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31 August 2018

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 2018 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

90 YEARS OF INVESTMENT EXPERIENCE

Annual Report 2018

Contents

Australian Foundation Investment Company is a listed investment company investing in Australian and New Zealand equities.

This year marks the 90th anniversary of the establishment of AFIC in 1928.

Year in Summary

Profit for the Year

$279.0m

Up 13.7% from 2017

Total Shareholder Return

10.3%

Share price plus dividend

Fully Franked Dividend

14¢ Final

24¢ Total

Same as 2017

Management Expense Ratio

0.14%

0.14% in 2017

Total Portfolio Return

10.8%

S&P/ASX 200 Accumulation Index +13.0%

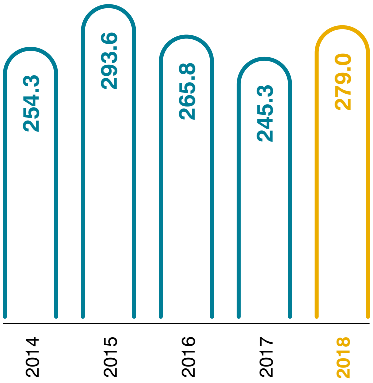
Total Portfolio

$7.4b

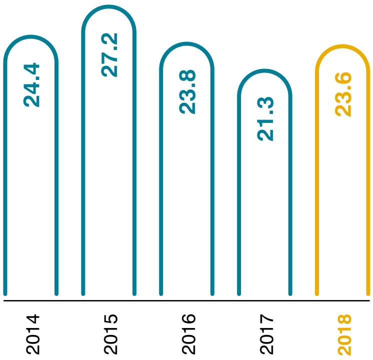
Including cash at 30 June $6.9 billion in 2017

5 Year Summary

Net Profit After Tax ($ Million)

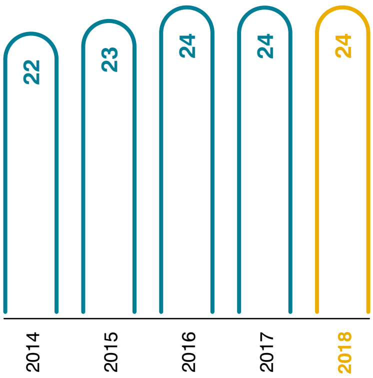


Net Profit Per Share (Cents)

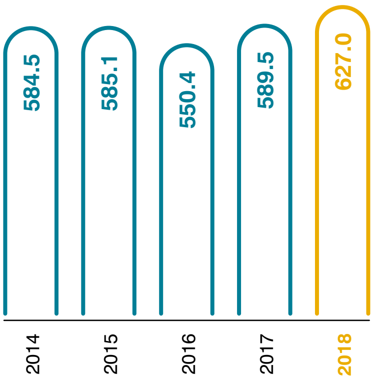


Investments at Market Value ($ Million)[a]

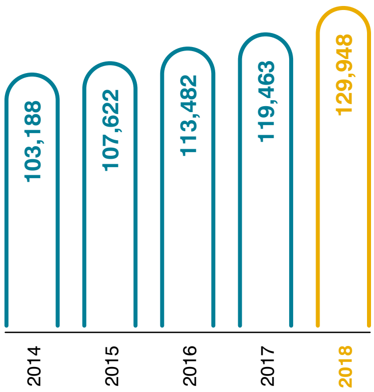
Dividends Per Share (Cents)[b]



Net Asset Backing Per Share (Cents)[c]



Number of Shareholders (30 June)



Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2018: 2.86 cents, 2017: nil, 2016: 2.1 cents, 2015: 7.1 cents, 2014: nil.

(c) Net asset backing 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 (AFIC) is a listed investment company investing in Australian and New Zealand equities.

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in 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 long-term view on companies in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this time frame.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics such as the level of gearing in the balance sheet, product margins and free cash flow. The structure of the industry and a company's competitive position in this industry is also an important indicator of quality. Linked to this assessment of quality is the ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

Recognising value is also an important aspect of sound long-term investing. Short-term measures such as the price earnings ratio, price to book or price to sales may be of some value, but aren't necessarily strong predictors of future performance. Our assessment of value tries to capture the opportunity a business has to prosper and thrive over the medium to long term.

In building the investment portfolio in this way, we believe we can offer investors a well-diversified portfolio of high-quality companies that is intended to deliver total returns ahead of the Australian equity market and with less volatility over the long term.

