculations (2015: $6,628), and during the year the Group also paid $117,150 for other professional advice received that included acting as the internal auditor for AICS and general taxation and accountancy advice (2015: $127,827) (all including GST).

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

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

B. Annual Incentives: Details of Outcomes and Conditions

Table 10 below shows the Annual Incentives paid to individual executives as a result of AFIC's and the other investment companies' performance on financial metrics and the individual's achievement of their own personal objectives. Tables 11 and 12 set out the detailed terms and conditions of the Annual Incentives. For a high-level summary, see Section 2.2 and Table 5 of the main part of the Remuneration Report.

Table 10: Annual Incentive Outcomes

Executive	Percentage of Target Paid	$ Paid	Percentage of Target Forfeited	$ Forfeited
Ross Barker	67.1%	$244,826	32.9%	$119,824
Andrew Porter	67.1%	$125,888	32.9%	$61,612
Geoff Driver	66.7%	$103,113	33.3%	$51,387
Mark Freeman	74.2%	$302,900	25.8%	$105,100

Simon Pordage has been excluded from the above table as he was not eligible for any annual incentive following his resignation.

Table 11: Executive Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
Company performance (43 per cent) The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Relative total shareholder return (TSR): TSR is the movement in share price plus the dividends paid by the Company assumed to be reinvested. TSR performance is measured against the S&P/ASX 200 Accumulation Index over one, three, five, eight and ten year periods (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • Growth in net profit per share: measured against CPI. • Management expense ratio (MER): measured against prior years' results or, in the case of AFIC, measured against a base of 0.19 per cent.	• TSR: This is a direct measure of the increase in shareholder's wealth against the performance of the Index. • Growth in net profit per share reflects the ability of the Company to meet its stated aim of 'paying out dividends which, over time, grow faster than the rate of inflation'. • MER reflects the costs of running the Company.
Investment Performance (37 per cent) The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Relative investment return: measure of the return on the portfolio invested (including cash) over the previous one, three, five, eight and ten years, relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka). • Gross return (GR): measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous one, three, five, eight and ten 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 three, five, eight and ten 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. • Gross return (GR): reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits. • Risk/reward return: best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected. Note: the Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.
Personal objectives (20 per cent)	Includes: • advice to the Board; • succession planning; • management of staff; • risk management; • promotion of the corporate culture; and • satisfaction of key internal stakeholders. These measures all contribute to the efficient running of the Group and the other investment companies, enhancing investment outcomes.	Personal objectives are included in incentive calculations to encourage out-performance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Managing Director reviews the performance of each Executive with the Remuneration Committee, and the Remuneration Committee alone determines how the Managing Director is performing against these objectives.

Table 12: Investment Team Annual Incentive Performance Conditions

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
Investment return The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Measure of the return on the portfolio invested (including cash) over the previous one, three, five, eight and ten 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 The relevant weightings of the investment companies are: • AFIC: 66.25 per cent • Djerriwarrh Investments Limited: 20 per cent • AMCIL Limited: 5 per cent • Mirrabooka Investments Limited: 8.75 per cent	• Measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous one, three, five, eight and ten 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).	• Gross return reflects the movement in the value of the underlying portfolio over the period with the additional recognition of the importance of franking credits.
Risk/reward return Note: this measure is used for AFIC's performance only	• This is a measure over the previous three, five, eight and ten years of Company performance. It is calculated by using the movement in the net asset backing of the Company (per share) plus the dividends reinvested divided by the standard deviation of the movement in the net asset backing of the Company (per share) plus the dividends reinvested over the same period. This is compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer.	• Risk/reward return best reflects the return of the portfolio against the risks to shareholders of investing in the companies selected, therefore aligning investment team to shareholders. Reflects AFIC's focus on producing stable returns over the medium to long term. Note: the Remuneration Committee has discretion to determine, at the time of the review, what it considers to be the appropriate level of return to be used.
Income generation	• This is relevant for measuring Djerriwarrh Investments Limited's operating earnings as a per cent of the average investable assets. It is a one year measure only, and measures the ability of the investment team to generate returns from the assets of Djerriwarrh Investments Limited. It is compared to the return generated in prior years.	• Reflects the objective for Djerriwarrh Investments Limited to create an enhanced income from its portfolio.
Qualitative measures	• Investment process – including the identification of quality stocks. • Diversifying the portfolio – for example, developing a 'nursery' of smaller, potential growth stocks.	• These qualitative processes provide the opportunities for the future growth of the Company's investments.
Personal objectives	• Includes research, stock ideas, portfolio management, meeting participation, interaction with staff and presentation skills.	• Personal objectives are included in incentive calculations to encourage out-performance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Chief Investment Officer reviews the performance of each member of the investment team with the Managing Director and the Remuneration Committee.

C. Long Term Incentives: Details of Outcomes and Conditions

This section shows a reconciliation of the performance shares outstanding under the old ELTIP award (Table 13) and the outstanding cash bonuses under the new ELTIP and the investment team LTI schemes (Table 14). It also explains the detailed terms and conditions of the three LTIs that are currently in operation (Table 15). For a high-level overview, see Section 2.3 of the main body of the Remuneration Report.

Table 13: Performance Shares Held by Executives (Old ELTIP)

Year Granted	Value Granted	Number Granted	Opening Balance	Vested Current Year	Forfeited	Closing Balance (Yet to Vest)	Value Forfeited[1]	Value Vested in Current Year[1]	Maximum Value Yet to Vest[2]
Ross Barker – Managing Director									
2011	$111,327	23,063	8,650	2,883	5,767	-	$34,025	$16,923	-
2012	$123,470	29,472	29,472	14,736	-	14,736	-	$86,501	$82,669
Andrew Porter – Chief Financial Officer									
2011	$62,009	12,846	4,818	1,606	3,212	-	$18,951	$9,427	-
2012	$67,319	16,069	16,069	8,034	-	8,035	-	$47,160	$45,076
Geoff Driver – General Manager – Business Development and Investor Relations									
2011	$46,152	9,561	3,586	1,195	2,391	-	$14,107	$7,015	-
2012	$54,144	12,924	12,924	6,462	-	6,462	-	$37,932	$36,252
Simon Pordage – Company Secretary									
2011	$15,592	3,230	1,212	404	808	-	$4,767	$2,371	-
2012	$35,107	8,380	8,380	4,190	4,190	-	$23,213	$24,596	-

1. The dollar amounts shown are the market value of the shares vested at the date of vesting (for shares that vested) or at the last possible day of vesting (for those forfeited) or at date of resignation.
2. The dollar value yet to vest is calculated using AFIC's share price as at 30 June 2016 ($5.61). The minimum value yet to vest is nil.

The grant and vesting dates for the performance shares that are yet to vest are:

- Granted 22 August 2011, vesting: August 2015 – August 2016. Grant date value: $4.19.

The grant dates and percentages of the old ELTIP that vested during the year are disclosed in Table 4. They are the same for all Executives.

Table 14: Vesting of new ELTIP and Investment Team LTI

New ELTIP Award Date	Vesting Date Subject to Performance Hurdles	Value at Award Date	Number of Rights Awarded	Value Per Right	Value Yet to Vest 30 June 2016
Ross Barker – Managing Director					
1 July 2012	30 June 2016	$173,000	42,126	$4.107	$273,875
1 July 2013	30 June 2017	$182,000	33,562	$5.423	$210,748
1 July 2014	30 June 2018	$178,750	29,707	$6.017	$175,547
1 July 2015	30 June 2019	$182,325	29,459	$6.189	$174,230
Andrew Porter – Chief Financial Officer					
1 July 2012	30 June 2016	$88,970	21,664	$4.107	$140,848
1 July 2013	30 June 2017	$92,000	16,965	$5.423	$106,532
1 July 2014	30 June 2018	$92,000	15,290	$6.017	$90,351
1 July 2015	30 June 2019	$93,750	15,148	$6.189	$89,587
Geoff Driver – General Manager – Business Development and Investor Relations					
1 July 2012	30 June 2016	$71,610	17,437	$4.107	$113,365
1 July 2013	30 June 2017	$73,500	13,554	$5.423	$85,110
1 July 2014	30 June 2018	$75,750	12,589	$6.017	$74,393
1 July 2015	30 June 2019	$77,250	12,482	$6.189	$73,820

All performance rights awarded to Simon Pordage lapsed on his resignation.

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount	Award Vested for the Year $	%	Value Yet to Vest 30 June 2016
Mark Freeman – Chief Investment Officer (Investment Team LTI)					
1 July 2012	30 June 2016	$154,464	$56,225	36.4%	-
1 July 2013	30 June 2017	$160,000	-	-	$160,000
1 July 2014	30 June 2018	$160,000	-	-	$160,000
1 July 2015	30 June 2019	$163,200	-	-	$163,200

The value of the outstanding ELTIP performance rights as at 30 June 2016 and the amounts vested and forfeited were estimated using the Company's total shareholder return since the award (12.17 per cent per annum for four years, 5.01 per cent per annum for three years, -0.90 per cent per annum for two years and -4.44 per cent for one year). The after tax amounts that vested will be used in the 2017 year to purchase AFI shares in accordance with the term of the plan. The value of the investment team LTI that is yet to vest is the target amount. Actual amounts awarded may exceed this amount, depending on performance over the four year vesting period.

The investment team LTI that vested on 30 June 2016 will be paid to Mark Freeman in the 2017 financial year. During the year ended 30 June 2016, Mark Freeman received $126,886 in respect of the four years ended 30 June 2015, which was 84.2 per cent of the target amount of $150,696. The benchmark annualised return for the period was 10.8 per cent, whilst AFIC's return was 11.5 per cent.

Table 15. Long Term Incentive Plans

New ELTIP (Performance Rights)

Nature of grant	Rights to receive cash that must then be used by the Executives to acquire AFIC shares on market.	
Performance conditions	1. Total gross shareholder return (50 per cent): the movement in the AFIC share price and the Index price, grossed up to reflect the value of franking credits. This is compared to that of the market such that only out-performance is rewarded. Out-performance of this Index over time should be an indicator of the value added by the Company to shareholders' wealth. Both the Company's return and the Index return are smoothed over 30 days to remove excess volatility. 2. Total portfolio return (50 per cent): the movement in the net asset backing of the Company (per share) plus the dividends paid by the Company reinvested. This compares AFIC's investment performance against that of other fund managers (based on the Mercer Investment Consulting Survey of Australian Retail Fund Managers, which provides the industry benchmark of funds management performance over the relevant period), so that only out-performance relative to its peers is rewarded.	
Vesting schedule: total gross shareholder return	Company performance relative to gross accumulation index	Percentage of rights vesting
	Underperformance	0 per cent
	< or = 20 per cent out-performance	Straight line between 25 per cent and 50 per cent
	> 20 per cent out-performance	50 per cent
Vesting schedule: total portfolio return	Company performance	Percentage of rights vesting
	Less than median performance	0 per cent
	Median to < or = 75th percentile	Straight line between 25 per cent and 50 per cent
	> 75 per cent percentile	50 per cent
Valuation of performance rights	At 1 July each year, the 30 day volume weighted average price of AFIC shares up to, but not including, 1 July will be calculated. The amount of ELTIP available will then be divided by this average price to determine the number of performance rights that may vest in four years' time. The value of the performance rights will be adjusted each year by the total shareholder return for the year, calculated based on the 30 day volume weighted average price of AFIC shares up to 1 July. At vesting time, the value of the performance rights that will vest is converted to cash, based on the value of the rights at that time.	
Accounting treatment	Under current accounting standards, the ELTIP scheme is classified as a cash-settled scheme. The expected amount payable upon vesting must therefore be estimated each year and adjusted not only for the likelihood of vesting but also for changes in the value of the performance rights. In the first year, 25 per cent of the expected amount payable will be booked as an expense. At the end of the second year, 50 per cent of the new expected final value less the amount booked in the previous year will be booked. At the end of the third year, 75 per cent of the total, estimated final value less amounts previously expensed will be booked. At the end of the fourth year, the actual liability will be calculated and a balancing adjustment made.	