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

From time to time, some borrowings may be used where potential investment returns justify the use of debt. This is managed within very conservative limits, as determined by the Board.

AFIC is managed for the benefit of its shareholders with fees based on the recovery of costs rather than as a fixed percentage of the portfolio. There are no performance fees. As a result, the benefit of scale over time results in a very low expense ratio for investors. For the 12 months to 30 June 2018 this was 0.14 per cent (annualised), or 14 cents for each $100 invested.

How AFIC Invests – What We Look For in Companies

Quality First

Growth
Including dividends

Value

A portfolio that is actively managed to achieve long-term capital and dividend growth

Review of Operations and Activities

Profit and Dividend

Profit for the year to 30 June 2018 was $279.0 million, up 13.7 per cent from $245.3 million in the corresponding period last year. Investment income increased $31.5 million (up 11.6 per cent), due primarily to a lift in dividends across a range of companies, particularly resource companies, including participation in the Rio Tinto off-market buy-back. Finance costs were also down $8.1 million following the conversion or redemption of convertible notes in February 2017.

Earnings per share were 23.6 cents, up from 21.3 cents. The final dividend was maintained at 14 cents per share fully franked, bringing total dividends for the year to 24 cents per share fully franked, the same as last year. Two cents of the final dividend are sourced from taxable capital gains, on which the Company has paid or will pay tax. The amount of the pre tax attributable gain on this portion of the dividend, known as an 'LIC capital gain', is therefore 2.86 cents. This enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

The return of the market over the year was characterised by a pronounced divergence of performance across sectors and companies. Ongoing growth across global economies, in particular the United States and China, led to rising commodity prices, with the Australian Resources Index up 41 per cent over the 12-month period (represented by energy and materials in Figure 1). Within this growth, the small and mid cap resource sectors were up 49 per cent and 42 per cent respectively. However, during the same period the industrial sector was up only 8 per cent, whilst the banking sector fell just over 1 per cent.

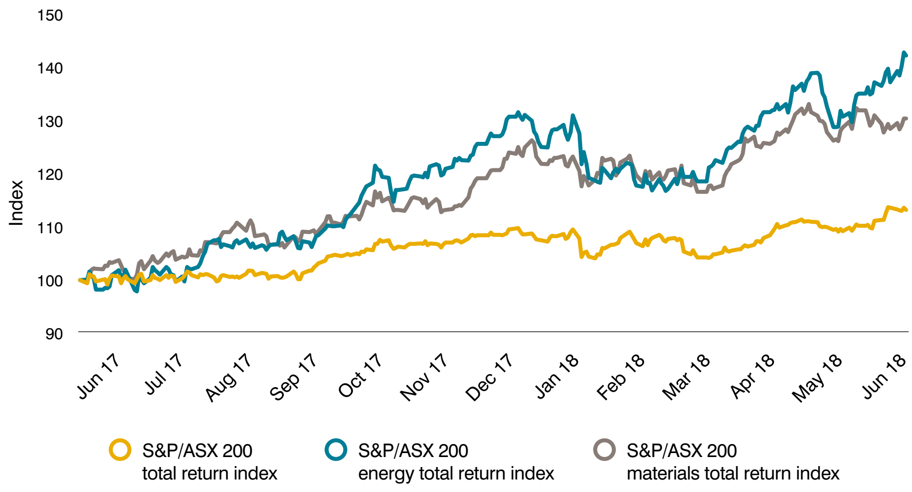
Furthermore, in an environment where many large companies are facing subdued growth, there has been an increased flow of funds into the small and mid cap section of the market. This has pushed these sectors higher relative to the S&P/ASX 50, which represents larger companies in the market (Figure 2). This has also seen very strong share price performance in those small companies with the strongest growth expectations, primarily through a re-rating of valuations (Figure 3).

AFIC's portfolio was up 10.8 per cent for the 12 months to 30 June 2018 compared with the S&P/ASX 200 Accumulation Index which increased 13.0 per cent. In the resources sector AFIC's primary exposure is to companies with long-life assets and low-cost production such as BHP and Rio Tinto, rather than the more cyclical small and mid-sized companies.

The best performing companies in the AFIC portfolio outside the large resource companies were CSL, Wesfarmers, Macquarie Group, Oil Search and Woolworths.