Investment Team LTI Plan

Nature of grant	Cash or shares, at discretion of the Company.	
Performance condition	Gross return which measures the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits. This return is compared to the relevant Accumulating Index as set out below.	
Indices which investment portfolios are assessed against	**Investment portfolio**	**Relevant Accumulation Index**
	AFIC (60 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Djerriwarrh Investments Limited (25 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
	Mirrabooka Investments Limited (10 per cent)	S&P/ASX Mid Cap 50 Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index, grossed up for franking credits
	AMCIL Limited (5 per cent)	S&P/ASX 200 Accumulation Index, grossed up for franking credits
Vesting schedule: Company gross return	**Company performance relative to the relevant Accumulation Index**	**Percentage of rights vesting**
	< 90 per cent performance	0 per cent
	90 – 99 per cent performance	Board discretion
	> 100 per cent up to 110 per cent performance	Straight line between 50 per cent and 100 per cent
	> 110 per cent up to 120 per cent performance	Straight line between 100 per cent and 150 per cent
	120 per cent + performance	150 per cent

Previous ELTIP (Performance Shares)

Nature of grant	Performance shares that vest when the performance conditions are satisfied.	
Performance conditions	1. Total shareholder return (50 per cent) must outperform the S&P/ASX 200 Accumulation Index. 2. Total portfolio return (50 per cent) must outperform the median performance of comparable retail fund managers (based on the Mercer Investment Consulting Survey of Australian Retail Fund Managers, which provides the industry benchmark of funds management performance over the relevant 48 to 60 month period).	
Vesting schedule: total gross shareholder return	**Company performance relative to gross Accumulation Index**	**Percentage of rights vesting**
	Underperformance	0 per cent
	< 10 per cent out-performance	25 per cent
	10 per cent to 20 per cent out-performance	37.5 per cent
	> 20 per cent out-performance	50 per cent
Vesting schedule – total portfolio return	**Company performance**	**Percentage of rights vesting**
	Less than median performance	0 per cent
	Median to <62.5th percentile	25 per cent
	62.5th percentile to <75th percentile	37.5 per cent
	> 75 per cent percentile	50 per cent
Vesting points and vesting period	Four years after performance shares are granted to Executives, performance is measured against the 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 with the first test at the end of year four, and at each month end thereafter until the fifth year of the performance period.	
Dividends	Dividends are paid to the Executives on performance shares prior to vesting, but are taken into account when setting the executive's FAR.	
Accounting treatment	If the shares fail to vest because an employee ceases employment at any time prior to the vesting of the shares, or the total portfolio return is less than the median performance, the unvested shares will be cancelled and expenses recognised to date will be reversed. However, if the shares fail to vest because the TSR condition is not satisfied, the relevant expenses will continue to be recognised.	
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.	

D. Directors and Executives: Equity Holdings and Other Transactions

Tables 16 and 17 set out reconciliations of shares and convertible notes issued by the Group and held directly, indirectly or beneficially by Non-Executive Directors and Executives of the Group, or by entities to which they were related.

Table 16: Shareholdings of Directors and Executives

	Opening Balance	Changes During Year	Closing Balance	Subject to Vesting
TA Campbell	376,632	20,007	396,639	-
RE Barker	883,040	7,764	890,804	14,736
JC Hey	8,207	10,197	18,404	-
GR Liebelt	146,643	5,446	152,089	-
J Paterson	427,666	8,169	435,835	-
DA Peever	8,880	10,123	19,003	-
FD Ryan	86,767	n/a	n/a	-
CM Walter	170,472	9,894	180,366	-
PJ Williams	14,422	53,009	67,431	-
GN Driver	123,322	1,478	124,800	6,462
RM Freeman	132,238	1,539	133,777	-
SM Pordage	29,472	n/a	n/a	-
AJB Porter	141,598	1,404	143,002	8,035

Table 17: Holdings of 6.25 per cent 2017 Convertible Notes

	Opening Balance	Changes During Year	Closing Balance
RE Barker	250	-	250
CM Walter	6,262	-	6,262
J Paterson	5,875	-	5,875
GN Driver	250	-	250

Other Arrangements with Non-Executive Directors

Non-Executive Directors John Paterson and Catherine Walter have rented office space and, for John Paterson, a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable, excluding GST, by the Group during the year was:

	Rental Income Received/Receivable $
J Paterson	26,829
CM Walter	14,414

E. Detailed Performance Measures by Investment Company

Table 18 on the following page shows the performance of AFIC and the other investment companies over the past five years, including details of total shareholder return (TSR), total portfolio return (TPR) and gross return (GR). These measures, which represent growth in shareholder wealth, determine the vesting of AFIC's LTI plans to Executives and the investment team.

Table 18: Detailed Performance Measures for AFIC and the Other Investment Companies

Year Ending 30 June	10 Year Return	8 Year Return	5 Year Return	4 Year Return	3 Year Return	2016	2015	2014	2013	2012
Comparative returns										
S&P/ASX 200 Accumulation Return	4.86%	4.69%	7.40%	11.25%	7.66%	0.56%	5.7%	17.4%	22.8%	-6.7%
Gross S&P/ASX 200 Accumulation Return	6.40%	6.28%	9.08%	12.98%	9.33%	2.16%	6.8%	19.2%	24.6%	-5.2%
Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	3.04%	2.34%	5.35%	10.70%	12.73%	16.05%	5.6%	16.9%	4.8%	-13.6%
Gross Combined Mid Cap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	3.98%	3.29%	6.36%	11.75%	13.79%	17.22%	6.3%	18.0%	5.9%	-12.7%
AFIC										
Total shareholder return	6.17%	5.82%	9.37%	12.17%	5.01%	-4.44%	2.8%	17.9%	36.7%	-1.1%
Total portfolio return	5.69%	5.37%	7.26%	10.50%	6.22%	-1.64%	3.9%	17.3%	24.4%	-4.8%
Growth in net operating result per share	2.1%	1.5%	1.2%	4.5%	1.7%	-12.4%	11.8%	7.5%	13.2%	-11.2%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.16%	0.16%	0.17%	0.18%	0.19%
Risk/reward return[1]	19th/93	34th/112	65th/140	100th/151	114th/161	n/a[2]	139th/176	36th/177	90th/175	25th/151
Gross return	7.59%	7.33%	9.18%	12.43%	8.04%	0.23%	5.6%	19.2%	26.5%	-2.9%
Investment return	6.22%	5.77%	7.50%	10.80%	6.59%	-1.04%	4.6%	17.0%	24.4%	-4.7%
Djerriwarrh Investments Limited										
Total shareholder return	5.11%	5.89%	7.82%	8.43%	4.47%	-7.68%	5.2%	17.4%	21.2%	5.4%
Total portfolio return	3.70%	3.46%	4.71%	7.11%	3.43%	-4.46%	0.2%	15.6%	19.0%	-4.4%
Growth in net operating profit per share	-2.14%	-1.84%	-5.53%	2.47%	5.99%	-10.0%	10.8%	20.7%	-8.4%	-31.8%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.46%	0.41%	0.39%	0.39%	0.41%
Gross return	6.78%	6.73%	8.09%	10.52%	6.70%	-1.10%	3.2%	19.1%	22.5%	-1.3%
Investment return	5.51%	5.50%	6.64%	8.97%	5.20%	-2.66%	2.8%	16.3%	21.1%	-2.2%
Operating earnings as a percentage of available investable assets	n/a	n/a	n/a	n/a	n/a	8.7%	7.9%	7.6%	6.9%	8.0%

Year Ending 30 June	10 Year Return	8 Year Return	5 Year Return	4 Year Return	3 Year Return	2016	2015	2014	2013	2012
Mirrabooka Investments Limited										
Total shareholder return	9.72%	11.61%	14.98%	18.23%	12.68%	13.13%	4.3%	21.2%	36.6%	2.8%
Total portfolio return	8.23%	9.06%	11.76%	13.93%	12.34%	11.96%	3.1%	22.8%	18.9%	3.5%
Growth in net operating result per share	-0.62%	-2.01%	-2.86%	-0.99%	-0.79%	16.6%	-10.0%	-7.0%	-1.6%	-10.0%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.65%	0.67%	0.64%	0.70%	0.79%
Gross return	10.91%	11.99%	14.90%	17.28%	15.93%	15.42%	6.8%	26.4%	21.2%	5.7%
Investment return	11.25%	11.63%	14.73%	17.47%	15.64%	14.77%	6.5%	26.5%	23.1%	4.5%
AMCIL Limited										
Total shareholder return	10.38%	9.88%	13.92%	13.86%	10.79%	11.81%	-0.9%	22.7%	23.6%	14.1%
Total portfolio return	9.14%	8.77%	9.71%	11.19%	8.08%	7.64%	2.2%	14.7%	21.1%	4.0%
Growth in net operating result per share	4.33%	6.54%	-2.59%	3.17%	-0.43%	4.80%	4.3%	-9.6%	14.8%	-22.6%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	0.65%	0.67%	0.65%	0.77%	0.84%
Gross return	11.35%	10.93%	12.25%	13.86%	11.07%	9.69%	5.1%	18.8%	22.5%	5.9%
Investment return	11.14%	11.00%	11.93%	13.79%	10.18%	9.28%	3.9%	17.9%	25.3%	4.8%

1. 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.

2. n/a as cannot be calculated when return is negative.

NON-AUDIT SERVICES

Details of non-audit services performed by the auditors may be found in Note F2 of the Financial Report.

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

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

A copy of the Auditor's Independence Declaration is set out on page 35.

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

Terry Campbell

Terrence Campbell AO
Chairman

Melbourne
25 July 2016

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2016, 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
25 July 2016

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FINANCIAL STATEMENTS CONTENTS

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2016

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

	Note	Cents	Cents
Basic earnings per share	A5	23.83	27.23
Diluted earnings per share	A5	23.80	27.11

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2016

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

1. 'Capital' includes realised or unrealised gains or losses (and the tax on those) on securities in the investment portfolio, including non-equity investments held in the investment portfolio. Income in the form of distributions and dividends is recorded as 'revenue'. All other items, including expenses, are included in profit for the year, which is categorised under 'revenue'.
2. Total tax movement in other comprehensive income: 2016: $110.8 million; 2015: ($3.2) million.

	Year to 30 June 2016			Year to 30 June 2015		
	Revenue $'000	Capital $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Total comprehensive income is attributable to:						
Equity holders of Australian Foundation Investment Company Ltd	265,618	(265,303)	315	293,549	(26,168)	267,381
Minority interests	183	-	183	101	-	101
	265,801	(265,303)	498	293,650	(26,168)	267,482

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2016

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

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

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

Year Ended 30 June 2015	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		2,064,936	2,253,053
Dividends paid	A4	-	-
Shares issued – Dividend Reinvestment Plan	D7	49,724	-
Share Purchase Plan	D7	184,671	-
Share issued – conversion of notes	D7	2,423	-
Other share capital adjustments		(522)	-
Total transactions with shareholders		236,296	-
Profit for the year		-	(46)
Other comprehensive income (net of tax)			
Net losses for the period		-	(26,403)
Net movement in fair value of swap contracts		-	-
Other comprehensive income for the year		-	(26,403)
Transfer to realised capital gains of cumulative gains on investments sold		-	(74,149)
Total equity at the end of the year		2,301,232	2,152,455

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

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

	Realised Capital Gains $'000	General Reserve $'000	Interest Rate Hedging $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
	317,624	23,637	(281)	524,319	5,183,288	864	5,184,152
	-	-	-	(241,486)	(241,486)	-	(241,486)
	-	-	-	-	49,724	-	49,724
	-	-	-	-	184,671	-	184,671
	-	-	-	-	2,423	-	2,423
	-	-	-	-	(522)	-	(522)
	-	-	-	(241,486)	(5,190)	-	(5,190)
	-	-	-	293,549	293,503	101	293,604
	-	-	-	-	(26,403)	-	(26,403)
	-	-	281	-	281	-	281
	-	-	281	-	(26,122)	-	(26,122)
	74,149	-	-	-	-	-	-
	391,773	23,637	-	576,382	5,445,479	965	5,446,444

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2016

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

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

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

A. Understanding AFIC's Financial Performance

A1. How AFIC Manages its Capital

AFIC's objective is to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested.

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

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

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

Refer to Notes D4–D7 for a reconciliation of movement from period to period for each equity account (except the general reserve, which is historical and relates to past profits that can be distributed, and has had no movement).

A2. Investments Held and How They Are Measured

AFIC has two portfolios of securities: the investment portfolio and the trading portfolio.

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

The balance and composition of the investment portfolio was:

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

How Investments Are Shown in the Financial Statements

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

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

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

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

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

Net Tangible Asset Backing Per Share

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

	30 June 2016 $	30 June 2015 $
Net tangible asset backing per share		
Before tax	5.50	5.85
After tax	4.79	5.00

Equity Investments

The shares in the investment portfolio are designated under the accounting standards as financial assets measured at fair value through 'other comprehensive income' (OCI) because they are equity instruments held for long term capital growth and dividend income, rather than to make a profit from their sale. This means that changes in the value of these shares during the reporting period are included in OCI in the Consolidated Statement of Comprehensive Income. The cumulative change in value of the shares over time is then recorded in the revaluation reserve. On disposal, the amounts recorded in the revaluation reserve are transferred to the realisation reserve.

Puttable Instruments and Convertible Notes

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

Securities Sold and How They Are Measured

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

Where securities are sold, any difference between the sale price and the cost is transferred from the revaluation reserve to the realisation reserve and the amounts noted in the Consolidated Statement of Changes in Equity. This means the Company is able to identify the realised gains out of which it can pay a LIC gain as part of the dividend, which conveys certain taxation benefits to many of AFIC's shareholders.

A3. Operating Income

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

	2016 $'000	2015 $'000
Dividends from securities held in investment portfolio at 30 June	272,530	314,066
Income from investment securities sold during the year	13,251	3,449
Dividends from securities held in trading portfolio at 30 June	99	-
Interest income from securities in investment portfolio	-	247
Income from trading and non-equity securities sold during the year	248	-
	286,128	317,762

Interest income		
Income from cash investments	2,754	3,425
Other income		
Administration fees	4,600	4,403
Other income	142	58
	4,742	4,461

Dividend Income

Distributions from listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Capital returns on ordinary shares are treated as an adjustment to the carrying value of the shares.

Trading Income and Non-equity Investments

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

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

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

A4. Dividends Paid

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

(a) Dividends Paid During the Year	2016 $'000	2015 $'000
Final dividend for the year ended 30 June 2015 of 14 cents fully franked at 30 per cent paid 28 August 2015 (2015: 14 cents fully franked at 30 per cent paid on 29 August 2014)	150,372	145,077
Interim dividend for the year ended 30 June 2016 of 10 cents per share fully franked at 30 per cent, paid 19 February 2016 (2015: 9 cents fully franked at 30 per cent paid 20 February 2015)	108,238	96,409
	258,610	241,486
Dividends paid in cash	204,286	191,762
Dividends reinvested in shares	54,324	49,724
	258,610	241,486
Dividends forgone via DSSP	3,699	3,128

(b) Franking Credits

Opening balance of franking account at 1 July	137,698	128,143
Franking credits on dividends received	100,883	100,932
Tax paid during the year	33,707	13,458
Franking credits paid on ordinary dividends paid	(110,832)	(103,494)
Franking credits deducted on DSSP shares issued	(1,587)	(1,341)
Closing balance of franking account	159,869	137,698
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	28,674	44,659
Adjusted closing balance	188,543	182,357
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(67,818)	(65,391)
Net available	120,725	116,966
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	281,692	272,921

AFIC's ability to continue to pay franked dividends is dependent upon the receipt of franked dividends from the trading and investment portfolios and on AFIC paying tax.

(c) New Zealand Imputation Account

(Figures in A$ at year-end exchange rate: 2016: NZ$1.045: A$1; 2015: NZ$1.14: A$1)

Opening balance	13,485	6,761
Imputation credits on dividends received	6,182	5,599
Imputation credits on dividends paid	(11,991)	-
Closing balance	7,676	12,360

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

(d) Dividends Declared After Balance Date

Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30 per cent. The aggregate amount of the final dividend for the year to 30 June 2016 to be paid on 30 August 2016, but not recognised as a liability at the end of the financial year is:	158,243	

(e) Listed Investment Company Capital Gain Account

Balance of the LIC capital gain account:	19,854	61,134
This equates to an attributable amount of	28,363	87,334

Distributed LIC capital gains may entitle certain shareholders to a deduction in their tax return, as set out in the dividend statement. LIC capital gains available for distribution are dependent on the disposal of investment portfolio holdings that qualify for LIC capital gains, or the receipt of LIC distributions from LIC securities held in the portfolios. $16.9 million of the capital gain ($24.2 million of the attributable amount) will be paid out as part of the final dividend on 30 August 2016.

A5. Earnings Per Share

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

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

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

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

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

Employee Benefit Expenses

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

	Short Term Benefits $	Other Long Term Benefits $	Post Employment Benefits $	Share Based Payments $	Total $
2016					
Non-Executive Directors	652,722	-	70,145	-	722,867
Executives	3,657,197	135,606	131,090	384,593	4,308,486
Total	4,309,919	135,606	201,235	384,593	5,031,353
2015					
Non-Executive Directors	671,007	-	93,993	-	765,000
Executives	3,919,635	154,216	133,783	488,750	4,696,384
Total	4,590,642	154,216	227,776	488,750	5,461,384

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group does not make loans to Directors or Executives.

B2. Tax

AFIC's tax position, and how it accounts for tax, is explained here. Detailed reconciliations of tax accounting to the financial statements can be found in Note E2.

The income tax expense for the period is the tax payable on this financial year's taxable income, adjusted for any changes in deferred tax assets and liabilities attributable to temporary differences and for any unused tax losses. Deferred tax assets and liabilities (except for those related to the unrealised gains or losses in the investment portfolio) are offset, as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis.

A provision has been made for taxes on any unrealised gains or losses on securities valued at fair value through the Income Statement – i.e. the trading portfolio, puttable instruments and convertible notes that are classified as debt.

A provision also has to be made for any taxes that could arise on sale of securities in the investment portfolio, even though there is no intention to dispose of them. Where AFIC disposes of such securities, tax is calculated according to the particular parcels allocated to the sale for tax purposes, offset against any capital losses carried forward.

Tax Expense

The income tax expense for the period is shown below:

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

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

Deferred Tax Liabilities – Investment Portfolio

The accounting standards require us to recognise a deferred tax liability for the potential capital gains tax on the unrealised gain in the investment portfolio. This amount is shown in the Balance Sheet. However, the Board does not intend to sell the investment portfolio, so this tax liability is unlikely to arise at this amount. Any sale of securities would also be affected by any changes in capital gains tax legislation or tax rate applicable to such gains when they are sold.

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

B3. Risk

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

As a LIC that invests in tradeable securities, AFIC can never be free of market risk as it invests its capital in securities that 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 AFIC's comprehensive income of $218.8 million and $437.5 million respectively, at a tax rate of 30 per cent (2015: $224.3 million and $448.7 million). The revaluation reserve at 30 June 2016 was $1.77 billion (2015: $2.15 billion). It would require a fall in the value of the investment portfolio of 40 per cent after tax to fully deplete this (2015: 48 per cent).

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

AFIC's investment exposure by sector is as below:

	2016 %	2015 %
Energy	4.60	6.71
Materials	14.73	16.66
Industrials	11.18	8.07
Consumer discretionary	1.80	1.36
Consumer staples	8.25	7.97
Banks	23.71	29.16
Other financials	10.07	9.22
Property trusts	2.79	2.01
Telecommunications	6.01	5.68
Healthcare	10.35	5.92
Information technology	1.47	2.01
Utilities	2.61	2.74
Cash	2.43	2.49

	2016 %	2015 %
Securities representing over 5 per cent of the investment portfolio at 30 June were:		
Commonwealth Bank	9.5	11.3
Westpac	7.3	9.1
BHP Billiton	4.2	6.0
National Australia Bank	4.1	5.2
Telstra	4.7	5.0

AFIC is also not directly exposed to material currency risk as most of its investments are quoted in Australian dollars.

The writing of call options provides some protection against a fall in market prices as it generates income to partially compensate for a fall in capital values. Options are only written against securities that are held in the trading or the specific sub-section of the investment portfolio.

Interest Rate Risk

The Group is not currently materially exposed to interest rate risk as all its cash investments and borrowings (with the exception of the convertible notes) are short term for a fixed interest rate. The convertible notes were also issued at a fixed interest rate.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. AFIC is exposed to credit risk from cash, receivables, securities in the trading portfolio and securities in the investment portfolio respectively. None of these assets are overdue. The risk in relation to each of these items is set out below.

Cash

All cash investments not held in a transactional account are invested in short term deposits with Australia's 'big four' commercial banks or their wholly-owned subsidiaries or in cash management trusts managed by those subsidiaries. In the unlikely event of a bank default or default on the underlying securities in the cash trust, there is a risk of losing the cash deposits and any accrued unpaid interest.

Receivables

Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within two days of the date of a transaction. Receivables are non-interest bearing and unsecured. In the event of a payment default, there is a risk of losing any difference between the price of the securities sold and the price of the recovered securities from the discontinued sale.

Trading and Investment Portfolios

Converting and convertible notes or other interest-bearing securities that are not equity securities carry credit risk to the extent of their carrying value. This risk will be realised in the event of a shortfall on winding up of the issuing companies.

Liquidity Risk

Liquidity risk is the risk that an entity will not be able to meet its financial liabilities.

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

AFIC's inward cash flows depend upon the dividends received. Should these drop by a material amount, AFIC would amend its outward cash flows accordingly. AFIC's major cash outflows are the purchase of securities and dividends paid to shareholders, and both of these can be adjusted by the Board and management. Furthermore, the assets of AFIC are largely in the form of readily tradeable securities, which can be sold on-market if necessary.

The table below analyses AFIC's financial liabilities into relevant maturity groupings. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

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

30 June 2015	Less Than 6 Months $'000	6–12 Months $'000	Greater Than 1 Year $'000	Total Contractual Cash Flows $'000	Carrying Amount $'000
Non-derivatives					
Payables	10,783	-	-	10,783	10,783
Convertible notes	-	-	203,568	203,568	202,252
	10,783	-	203,568	214,351	213,035
Derivatives					
Derivatives					
Options in trading portfolio[1]	-	-	-	-	1,229
Interest rate swaps	-	-	-	-	-
	-	-	-	-	1,229

1. In the case of call options, there are no contractual cash flows as if the option is exercised the contract will be settled in the securities over which the option is written. The contractual cash flows for put options (none in 2015) written are the cash sums the Company will pay to acquire securities over which the options have been written, and it is assumed for purpose of the above disclosure that all options will be exercised (i.e. maximum cash outflow).

C. Unrecognised Items

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

C1. Contingencies

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

ADDITIONAL INFORMATION

Additional information that shareholders may find useful is included here. It is grouped into three sections:

D. Balance Sheet reconciliations

E. Income Statement reconciliations

F. Other information

D. Balance Sheet Reconciliations

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

D1. Current Assets – Cash

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

Cash holdings yielded an average floating interest rate of 2.25 per cent (2015: 2.76 per cent). All cash investments not held in a transactional account or an overnight 'at call' 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, which have a maturity of three months or less or in cash management trusts managed by those subsidiaries that invest predominantly in securities with an A1+ rating.

D2. Credit Facilities

	2016 $'000	2015 $'000
Commonwealth Bank of Australia – cash advance facilities	140,000	115,000
Amount drawn down	0	0
Undrawn facilities	140,000	115,000
Westpac Bank – cash advance facilities	10,000	35,000
Amount drawn down	0	0
Undrawn facilities	10,000	35,000
Total short term loan facilities	150,000	150,000
Amount drawn down	0	0
Undrawn facilities	150,000	150,000

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

D3. Convertible Notes

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

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

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

D4. Revaluation Reserve

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

This reserve is used to record increments and decrements on the revaluation of the investment portfolio as described in accounting policy Note A2.

D5. Realised Capital Gains Reserve

	2016 $'000	2015 $'000
Opening balance at 1 July	391,773	317,624
Dividends paid	(53,704)	-
Cumulative taxable realised gains for period through OCI (net of tax)	119,524	74,149
	457,593	391,773

This reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio as described in A2.

D6. Retained Profits

	2016 $'000	2015 $'000
Opening balance at 1 July	576,382	524,319
Dividends paid	(204,906)	(241,486)
Profit for the year	265,573	293,503
Transfer to revaluation reserve (puttable instruments and non-equity investments) (net of tax)	45	46
	637,094	576,382

This reserve relates to past profits.

D7. Share Capital

(a) Share Capital

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

(b) Movements in Share Capital

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/7/2014	Balance		1,049,055		2,065,017
29/8/2014	Dividend Reinvestment Plan	(i)	4,983	5.93	29,549
29/8/2014	Dividend Substitution Share Plan	(ii)	302	n/a	-
31/8/2014	Convertible note conversion	(iv)	306	5.09	1,558
6/10/2014	Share Purchase Plan	(v)	31,425	5.88	184,671
20/2/2015	Dividend Reinvestment Plan	(i)	3,379	5.97	20,175
20/2/2015	Dividend Substitution Share Plan	(ii)	224	n/a	-
28/2/2015	Convertible note conversion	(iv)	170	5.09	865
Various	Costs of issue		-		(597)
30/6/2015	Balance		1,089,844		2,301,238
28/8/2015	Dividend Reinvestment Plan	(i)	5,252	6.03	31,670
28/8/2015	Dividend Substitution Share Plan	(ii)	366	n/a	-
31/8/2015	Convertible note conversion	(iv)	1,878	5.09	9,551
25/11/2015	Share Purchase Plan	(vi)	27,839	5.51	153,340
19/2/2016	Dividend Reinvestment Plan	(i)	4,172	5.43	22,654
19/2/2016	Dividend Substitution Share Plan	(ii)	275	n/a	-
28/2/2016	Convertible note conversion	(iv)	696	5.09	3,540
Various	Cancellation of ELTIP shares not vested		(17)	n/a	(71)
Various	Costs of issue		-		(481)
30/6/2016	Balance		1,130,305		2,521,441

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

(ii) The Group has a Dividend Substitution Share Plan (DSSP) whereby shareholders may elect to forgo a dividend and receive shares instead. Pricing for the DSSP shares is done as per the DRP shares.

(iii) The Group has an on-market share buy-back program. During the financial year, no shares were bought back (2015: nil).

(iv) See Note D3. 130,908 Feb 2017 convertible notes were converted into shares during the year (2015: 24,230).

(v) During the year ended 30 June 2015, the Group had a SPP. Shareholders were invited to subscribe for $15,000 worth of new shares. Pricing was set at the lower of $5.93 or a 2.5 per cent discount to the VWAP of the shares traded on the five days up to and including the closing date of the offer.

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

All shares have been fully paid, rank *pari passu* and have no par value.

E. Income Statement Reconciliations

E1. Reconciliation of Net Cash Flows From Operating Activities to Profit

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

E2. Tax Reconciliations

Tax Expense Composition

	2016 $'000	2015 $'000
Charge for tax payable relating to the current year	14,360	10,563
Over provision in prior years	(2,080)	(1,021)
Increase/(decrease) in deferred tax liabilities – investment portfolio	(20)	(19)
(Increase)/decrease in deferred tax assets	(507)	337
	11,753	9,860

Amounts Recognised Directly Through Other Comprehensive Income

Net (decrease)/increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	(110,787)	3,122
	(110,787)	3,122

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

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

Movements:		
Opening asset balance at 1 July	527	864
Credited/(charged) to Income Statement	507	(337)
	1,034	527

Deferred tax assets arise when provisions and expenses have been charged but are not yet tax deductible. These assets are realised when the relevant items become tax deductible, as long as enough taxable income has been generated to claim the assets against, and as long as there are no changes to the tax legislation that affect AFIC's ability to claim the deduction.