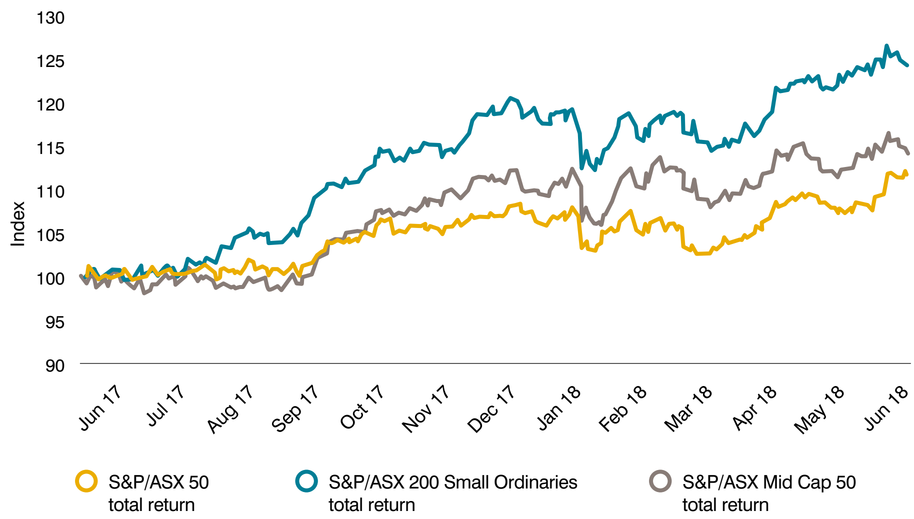
The long-term performance of the portfolio, which is more in line with the Company's investment timeframes, was 6.5 per cent per annum for the 10 years to 30 June 2018 versus the Index return of 6.4 per cent per annum. Including the full benefit of franking, these returns are 8.5 per cent per annum for AFIC and 8.0 per cent per annum for the Index. AFIC's portfolio performance numbers (Figure 4 on page 6) are after costs and tax paid whereas the Index does not have expenses or tax.

Figure 1: Performance of S&P/ASX 200 Companies Relative to the Energy and Materials Sectors



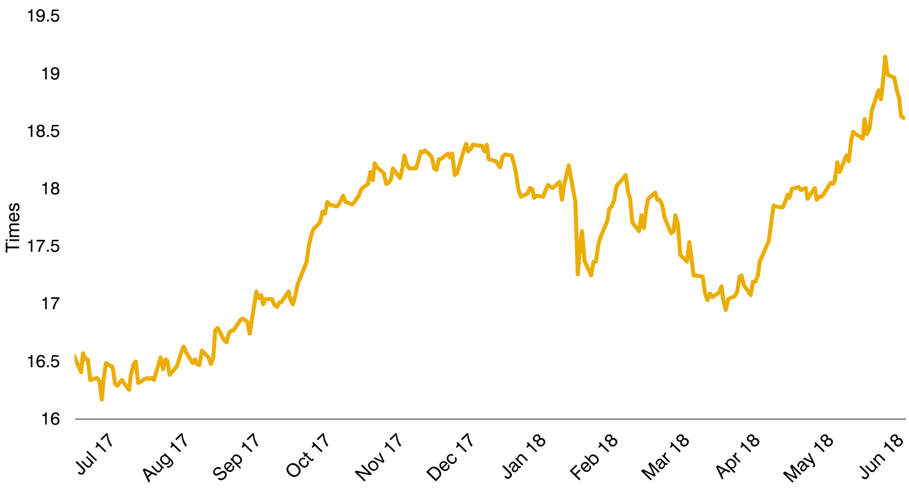
Source: FactSet

Figure 2: Performance of Different Sectors of the Market by Company Size



Source: FactSet

Figure 3: Price Earnings Ratio of Small Industrial Sector of the Australian Market



Source: FactSet

Figure 5 on page 6 illustrates the cumulative long term performance of the AFIC portfolio versus the S&P/ASX 200 Accumulation Index over the 10 years to 30 June 2018. It also includes the benefits of franking credits for both.

The share price return was trading at a slight discount to the net asset backing (before tax on unrealised gains) at the end of June (Figure 6 on page 7) and is the reason the Dividend Reinvestment Plan did not have any discount associated with it.