The portion of deferred tax liability likely to be reversed within the next 12 months is $0.8 million (2015: $1.0 million). This relates primarily to items described in items (a) and (c) above.

F. Other Information

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

F1. Related Parties

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

(a) Arrangements With Non-Executive Directors

Non-Executive Directors John Paterson and Catherine Walter have rented office space and for J Paterson a parking space from the Group at commercial rates during the year. Sub-lease rental income (included in revenue) received or receivable by the Group, excluding GST, during the year was $41,243 (2015: $43,561).

(b) AICS Transactions With Minority Interests

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

	2016 $'000	2015 $'000
Administration expenses charged for the year	2,412	2,274

(c) AICS Transactions With Other Listed Investment Companies

AICS had the following transactions with other LICs to which it provides services:

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

F2. Remuneration of Auditors

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

	2016 $	2015 $
PricewaterhouseCoopers		
Audit or review of financial reports	205,247	239,964
AFSL compliance audit and review	9,925	9,925
Non-audit services		
Taxation compliance services	38,819	37,868
Total remuneration	253,991	287,757

F3. Segment Reporting

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

Description of Segments

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

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

Segment Information Provided to the Board

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

Other Segment Information

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

AFIC is domiciled in Australia and most of AFIC's income is derived from Australian entities or entities that maintain a listing in Australia. AFIC has a diversified portfolio of investments, with only two investments comprising more than 10 per cent of AFIC's income, including realised income from the trading and options written portfolios – Commonwealth Bank (11.9 per cent) and Westpac Bank (11.2 per cent).

F4. Summary of Other Accounting Policies

This general purpose Financial Report has been prepared in accordance with Australian Accounting Standards, Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. This Financial Report has been authorised for issue and is presented in the Australian currency. AFIC has the power to amend and reissue the Financial Report.

AFIC has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market value	Fair value for actively traded securities
Cash	Cash and cash equivalents
Share capital	Contributed equity
Options	Derivatives written over equity instruments that are valued at fair value through profit or loss
Hybrids	Equity instruments that have some of the characteristics of debt

AFIC complies with International Financial Reporting Standards (IFRS). AFIC is a 'for profit' entity.

AFIC has not applied any Australian Accounting Standards or AASB Interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2016 ('the inoperative standards') except for AASB 9 (2009), which was adopted on 7 December 2009. The impact of the inoperative standards has been assessed and the impact has been identified as not being material. AFIC only intends to adopt other inoperative standards at the date at which their adoption becomes mandatory.

Basis of Accounting

The financial statements are prepared using the valuation methods described in A2. All other items have been treated in accordance with the historical cost convention.

Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and liabilities of AFIC approximates their carrying value.

Convertible Notes

On the issue of convertible notes, the Group estimates the fair value of the liability component of the convertible notes, being the obligation to make future payments of principal and interest to holders, using a market interest rate for a non-convertible note of similar terms and conditions. The residual amount is included in equity as other equity securities with no recognition of any change in the value of the option in subsequent periods. The liability component is then included in borrowings. Expenses incurred in connection with the issue of the notes are deducted from the total face value and the expense is then incurred over the life of the notes.

The total liability is subsequently carried on an amortised cost basis with interest on the notes recognised as finance costs on an effective yield basis until the liability is extinguished on conversion or maturity of the notes.

Employee Benefits

(i) Wages, Salaries and Annual Leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

In calculating the value of long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Cash Incentives

Cash incentives are provided under the Senior Executive Annual Incentive Plan and are dependent upon the performance of the Group. A provision is made for the cost of unsettled cash incentives at balance date. The Investment Team Annual Incentive plans are also settled on a cash basis.

(iv) Share Incentives

Share incentives are provided under the Senior Executive Annual Incentive Plan, Senior Executive Long Term Incentive Plan, Investment Team Long Term Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Senior Executive Annual Incentive Plan, the incentives are based on the performance of the individual, the Group and investment companies to which the Group provides administration services for the financial year. For the Employee Share Acquisition Scheme and a portion of the Senior Executive Annual Incentive, the recipient agrees to purchase (or have purchased for them) shares on-market, but receives a cash amount. A provision for the amount payable under the Annual Incentive Plans is recognised on the Balance Sheet.

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

Under the Senior Executive Long Term Incentive Plan, which was introduced for the year ended 30 June 2013, the amount awarded is represented by performance shares. The 30 day 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 share 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. Should performance conditions be met, the first vesting under this plan will occur in the year ended 30 June 2017.

The expense will be charged directly through the Group's profit and loss account in the following manner – 25 per cent of the total estimated cost in year one, 50 per cent of the total estimated cost in year two less the expense charged in year one, 75 per cent of the total estimated cost in year three less the expense charged in years one and two, and 100 per cent of the total estimated cost in year four less the expense charged in years one, two and three.

Shares are no longer awarded under the previous Senior Executive Long Term Incentive Plan, but expenses will continue to be incurred under it until the conclusion of the vesting period in August 2016. Shares acquired to satisfy obligations under the old Senior Executive Long Term Incentive Plans are recognised as an adjustment against share capital (referred to as 'ELTIP shares adjustment') as at the date of acquisition by the Group. Between the award date and the vesting date the fair value of the ELTIP shares is expensed over the relevant period of service for each Executive, and recognised in equity in the ELTIP shares adjustment account. In the event that the Executive does not complete the period of service, the cumulative expense is reversed. The fair value of the shares is determined at the award date and is based on:

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

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

Directors' Retirement Allowances

The Group recognises as 'amounts payable' Directors' retirement allowances that have been crystallised. No further amounts will be expensed as retirement allowances.

Administration Fees

The Group currently provides administrative services to other listed investment companies. The associated fees are recognised on an accruals basis as income throughout the year. Any amounts outstanding at balance date are recognised as receivable, subject to the assessment of recoverability by the Directors.

Operating Leases

The Group currently has an operating lease in respect of its premises. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Rounding of Amounts

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

F5. Performance Bond

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

F6. Share Based Payments

Share Based Payments

The Group has a number of share incentive arrangements. These are accounted for in accordance with Note F4. Where shares are issued to employees of AICS, AICS compensates AFIC for the fair value of the shares.

(a) Executive Incentive Plans

The Executives' remuneration arrangements incorporate an 'at risk' component as set out in the Remuneration Report. Part of this 'at risk' component is paid in shares in the Group.

(i) Senior Executive Annual Incentive Plan

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

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

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

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

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

(ii) Senior Executive Long Term Incentive Plan

Senior Executives were awarded a number of shares equivalent to 50 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 TSR and the TPR, which reflect the movement in the share price of the Company (TSR) and in the portfolio of investments in which the Company has invested shareholders' funds (TPR). The number of shares that vest is based on the highest cumulative performance level achieved under each category. Shares that do not vest are transferred back to the Group for no consideration and are cancelled.

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

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

Under the new Senior Executive Long Term Incentive Plan, the amount awarded will be represented by Performance Rights. The 30 day VWAP of AFIC shares up to but not including 1 July will be calculated. The amount of ELTIP available will then be divided by this 30 day VWAP price to determine the number of performance rights that may vest at the vesting point in four years' time. The value of each performance right will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30 day VWAP price up to 30 June.

The estimated fair value of the award will be calculated in accordance with AASB 2 – Share Based Payments at the end of each year until the final year of vesting. The liability shown after the final year of vesting will represent the actual amount being paid to eligible employees as a cash-settled share based payment.

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

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

2016 Award Date	Assessment Period	Balance at Start of The Year Number	Awarded During The Year Number	Vested During The Year Number	Lapsed During The Year Number	Balance at End of The Year Number
August 2010	August 2014 – August 2015	18,266	-	6,088	12,178	-
August 2011	August 2015 – August 2016	66,845	-	33,422	4,190	29,233
Total		85,111	-	39,510	16,368	29,233

2015 Award Date	Assessment Period	Balance at Start of The Year Number	Awarded During The Year Number	Vested During The Year Number	Lapsed During The Year Number	Balance at End of The Year Number
August 2010	August 2014 – August 2015	48,700	-	30,434	-	18,266
August 2011	August 2015 – August 2016	66,845	-	-	-	66,845
		115,545	-	30,434	-	85,111

(iii) Investment Team Long Term Incentive Plan

Similar to the annual incentive plans, a target cash amount of long term incentive is set each year in respect of that year, which will vest in four years' time. The percentage of this target that ultimately vests four years after the award depends on the gross return of the Group and the investment companies it provides administration services to.

The amount that vests will be paid in cash or shares (purchased on-market at that time, based on the cash amount that vests) at the discretion of the Group.

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

(b) Employee Share Acquisition Scheme

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

In addition, each employee is eligible for an additional award of up to $5,000. 50 per cent of the amount awarded is used to buy shares in one of the other LICs that AICS provides services to. The amount that is awarded is dependent on the metrics used for the vesting of the investment team's short term incentive (excluding personal measures). During the year, 83.125 per cent of possible maximum was awarded, and 50 per cent of this was used to buy shares in Djerriwarrh Investments Limited.

(c) Expenses Arising From Share Based Payment Transactions

Total expenses arising from share based payment transactions recognised during the period as part of the employee benefit expense (including the expense for the ELTIP but excluding the Investment Team Long Term Incentive Plan) were as follows:

	2016 $'000	2015 $'000
Share based payment expense	306	529

(d) Liability

The total liability arising from share based payment transactions is included in the current and non-current liabilities for 'provisions'.

F7. Lease Commitments

The Group has entered into a non-cancellable operating lease for the use of its premises for seven years. Current commitment relating to leases at balance date for the current lease (including GST) is:

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

F8. Principles of Consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent and its subsidiary AICS. 25 per cent of AICS is owned by Djerriwarrh Investments Ltd, another investment company for which AICS performs operational and investment administration services, and for which it is paid monthly.

No subsidiaries were acquired or disposed of during the year. Intercompany transactions and balances between AFIC and AICS are eliminated on consolidation.

The financial information for the parent entity, disclosed in F10 below, has been prepared on the same basis as the consolidated financial statements. All notes are for the consolidated group unless specifically noted otherwise.

F9. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

			Equity Holding	
Name of Entity	Country of Incorporation	Class of Shares	2016	2015
Australian Investment Company Services Ltd	Australia	Ordinary	75%	75%

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

F10. Parent Entity Financial Information

Summary Financial Information

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

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

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 37 to 66 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 2016 and of its performance for the financial year ended on that date; and

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

Note F4 to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

This declaration has been made after receiving the declarations required to be made to the Directors by the Managing Director and the Chief Financial Officer regarding the financial statements in accordance with Section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2016. The declarations received were that, in the opinion of the Managing Director and the Chief Financial Officer to the best of their knowledge, the financial records of the Company have been properly maintained, that the financial statements comply with Accounting Standards and that they give a true and fair view.

Terry Campbell

Terrence Campbell AO
Chairman

Melbourne
25 July 2016

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

Report on the financial report

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

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

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

pwc

Auditor's opinion

In our opinion:

(a) the financial report of Australian Foundation Investment Company Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note F.

Report on the Remuneration Report

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

Auditor's opinion

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

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
25 July 2016

INFORMATION ABOUT SHAREHOLDERS AND NOTEHOLDERS

At 19 July 2016 there were 113,696 holdings of ordinary shares and 3,864 holders of December 2011 6.25 per cent unsecured convertible notes. These holdings were distributed in the following categories:

Size of Holding	Shareholdings	Noteholdings
1 to 1,000	28,644	3,597
1,001 to 5,000	39,642	227
5,001 to 10,000	19,414	28
10,001 to 100,000	24,992	12
100,000 and over	1,004	0
Total	113,696	3,864

Percentage held by the 20 largest holders	5.11%	15.23%
Average shareholding	9,941	492

There were 2,727 shareholdings of less than a marketable parcel of $500 (88 shares).

There were 3 noteholdings of less than a marketable parcel of $500 (5 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 19 July 2016 are listed below:

Ordinary Shares	Shares Held	%
IOOF Investment Management Limited <IPS Super A/C>	6,066,532	0.54
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,294,333	0.47
Bougainville Copper Limited	5,236,356	0.46
HSBC Custody Nominees (Australia) Limited	4,983,518	0.44
Navigator Australia Ltd <MLC Investment Sett A/C>	4,286,918	0.38
Custodial Services Limited <Beneficiaries Holding A/C>	3,016,484	0.27
Trustees of The Redemptorist Fathers	2,878,000	0.25
Investment Custodial Services Limited <C A/C>	2,687,155	0.24
Bushways Pty Ltd	2,570,592	0.23
National Nominees Limited	2,498,069	0.22
Investment Custodial Services Limited <C A/C>	2,351,976	0.21
Netwealth Investments Limited <Wrap Services A/C>	2,259,273	0.20
Citicorp Nominees Pty Limited	2,135,613	0.19
Kalymna Pty Ltd	1,852,186	0.16
Invia Custodian Pty Limited <RISF A/C>	1,836,560	0.16
J P Morgan Nominees Australia Limited	1,732,130	0.15
IOOF Investment Management Limited <IPS IDPS A/C>	1,626,377	0.14
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	1,545,379	0.14
Netwealth Investments Limited <Super Services A/C>	1,475,914	0.13
Twibill Pty Ltd	1,443,216	0.13

Unsecured Convertible Notes – (December 2011, 6.25 per cent)	Notes Held	%
UBS Nominees Pty Ltd	43,137	2.26
J P Morgan Nominees Australia Limited	29,740	1.56
HSBC Custody Nominees (Australia) Limited	23,043	1.21
Custodial Services Limited <Beneficiaries Holding A/C>	19,817	1.04
IOOF Investment Management Limited <IPS Super A/C>	16,000	0.84
Jetosea Pty Ltd	14,883	0.78
National Nominees Limited	14,802	0.78
The Beach Retreat Pty Ltd <Rob Noble Super Fund A/C>	13,840	0.73
Farallon Capital Pty Ltd <Nunn Investment A/C>	11,500	0.60
Invia Custodian Pty Limited <Grattan Inst/Cth Fund A/C>	11,208	0.59
Invia Custodian Pty Limited <Grattan Inst/General Fd A/C>	11,184	0.59
Mr Angus Youngman Graham + Mrs Helen Kay Graham <A Y Graham Fam Sett S/F A/C>	11,129	0.58
Court Super Pty Ltd <G & P Burg Super Fund A/C>	10,000	0.52
Invia Custodian Pty Limited <RISF A/C>	10,000	0.52
HSBC Custody Nominees (Australia) Limited – A/C 2	8,800	0.46
Nabe Pty Ltd <The Glass A/C>	8,500	0.45
Ms Gweneth Joy McIntyre + Ms Glenice Kay Gronow <GJ McIntyre Pension A/C>	8,300	0.44
Lintern Pty Ltd <LEP Super Fund A/C>	8,256	0.43
Hedgewick Pty Ltd	8,000	0.42
Invia Custodian Pty Limited <Sundberg Family A/C>	8,000	0.42

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
Healthscope	53,166
CSL	44,900
Macquarie Group[(a)]	41,713
Qube Holdings	37,969
Mainfreight[(a)] (listed on the New Zealand Stock Exchange)	35,423
Challenger[(a)]	32,108
Mayne Pharma Group[(a)]	29,102
James Hardie Industries	27,554
Fisher & Paykel Healthcare Corporation	25,141
Seek	24,719
Suncorp Group	24,409
Treasury Wine Estates	22,653
REA Group[(a)]	18,168
ASX	16,746
Origin Energy	15,903
Navitas[(a)]	15,871
ALS	14,734
Regis Healthcare	14,478
Freedom Foods Group[(a)]	14,454
Australian Agricultural Company[(a)]	14,052
Brambles	13,269
Vocus Communications	13,062
Oil Search	12,758
ResMed	11,940
Sydney Airport	11,939
QBE Insurance Group	11,341
Insurance Australia Group	11,265
Japara Healthcare	10,547
Reece[(a)]	10,285
CYBG PLC* (demerger from National Australia Bank)	10,074
OzForex Group[(a)]	10,059

Disposals (Above $10 Million)	Proceeds $'000
Westpac Banking Corporation	82,226
Commonwealth Bank of Australia	40,319
Computershare	34,565
APA Group	33,346
Wesfarmers	28,098
Woolworths	26,223
Origin Energy	22,013
Asciano	21,636
iProperty Group[(b)] (takeover by REA Group Limited)	21,304
21st Century Fox Inc.[(b)] (listed on the NASDAQ Global Select Market)	20,424
Santos	19,322
Recall Holdings[(b)] (takeover by Iron Mountain Incorporated)	18,048
Veda Group[(b)] (takeover by Equifax Inc.)	16,385
Oil Search	15,862
QBE Insurance Group	14,395
Sims Metal Management[(b)]	13,055
Alumina	12,217
Milton Corporation	10,915
SAI Global[(b)]	10,690

(a) New to the portfolio.

(b) Complete disposal.

SUB-UNDERWRITING

Company	Underwritten By	Description	Amount Underwritten
Mayne Pharma Group Limited	Credit Suisse/UBS	$888 million equity raising including: – $601 million 1 for 1.725 accelerated non-renounceable pro rata entitlement offer – $287 million institutional placement	$16,666,666
ALS Limited	J P Morgan/Morgans Corporate	$325 million 5 for 21 accelerated non-renounceable pro rata entitlement offer	$4,199,999
Commonwealth Bank of Australia	Morgan Stanley/UBS	$5,060 million 1 for 23 accelerated renounceable pro rata entitlement offer with retail rights trading	$8,000,064
Treasury Wine Estates Limited	Goldman Sachs	$155 million 2 for 15 accelerated renounceable pro rata entitlement offer	$5,769,232
ClearView Wealth Limited	Morgan Stanley	$50 million 1 for 10.2 accelerated pro rata renounceable entitlement offer	$3,000,000

SUBSTANTIAL SHAREHOLDERS

The Company has not been notified of any substantial shareholders.

TRANSACTIONS IN SECURITIES

During the year ended 30 June 2016, the Company recorded 1,428 transactions in securities. $3,644,181 in brokerage (including GST) was paid or accrued for the year.

HOLDINGS OF SECURITIES
At 30 June 2016

Individual investments for the combined investment and trading portfolios as at 30 June 2016 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange and the New Zealand Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
AAC	Australian Agricultural Company	0	9,764	17,234
ACX	Aconex	0	884	6,198
AGL	AGL Energy	6,100	5,590	107,827
AIA	Auckland International Airport	1,170	1,770	10,974
AIO	Asciano	4,855	1,966	17,440
ALQ	ALS	4,942	9,205	45,015
AMC	Amcor	12,864	12,300	183,639
AMP	AMP	20,100	20,100	103,718
ANN	Ansell	1,284	1,284	23,328
ANZ	Australia and New Zealand Banking Group	8,488	8,488	204,724
APA	APA Group	10,340	6,450	59,598
APE	AP Eagers	769	769	9,179
ARB	ARB Corporation	948	1,198	20,056
ASX	ASX	459	709	32,429
AWC	Alumina	14,323	5,513	7,140
AZJ*	Aurizon Holdings	2,480	4,380	20,131
BGA	Bega Cheese	2,203	2,203	12,468
BHP	BHP Billiton	14,221	13,991	260,931
BKW	Brickworks	1,503	1,503	21,583
BLD	Boral	4,008	4,008	24,933
BXB	Brambles	11,174	11,930	147,812
CBA	Commonwealth Bank of Australia	8,483	7,965	592,357
CCL	Coca-Cola Amatil	5,160	5,160	42,467
CGF	Challenger	0	4,065	35,084
COH	Cochlear	0	75	9,094

HOLDINGS OF SECURITIES continued
At 30 June 2016

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
CPU	Computershare	8,156	4,660	42,732
CSL	CSL	1,172	1,649	184,929
CSR	CSR	2,492	3,109	11,318
CTX	Caltex Australia	605	579	18,473
CVO	Cover-More Group	4,737	8,221	9,947
CVW	ClearView Wealth	0	4,547	4,320
CWP	Cedar Woods Properties	3,859	2,000	8,700
CYB	CYBG PLC	0	2,524	10,527
DJW	Djerriwarrh Investments	8,597	7,505	30,622
DLX	DuluxGroup	2,556	2,556	16,154
DUI	Diversified United Investment	12,030	12,030	39,339
EQT	EQT Holdings	1,488	1,303	21,425
EVT	Event Hospitality & Entertainment	1,030	1,030	14,970
FLT	Flight Centre Travel Group	241	241	7,609
FNP	Freedom Foods Group	0	4,507	18,297
FPH	Fisher & Paykel Healthcare Corporation	1,706	5,008	47,876
HSO	Healthscope	7,885	29,000	82,940
IAG*	Insurance Australia Group	3,500	5,226	28,383
ICQ	iCar Asia	4,155	4,555	3,871
IDX	Integral Diagnostics	0	5,071	7,353
IEL	IDP Education	0	880	3,624
ILU*	Iluka Resources	2,367	3,142	20,167
INM	Iron Mountain	0	202	10,700
IPL	Incitec Pivot	22,029	22,280	66,171
IRE	IRESS	2,709	3,124	34,025
IVC	InvoCare	1,150	1,150	15,111
JHC	Japara Healthcare	10,393	14,007	35,719

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
JHX*	James Hardie Industries	1,350	3,001	61,091
LIC	Lifestyle Communities	4,293	5,470	15,919
MFT	Mainfreight	0	2,550	40,571
MIR	Mirrabooka Investments	8,728	8,728	24,089
MLT	Milton Corporation	14,403	11,841	50,681
MPL	Medibank Private	0	2,000	5,900
MQG*	Macquarie Group	0	583	40,071
MYX	Mayne Pharma Group	0	20,361	38,788
NAB*	National Australia Bank	10,097	9,994	253,977
NVT	Navitas	0	3,678	20,190
OFX	OzForex Group	0	4,470	10,371
ORA	Orora	12,864	12,864	35,505
ORG	Origin Energy	6,957	6,000	34,500
ORI	Orica	2,712	2,712	33,434
OSH	Oil Search	16,783	16,483	109,938
PHG	Pulse Health	7,967	7,441	1,637
PPT	Perpetual	1,031	1,061	43,633
QBE*	QBE Insurance Group	8,290	7,874	82,083
QUB	Qube Holdings	13,451	31,759	70,186
REA	REA Group	0	344	20,462
REG	Regis Healthcare	2,666	5,355	25,115
REH	Reece	0	318	11,777
RHC*	Ramsay Health Care	1,360	1,520	108,560
RIO	Rio Tinto	3,652	3,652	166,155
RMD	ResMed	2,700	3,900	32,370
RWC	Reliance Worldwide Corporation	0	2,400	7,416
S32*	South32	17,721	17,721	27,242

HOLDINGS OF SECURITIES continued
At 30 June 2016

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
SCG	Scentre Group	11,437	12,950	63,714
SEK	Seek	1,600	3,315	50,421
SHL*	Sonic Healthcare	2,020	1,966	41,960
SOL	Washington H Soul Pattinson	1,709	1,709	29,046
SRX	Sirtex Medical	220	460	11,762
STO	Santos	8,037	3,189	14,798
SUN*	Suncorp Group	1,740	3,640	44,293
SYD*	Sydney Airport	6,782	8,700	60,279
TCL	Transurban Group	18,335	18,335	219,840
TGG	Templeton Global Growth Fund	12,106	12,106	13,982
TLS	Telstra Corporation	52,445	52,445	291,594
TOX	Tox Free Solutions	10,661	8,645	22,391
TPM	TPG Telecom	4,677	5,340	63,546
TWE*	Treasury Wine Estates	3,258	6,882	63,495
VCX	Vicinity Centres (formerly Federation Centres)	17,378	15,628	51,883
VOC	Vocus Communications	1,725	3,500	29,820
WBC	Westpac Banking Corporation	18,236	15,545	457,023
WES	Wesfarmers	7,423	6,723	269,572
WFD	Westfield Corporation	4,243	4,933	52,532
WOW	Woolworths	6,000	5,020	104,868
WPL	Woodside Petroleum	3,413	3,283	88,113
WTC	WiseTech Global	0	746	3,306
XRO	Xero	0	437	7,603
Total				6,238,162

* 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 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	115	11,845
Total				11,845

ISSUES OF SECURITIES

Date of Issue	Type	Price	Remarks
19 February 2016	DRP/DSSP	$5.43	2.5 per cent discount
25 November 2015	SPP	$5.51	5.0 per cent discount
28 August 2015	DRP/DSSP	$6.03	2.5 per cent discount
20 February 2015	DRP/DSSP	$5.97	2.5 per cent discount
6 October 2014	SPP	$5.88	2.5 per cent discount
29 August 2014	DRP/DSSP	$5.93	2.5 per cent discount
21 February 2014	DRP/DSSP	$5.86	2.5 per cent discount
30 August 2013	DRP/DSSP	$5.64	2.5 per cent discount DSSP = Dividend Substitution Share Plan
22 February 2013	DRP	$5.37	
31 August 2012	DRP	$4.36	
24 February 2012	DRP	$4.26	
19 December 2011	Convertible notes	$100 Face Value	Mature 28 February 2017. Interest rate 6.25 per cent per annum. Conversion price: $5.0864
31 August 2011	DRP	$4.18	
25 February 2011	DRP	$4.72	2.5 per cent discount
1 September 2010	DRP	$4.65	2.5 per cent discount
2 June 2010	SPP	$4.62	2.5 per cent discount. SPP = Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 rights issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

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

COMPANY PARTICULARS

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

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

Company Secretaries
Matthew J Rowe
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office and Mailing Address
Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

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

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

Telephone 1800 780 784 (toll free)

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

New Zealand
Computershare Investor Services Pty Ltd
159 Hurstmere Road
Takapuna Auckland 0622

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

For all enquiries relating to shareholdings, 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)

SHAREHOLDER MEETINGS

Annual General Meeting

Time	10.00am
Date	Wednesday 12 October 2016
Venue	RACV City Club
Location	501 Bourke Street Melbourne

Sydney Meeting

Time	10.00am
Date	Friday 14 October 2016
Venue	Four Seasons Hotel
Location	199 George Street Sydney

Adelaide Meeting

Time	10.00am
Date	Monday 17 October 2016
Venue	Adelaide Convention Centre
Location	North Terrace Adelaide

Brisbane Meeting

Time	10.00am
Date	Monday 24 October 2016
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

Auckland Meeting

Time	10.00am
Date	Monday 5 December 2016
Venue	Hilton Hotel
Location	147 Quay Street Auckland

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Review 2016

EXPERIENCE
INCOME
GROWTH

CONTENTS

The Company's primary investment goals are:

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

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

YEAR IN SUMMARY

PROFIT FOR THE YEAR

$265.8m

▼ Down 9.5% from 2015

TOTAL SHAREHOLDER RETURN

-4.4%

Share price plus dividend

FULLY FRANKED DIVIDEND

14¢ Final

24¢ Total

▲ Up 1 cent up from 2015

MANAGEMENT EXPENSE RATIO

0.16%

0.16% in 2015

TOTAL PORTFOLIO RETURN

-1.6%

S&P/ASX 200 Accumulation Index +0.6%

TOTAL PORTFOLIO

$6.4b Including cash at 30 June

$6.6 billion in 2015

REVIEW OF OPERATIONS AND ACTIVITIES

Profit

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

Income from investments (excluding demerger dividends), which consists primarily of franked dividends, was up 0.1 per cent over the year. In volatile markets, there was an increased use of the trading portfolio which contributed $12.3 million compared to $8.4 million last year.

Earnings per share for the year were 23.8 cents per share compared with 27.2 cents per share last year.

Dividend

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

One of the key objectives of AFIC is to grow the dividend over time. Figure 1 highlights AFIC's dividend growth over various periods. This also incorporates the period where companies substantially reduced their dividends during the GFC from late 2007 to 2009.

Market and Portfolio Performance

The Fifty Leaders segment of the market was down 2.6 per cent over the year. Within this segment materials and energy have been impacted by low commodity and energy prices. The banking sector has also declined as there are concerns about profit growth in a slow economy and the potential for increasing bad debts. In stark contrast the combined Small and Mid Cap 50 sectors produced a positive return of 16.1 per cent. In particular, interest rate sensitive areas such as the Real Estate Investment Trusts (REITs) and utility stocks were up strongly over the year. Many small and mid-sized resources were also strong, particularly gold companies. AFIC does not have large exposure to REITs given the general lack of franked income and lower longer term returns than industrial companies. The Company also has no exposure to the small resources sector because of its highly speculative nature.

Figure 1: Dividend growth per annum – compound average growth rate

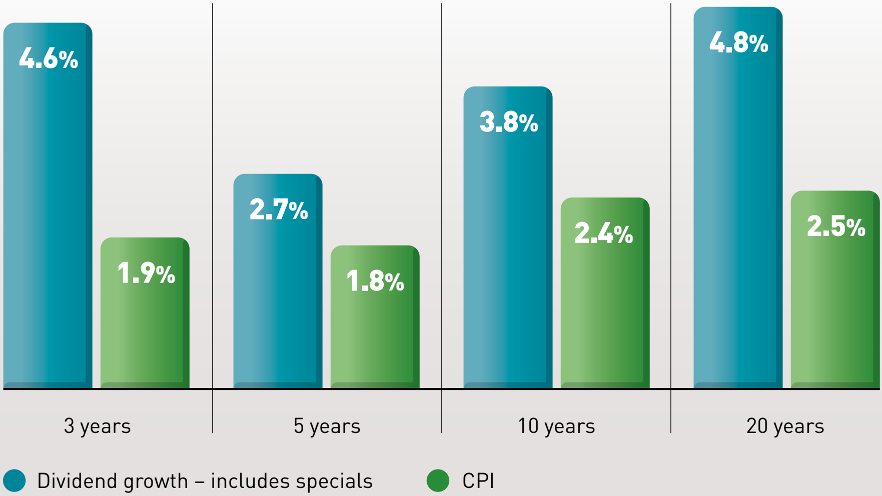
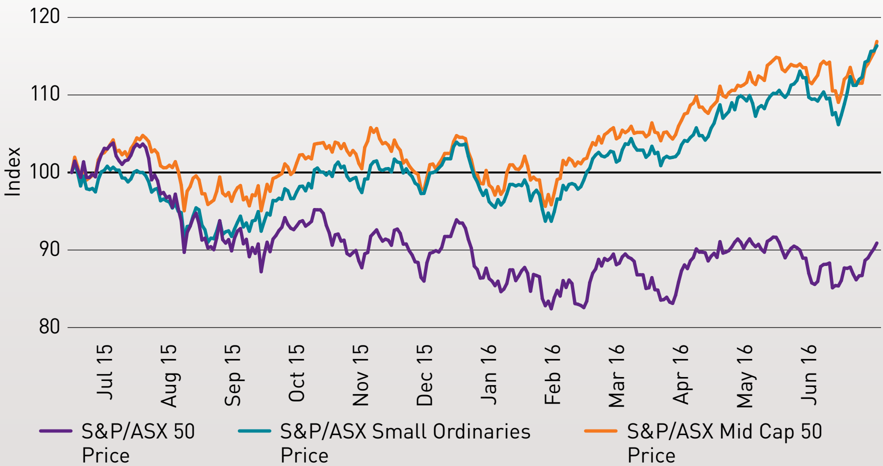


Figure 2: Performance of different sectors of the market by size of company



Source: FactSet

Figure 3a: Banks, materials and energy sectors in comparison to interest rate-sensitive sectors like REITs and utilities

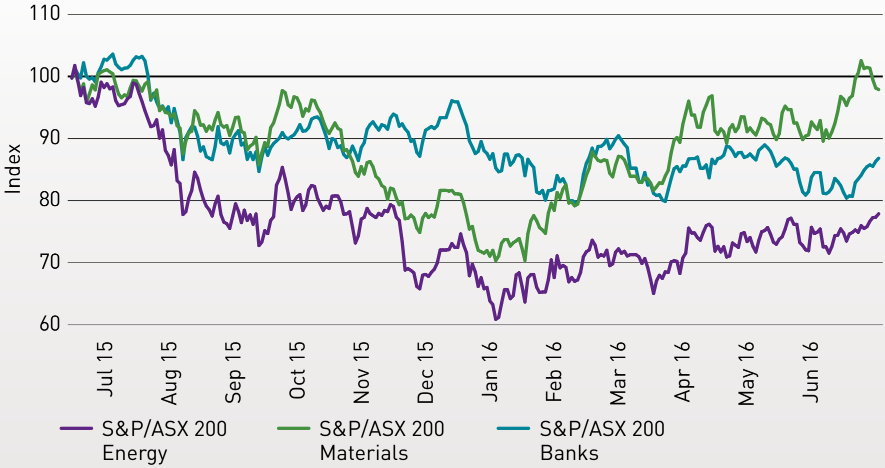
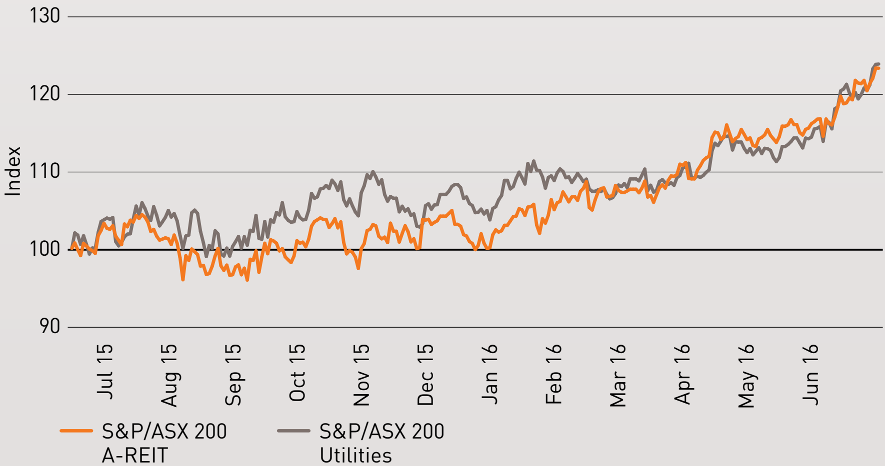


Figure 3b



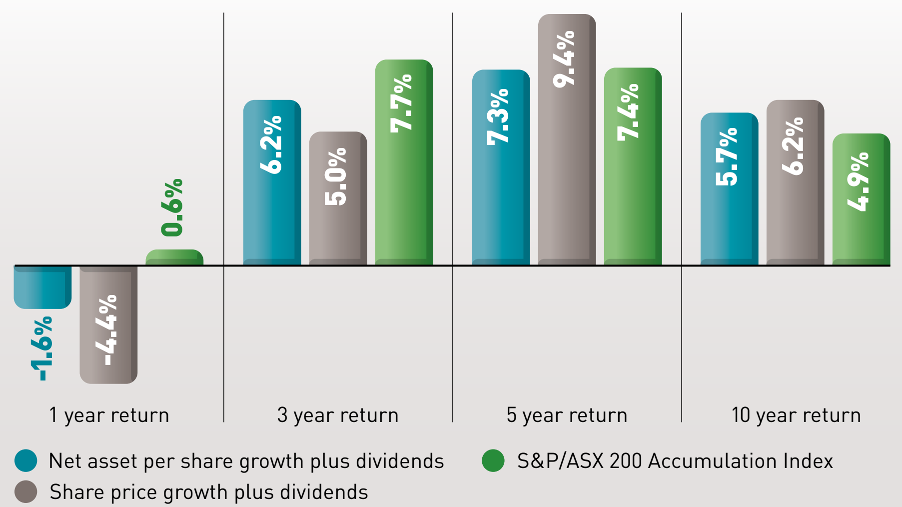
Source: FactSet

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

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

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

Figure 4: Portfolio and share price performance to 30 June 2016



The share price underperformed the portfolio return as the share price premium to the net asset backing (before tax on unrealised gains) fell from 4.6 per cent to 1.9 per cent over the course of the financial year (Figure 5). Importantly over the long term the share price has also performed well with its return close to the longer term portfolio returns.

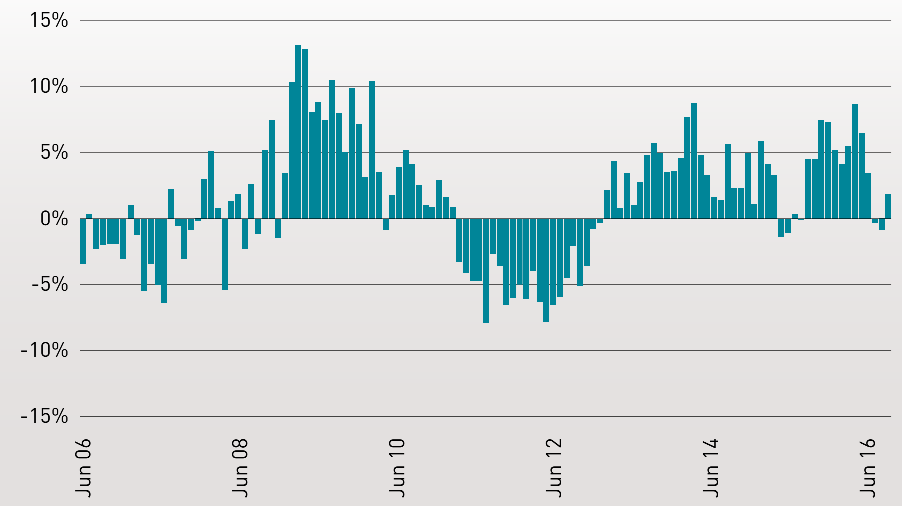
Positioning the Portfolio for Long Term Opportunities

AFIC has for some time been broadening its portfolio exposure. Many of the larger companies are facing competitive headwinds in a lower growth environment, which may well persist for some time.

However, there are a number of mid-sized and smaller companies that are, in our opinion, well positioned to achieve growth despite the subdued economy. We have added a number of these to the portfolio during the year. This has included increasing exposure to companies in the health and retirement living sectors. Macquarie Group was also added as a larger new company to the portfolio during the year.

The Company also participated in a number of capital raisings. These included Qube Holdings, Mayne Pharma Group, Treasury Wines, Origin Energy (entitlement subsequently sold) and Freedom Foods Group.

Figure 5: Share price premium/discount to net asset backing



REVIEW OF OPERATIONS AND ACTIVITIES
continued

Details of some of the new stocks added to the portfolio in the second half of the year are:

- Mayne Pharma which is as a pharmaceutical company that develops and manufactures proprietary and generic products. It operates in the manufacturing and selling of branded and generic pharmaceutical products globally and provides contract manufacturing services to third-party customers within Australia. It also provides contract pharmaceutical development services to third-party customers.
- REA Group which engages in the provision of real estate online advertising and related services. It owns and operates real estate and commercial property advertising sites in Australia through realestate.com.au and realcommercial.com.au. The company also has digital sites and investments in offshore markets including China, Italy, France and Germany. More recently the company acquired iProperty Group, which has operations throughout Asia.
- Australian Agricultural Company which owns and operates properties, feedlots and farms for the production of beef products. It operates through different segments including the sale of cattle to domestic and overseas markets, and increasingly in producing grain finished and Wagyu beef for overseas customers.

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

Overall purchases for the year totalled $819.0 million, with sales totalling $596.6 million.

The changing exposure of the AFIC portfolio by company size is highlighted in Figures 6 and 7, which show the percentage of the portfolio invested in small and mid cap companies increasing from 15 per cent to 22 per cent.

Figure 6: Exposure by company size 30 June 2016

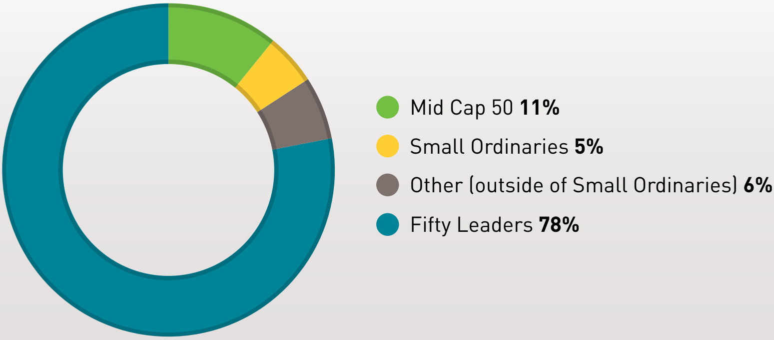


Figure 7: Exposure by company size 30 June 2015

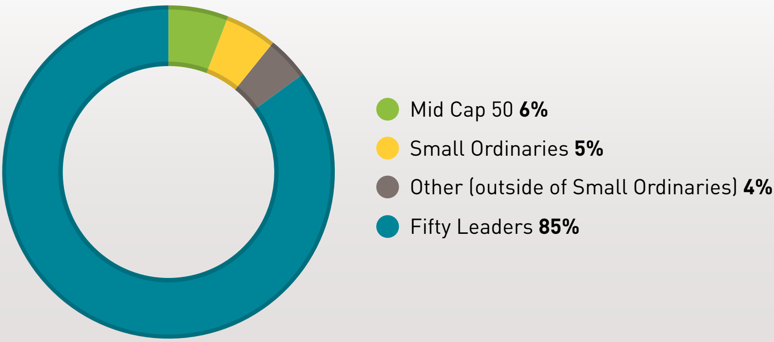


Figure 8 highlights the profile of the total portfolio by the various sectors of the market at the end of the financial year. In comparison to last year there has been an increase in portfolio weightings in Healthcare (up from 5.9 per cent last year) and Industrials (up from 8.1 per cent last year) sectors. The biggest reductions were in Banks (down from 29.2 per cent last year), Materials (down from 16.7 per cent last year) and Energy (down from 6.7 per cent last year).

How are we Seeing the Market?

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

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

From a long term perspective, Figure 9 shows the price return of the Australian All Ordinaries Price Index market since 1936.

Figure 8: Investment by sector as at 30 June 2016

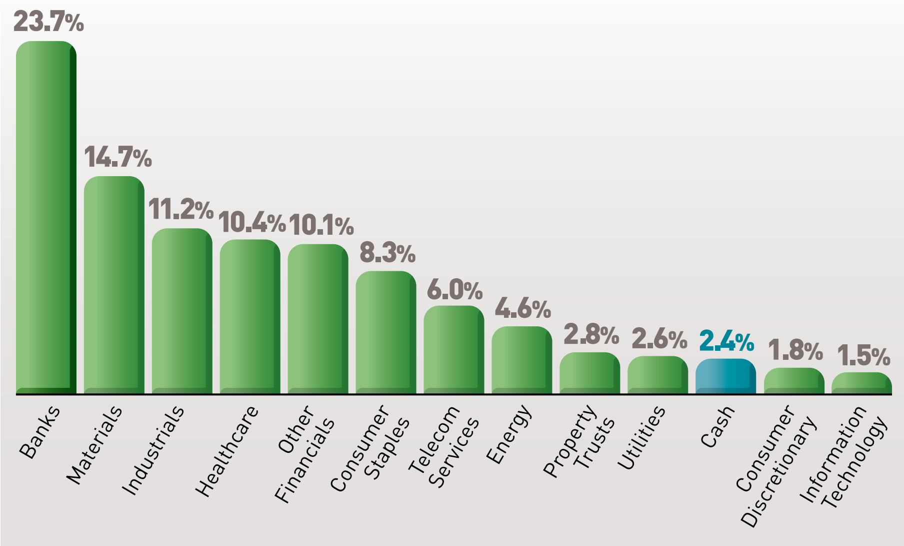
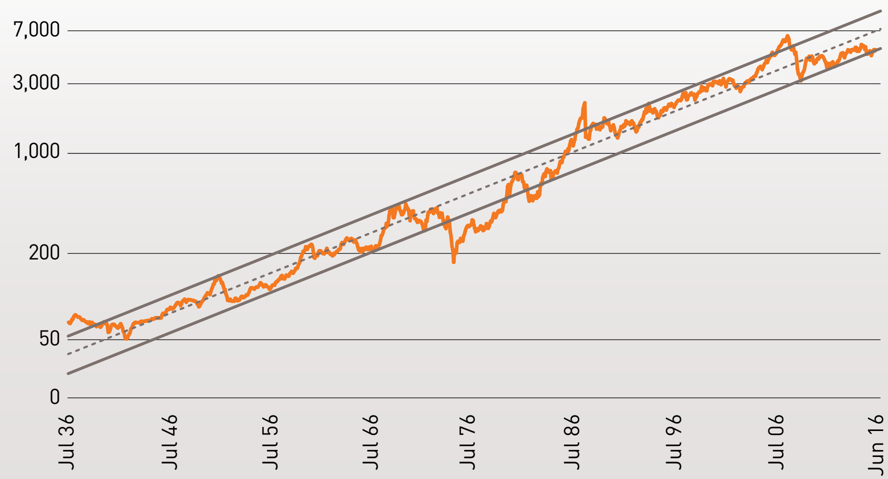
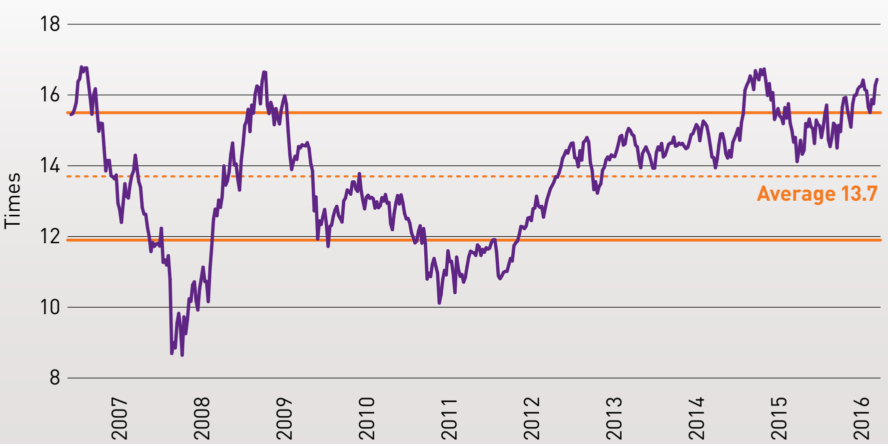


Figure 9: Long term chart of Australian all ordinaries price index



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

Figure 10: S&P/ASX 200 Price earnings ratio



Source: FactSet

REVIEW OF OPERATIONS AND ACTIVITIES
continued

The long term compound average return over this period is approximately 6.5 per cent in price terms (that is, excluding dividends). It also shows that during different stages of the cycle the market can sometimes trade well outside expected return parameters.

Currently the market is trading close to the bottom of the long term average and therefore suggests a market where there is some long term value on offer. However, much of the recent decline has occurred in larger companies, which for reasons outlined earlier we remain cautious about.

In contrast the price earnings ratio (P/E), which shows how much investors are willing to pay per dollar of earnings, is at the upper end of the average (Figure 10).

These conditions currently present an interesting dilemma for investors.

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

TOP 25 INVESTMENTS
As at 30 June 2016

Includes investments held in both the investment and trading portfolios.

Valued at closing prices at 30 June 2016

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

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

INCOME STATEMENT
For the year ended 30 June 2016

	2016 $'000	2015 $'000
Dividends and distributions	286,128	317,762
Revenue from deposits and bank bills	2,754	3,425
Other revenue	143	58
Net (losses)/gains on trading portfolio (including unrealised gains or losses)	12,297	8,440
Total income	301,322	329,685
Finance costs	(13,758)	(15,757)
Administration expenses (net of recoveries)	(10,055)	(10,464)
Profit before income tax	277,509	303,464
Income tax	(11,753)	(9,860)
Net profit	265,756	293,604

	Cents	Cents
Net profit per share	23.83	27.23

BALANCE SHEET
As at 30 June 2016

	2016 $'000	2015 $'000
Current assets		
Cash	155,903	163,840
Receivables	45,358	46,059
Trading portfolio	-	1,930
Total current assets	201,261	211,829
Non-current assets		
Investment portfolio	6,250,233	6,412,242
Deferred tax assets	1,034	527
Total non-current assets	6,251,267	6,412,769
Total assets	6,452,528	6,624,598
Current liabilities		
Payables	20,932	10,783
Tax payable	14,393	30,050
Convertible notes	190,057	-
Trading portfolio	226	-
Provisions	3,636	3,409
Total current liabilities	229,244	44,242
Non-current liabilities		
Provisions	1,796	1,508
Convertible notes	-	202,252
Deferred tax liabilities – investment portfolio	812,947	930,152
Total non-current liabilities	814,743	1,133,912
Total liabilities	1,043,987	1,178,154
Net assets	5,408,541	5,446,444
Shareholders' equity		
Share capital	2,521,491	2,301,282
Revaluation reserve	1,767,628	2,152,455
Realised capital gains reserve	457,593	391,773
General reserve	23,637	23,637
Retained profits	638,192	577,297
Total shareholders' equity (including minority interests)	5,408,541	5,446,444

SUMMARISED STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2016

	2016 $'000	2015 $'000
Total equity at the beginning of the year	5,446,444	5,184,152
Dividends paid	(258,610)	(241,486)
Shares issued – Dividend Reinvestment Plan	54,324	49,724
– Conversion of convertible notes	13,091	2,423
– Share Purchase Plan	153,340	184,671
Other share capital adjustments	(546)	(522)
Total transactions with shareholders	(38,401)	(5,190)
Profit for the year	265,756	293,604
Revaluation of investment portfolio	(376,045)	(23,281)
Provision for tax on revaluation	110,787	(3,122)
Revaluation of investment portfolio (after tax)	(265,258)	(26,403)
Net movement in fair value for interest rate swaps	-	281
Total comprehensive income for the year	498	267,482
Realised gains on securities sold	125,922	95,109
Tax expense on realised gains on securities sold	(6,398)	(20,960)
Net realised gains on securities sold	119,524	74,149
Transfer from revaluation reserve to realised gains reserve	(119,524)	(74,149)
Total equity at the end of the year	5,408,541	5,446,444

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

HOLDINGS OF SECURITIES

At 30 June 2016

Individual investments for the combined investment and trading portfolios as at 30 June 2016 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange and the New Zealand Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
AAC	Australian Agricultural Company	0	9,764	17,234
ACX	Aconex	0	884	6,198
AGL	AGL Energy	6,100	5,590	107,827
AIA	Auckland International Airport	1,170	1,770	10,974
AIO	Asciano	4,855	1,966	17,440
ALQ	ALS	4,942	9,205	45,015
AMC	Amcor	12,864	12,300	183,639
AMP	AMP	20,100	20,100	103,718
ANN	Ansell	1,284	1,284	23,328
ANZ	Australia and New Zealand Banking Group	8,488	8,488	204,724
APA	APA Group	10,340	6,450	59,598
APE	AP Eagers	769	769	9,179

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
ARB	ARB Corporation	948	1,198	20,056
ASX	ASX	459	709	32,429
AWC	Alumina	14,323	5,513	7,140
AZJ*	Aurizon Holdings	2,480	4,380	20,131
BGA	Bega Cheese	2,203	2,203	12,468
BHP	BHP Billiton	14,221	13,991	260,931
BKW	Brickworks	1,503	1,503	21,583
BLD	Boral	4,008	4,008	24,933
BXB	Brambles	11,174	11,930	147,812
CBA	Commonwealth Bank of Australia	8,483	7,965	592,357
CCL	Coca-Cola Amatil	5,160	5,160	42,467
CGF	Challenger	0	4,065	35,084
COH	Cochlear	0	75	9,094
CPU	Computershare	8,156	4,660	42,732
CSL	CSL	1,172	1,649	184,929
CSR	CSR	2,492	3,109	11,318
CTX	Caltex Australia	605	579	18,473
CVO	Cover-More Group	4,737	8,221	9,947
CVW	ClearView Wealth	0	4,547	4,320
CWP	Cedar Woods Properties	3,859	2,000	8,700
CYB	CYBG PLC	0	2,524	10,527
DJW	Djerriwarrh Investments	8,597	7,505	30,622

HOLDINGS OF SECURITIES continued

At 30 June 2016

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
DLX	DuluxGroup	2,556	2,556	16,154
DUI	Diversified United Investment	12,030	12,030	39,339
EQT	EQT Holdings	1,488	1,303	21,425
EVT	Event Hospitality & Entertainment	1,030	1,030	14,970
FLT	Flight Centre Travel Group	241	241	7,609
FNP	Freedom Foods Group	0	4,507	18,297
FPH	Fisher & Paykel Healthcare Corporation	1,706	5,008	47,876
HSO	Healthscope	7,885	29,000	82,940
IAG*	Insurance Australia Group	3,500	5,226	28,383
ICQ	iCar Asia	4,155	4,555	3,871
IDX	Integral Diagnostics	0	5,071	7,353
IEL	IDP Education	0	880	3,624
ILU*	Iluka Resources	2,367	3,142	20,167
INM	Iron Mountain	0	202	10,700
IPL	Incitec Pivot	22,029	22,280	66,171
IRE	IRESS	2,709	3,124	34,025
IVC	InvoCare	1,150	1,150	15,111
JHC	Japara Healthcare	10,393	14,007	35,719

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
JHX*	James Hardie Industries	1,350	3,001	61,091
LIC	Lifestyle Communities	4,293	5,470	15,919
MFT	Mainfreight	0	2,550	40,571
MIR	Mirrabooka Investments	8,728	8,728	24,089
MLT	Milton Corporation	14,403	11,841	50,681
MPL	Medibank Private	0	2,000	5,900
MQG*	Macquarie Group	0	583	40,071
MYX	Mayne Pharma Group	0	20,361	38,788
NAB*	National Australia Bank	10,097	9,994	253,977
NVT	Navitas	0	3,678	20,190
OFX	OzForex Group	0	4,470	10,371
ORA	Orora	12,864	12,864	35,505
ORG	Origin Energy	6,957	6,000	34,500
ORI	Orica	2,712	2,712	33,434
OSH	Oil Search	16,783	16,483	109,938
PHG	Pulse Health	7,967	7,441	1,637
PPT	Perpetual	1,031	1,061	43,633
QBE*	QBE Insurance Group	8,290	7,874	82,083

HOLDINGS OF SECURITIES continued
At 30 June 2016

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
QUB	Qube Holdings	13,451	31,759	70,186
REA	REA Group	0	344	20,462
REG	Regis Healthcare	2,666	5,355	25,115
REH	Reece	0	318	11,777
RHC*	Ramsay Health Care	1,360	1,520	108,560
RIO	Rio Tinto	3,652	3,652	166,155
RMD	ResMed	2,700	3,900	32,370
RWC	Reliance Worldwide Corporation	0	2,400	7,416
S32*	South32	17,721	17,721	27,242
SCG	Scentre Group	11,437	12,950	63,714
SEK	Seek	1,600	3,315	50,421
SHL*	Sonic Healthcare	2,020	1,966	41,960
SOL	Washington H Soul Pattinson	1,709	1,709	29,046
SRX	Sirtex Medical	220	460	11,762
STO	Santos	8,037	3,189	14,798
SUN*	Suncorp Group	1,740	3,640	44,293

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2015 '000	Number Held 2016 '000	Market Value 2016 $'000
SYD*	Sydney Airport	6,782	8,700	60,279
TCL	Transurban Group	18,335	18,335	219,840
TGG	Templeton Global Growth Fund	12,106	12,106	13,982
TLS	Telstra Corporation	52,445	52,445	291,594
TOX	Tox Free Solutions	10,661	8,645	22,391
TPM	TPG Telecom	4,677	5,340	63,546
TWE*	Treasury Wine Estates	3,258	6,882	63,495
VCX	Vicinity Centres (formerly Federation Centres)	17,378	15,628	51,883
VOC	Vocus Communications	1,725	3,500	29,820
WBC	Westpac Banking Corporation	18,236	15,545	457,023
WES	Wesfarmers	7,423	6,723	269,572
WFD	Westfield Corporation	4,243	4,933	52,532
WOW	Woolworths	6,000	5,020	104,868
WPL	Woodside Petroleum	3,413	3,283	88,113
WTC	WiseTech Global	0	746	3,306
XRO	Xero	0	437	7,603
Total				6,238,162

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

HOLDINGS OF SECURITIES continued
At 30 June 2016

Code	Convertible Notes, Preference Shares and Other Interest Bearing Securities	Number Held 2015 '000	**Number Held 2016 '000**	**Market Value 2016 $'000**
RHCPA	Ramsay Health Care convertible adjustable rate equity securities	115	**115**	**11,845**
Total				**11,845**

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

Acquisitions (Above $10 Million)	Cost $'000
Healthscope	53,166
CSL	44,900
Macquarie Group[(a)]	41,713
Qube Holdings	37,969
Mainfreight[(a)] (listed on the New Zealand Stock Exchange)	35,423
Challenger[(a)]	32,108
Mayne Pharma Group[(a)]	29,102
James Hardie Industries	27,554
Fisher & Paykel Healthcare Corporation	25,141
Seek	24,719
Suncorp Group	24,409
Treasury Wine Estates	22,653
REA Group[(a)]	18,168
ASX	16,746
Origin Energy	15,903
Navitas[(a)]	15,871
ALS	14,734
Regis Healthcare	14,478
Freedom Foods Group[(a)]	14,454
Australian Agricultural Company[(a)]	14,052
Brambles	13,269
Vocus Communications	13,062
Oil Search	12,758
ResMed	11,940
Sydney Airport	11,939
QBE Insurance Group	11,341
Insurance Australia Group	11,265
Japara Healthcare	10,547
Reece[(a)]	10,285
CYBG PLC* (demerger from National Australia Bank)	10,074
OzForex Group[(a)]	10,059

(a) New to the portfolio.

MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO continued

Disposals (Above $10 Million)	Proceeds $'000
Westpac Banking Corporation	82,226
Commonwealth Bank of Australia	40,319
Computershare	34,565
APA Group	33,346
Wesfarmers	28,098
Woolworths	26,223
Origin Energy	22,013
Asciano	21,636
iProperty Group[b] (takeover by REA Group Limited)	21,304
21st Century Fox[b] (listed on the NASDAQ Global Select Market)	20,424
Santos	19,322
Recall Holdings[b] (takeover by Iron Mountain Incorporated)	18,048
Veda Group[b] (takeover by Equifax)	16,385
Oil Search	15,862
QBE Insurance Group	14,395
Sims Metal Management[b]	13,055
Alumina	12,217
Milton Corporation	10,915
SAI Global[b]	10,690

(b) Complete disposal.

5 YEAR SUMMARY

	2016	2015	2014	2013	2012
Net profit after tax ($ million)	265.8	293.6	254.3	242.8	219.9
Net profit per share (cents)	23.8	27.2	24.4	23.5	21.5
Dividends per share (cents)[(a)]	24	23	22	22	21
Investments at market value ($ million)[(b)]	6,250	6,414	6,324	5,411	4,570
Net asset backing (cents)[(c)]	550.4	585.1	584.5	518.5	435.1
Number of shareholders (30 June)	113,482	107,622	103,188	96,668	93,513

Notes

(a) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2016: 2.1 cents, 2015: 7.1 cents, 2014: nil, 2013: 4.3 cents and 2012: nil.

(b) Excludes cash.

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

COMPANY PARTICULARS

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

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

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

Company Secretaries
Matthew J Rowe
Andrew JB Porter

Auditor
PricewaterhouseCoopers
Chartered Accountants

Country of Incorporation
Australia

Registered Office and Mailing Address
Level 21, 101 Collins Street
Melbourne Victoria 3000

Contact Details

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

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

Telephone	1800 780 784 (toll free)

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

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

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

Australian and New Zealand Securities Exchange Codes

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

SHAREHOLDER MEETINGS

Annual General Meeting	
Time	10.00am
Date	Wednesday 12 October 2016
Venue	RACV City Club
Location	501 Bourke Street Melbourne

Sydney Meeting	
Time	10.00am
Date	Friday 14 October 2016
Venue	Four Seasons Hotel
Location	199 George Street Sydney

Adelaide Meeting	
Time	10.00am
Date	Monday 17 October 2016
Venue	Adelaide Convention Centre
Location	North Terrace Adelaide

Brisbane Meeting	
Time	10.00am
Date	Monday 24 October 2016
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

Auckland Meeting	
Time	10.00am
Date	Monday 5 December 2016
Venue	Hilton Hotel
Location	147 Quay Street Auckland

The Annual Report for 2016 is available on AFIC's website afi.com.au or by contacting the Company on (03) 9650 9911.

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

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COMPANY

NOTICE OF ANNUAL GENERAL MEETING 2016

The Annual General Meeting of **Australian Foundation Investment Company Limited (ABN: 56 004 147 120 "the Company")** will be held at: **RACV CITY CLUB, 501 BOURKE STREET, MELBOURNE, VICTORIA 3000 at 10.00am (AEDT) on Wednesday 12 October 2016.**

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 10 October 2016**.

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 2016.

(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 2016 be adopted."

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

3. & 4. RE-ELECTION OF DIRECTORS

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

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

By Order of the Board

Matthew Rowe
Company Secretary
29 August 2016

EXPLANATORY NOTES

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

IMPORTANT: Shareholders are urged to direct their proxy how to vote by clearly marking the relevant box for each item on the proxy form.

Please ensure that your properly completed proxy form reaches the share registry by the deadline of 10.00am (AEDT) on Monday 10 October 2016.

1. FINANCIAL STATEMENTS AND REPORTS

During this item there will be a reasonable opportunity for shareholders to ask questions and comment on the Directors' Report, Financial Statements and Independent Audit Report for the financial year ended 30 June 2016. 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 2016 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 a reasonable opportunity for shareholders at the meeting to comment on and ask questions about the Remuneration Report which can be found in the Company's 2016 Annual Report. As prescribed by the Corporations Act, the vote on the proposed resolution is an advisory one.

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

However, the Company will not disregard a vote if:

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

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

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

ITEMS 3 & 4. RE-ELECTION OF DIRECTORS

Board recommendation and undirected proxies: The Board recommends that shareholders vote **in FAVOUR of items 3 & 4.** The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of items 3 & 4.**

Jacqueline Hey and Peter Williams were elected and re-elected respectively as Directors by shareholders at the 2013 AGM. As such they are required to seek re-election by shareholders at this AGM. Their biographical details are set out below:

Jacqueline C Hey

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

Ms Hey was appointed to the Board in July 2013. She is a Non-Executive Director of Qantas Limited, Bendigo and Adelaide Bank Limited, AGL, Melbourne Business School Ltd and Cricket Australia. She was formerly Managing Director of Ericsson UK and Ireland and Managing Director of Ericsson Australia and New Zealand.

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 to the Board in February 2010. He is Chairman of MIPS Advisory Committee, Fiig Securities Limited and Olympic Park Sports Medical Centre Pty Ltd. Mr Williams is a Director of the Australian Baseball Federation, National Australia Trustees Limited, Foundation for Young Australians and the E.W. Tipping Foundation, and an Advisory Board Member to TLC Aged Care Pty Ltd. Mr Williams was formerly Managing Director of Equity Trustees Limited, a Director of the Trustee Corporations Association of Australia and a General Manager with AXA/National Mutual in Australia and Hong Kong.

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

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

SHAREHOLDER INFORMATION

Proxies

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

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

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

4. **Proxy forms may be lodged online by visiting 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 10 October 2016**. Further details are on the proxy form.

7. A proxy need not vote in that capacity on a show of hands on any resolution nor (unless the proxy is the Chairman of the meeting) on a poll. However, if the proxy's appointment specifies the way to vote on a resolution, and the proxy 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. In certain circumstances the Chairman of the meeting will be taken to have been appointed as the proxy of the relevant shareholder in respect of the meeting or the poll on that resolution even if the shareholder has not expressly appointed the Chairman of the meeting as their proxy. This will occur where:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution; and
- the appointed proxy is not the Chairman of the meeting; and
- at the meeting, a poll is called on the resolution; and
- either of the following apply:
    - if a record of attendance is made for the AGM - the proxy is not recorded as attending
    - the proxy does not vote on the resolution.

Corporate representatives

A body corporate which is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the meeting. Unless it has previously been given to the Company, the representative should bring evidence of their appointment to the meeting, together with any authority under which it is signed. The appointment must comply with section 250D of the Corporations Act 2001.

Attorneys

A shareholder may appoint an attorney to vote on their behalf. To be effective for the meeting, the instrument effecting the appointment (or a certified copy of it) must be received by the deadline for the receipt of proxy forms (see above), being no later than 48 hours before the meeting.

Share Registry

The Company's Share Registry details are as follows:

Computershare Investor Services Pty Limited

Street address: Yarra Falls 452 Johnston Street Abbotsford 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

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Appoint your proxy and view the Annual Report online

Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
Follow the instructions on the secure website to appoint your proxy.

Your access information that you will need to appoint your proxy online:

Control Number: 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 10 October 2016

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 10 October 2016, being not later than 48 hours before the commencement of the meeting. Any proxy form received after that time will not be valid for the scheduled meeting.

Signing instructions for postal forms

Individual: Where the holding is in one name, the shareholder or attorney must sign.
Joint Holding: Where the holding is in more than one name, all of the shareholders or attorneys should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the meeting

If a representative of a corporate shareholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at **www.investorcentre.com** under the help tab, “Printable Forms”.

Comments & Questions: If you have any comments or questions for the Company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO APPOINT YOUR PROXY, or turn over to complete the form →

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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

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I/We being a shareholder/s of AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED hereby appoint

☐ **the Chairman of the meeting** **OR** ____________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the meeting. Do not insert your own name(s).

or failing the individual or body corporate named in relation to the meeting generally or in relation to a poll on a given resolution, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy to act generally at the meeting or in relation to a poll on the given resolution (as applicable) on my/our behalf, including to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit), at the Annual General Meeting of **Australian Foundation Investment Company Limited** to be held at **RACV City Club, 501 Bourke Street, Melbourne, Victoria at 10.00am (AEDT) on Wednesday 12 October 2016** 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	Re-election of Director – Ms Jacqueline Hey	☐	☐	☐
For	Item 4	Re-election of Director – Mr Peter Williams	☐	☐	☐

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