Nevertheless, the share price return, including reinvestment of dividends, over the 12 months to 30 June 2108 was 10.3 per cent. Whilst the share price can often fluctuate between a premium and discount, over the long term the share price return is often very close to the portfolio return (Figure 4).

Positioning the Portfolio for Long Term Opportunities

A key restraint on the current Australian market is the prolonged, subdued growth outlook facing many large companies. This arises from their market positions with no further consolidation possible, increased competition and disruption, and greater regulatory intervention. AFIC has continued to adjust the portfolio to respond to this situation. Whilst larger companies continue to make up a significant proportion of the portfolio, AFIC has been increasing its holdings in a number of mid-sized and small companies with good growth prospects. This has been done having regard to balancing the need to grow dividends as well as provide meaningful capital growth within the portfolio over the long term. Overall purchases in the investment portfolio for the year totalled $739.3 million with sales totalling $712.6 million, which is higher than last year.

Major purchases included adding to holdings in Macquarie Group, CSL, Sonic Healthcare, James Hardie Industries and Alumina, all of which have unique industry exposures in global markets, and Sydney Airport and Boral. Additions were also made to smaller companies, Reliance Worldwide and Reece, including participation in their respective capital raisings to fund offshore acquisitions, and Carsales.com. Unibail-Rodamco-Westfield (which acquired Westfield Corporation through a scrip bid), NEXTDC and Qantas were the more significant new additions to the portfolio.

NEXTDC, which is a data centre operator, is an example of the type of company that AFIC is looking to add to the portfolio. It has a unique position in an industry that is likely to grow in excess of nominal economic growth. It is leveraged to the growth in the demand for cloud computing services as many businesses seek to outsource these services to companies with carrier neutral data centres that have greater scale and efficiencies. Given the investment required and the competitive advantage afforded by ownership of key sites, barriers to entry for this industry are high. NEXTDC currently operates five data centres in Melbourne, Sydney, Perth, Canberra and Brisbane and is in the process of building some additional new data centres in Sydney, Melbourne and Brisbane.

Major sales included the complete disposal of Incitec Pivot, Coca-Cola Amatil and Japara Healthcare. Westfield Corporation and Tox Free Solutions were sold because of takeovers.

Other major sales included a small reduction in the positions of QBE Insurance, AMP, Telstra and Treasury Wine Estates, all of which have been long term holdings in the portfolio, and Vicinity Centres.

AFIC had 91 holdings in the portfolio at 30 June 2018. Whilst the S&P/ASX 200 Index can provide a useful point of reference for investors, AFIC actively manages its investments. As a result, the portfolio will differ quite markedly from the Index. Figure 7 (page 8) highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the financial year and how it differs from the Index.

Figure 4: Relative Portfolio and Share Price Performance – Per Annum Returns to 30 June 2018

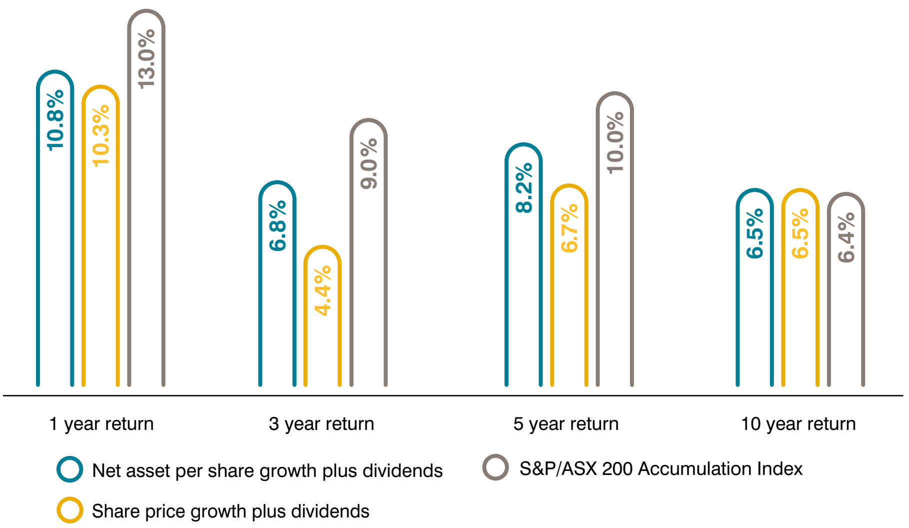
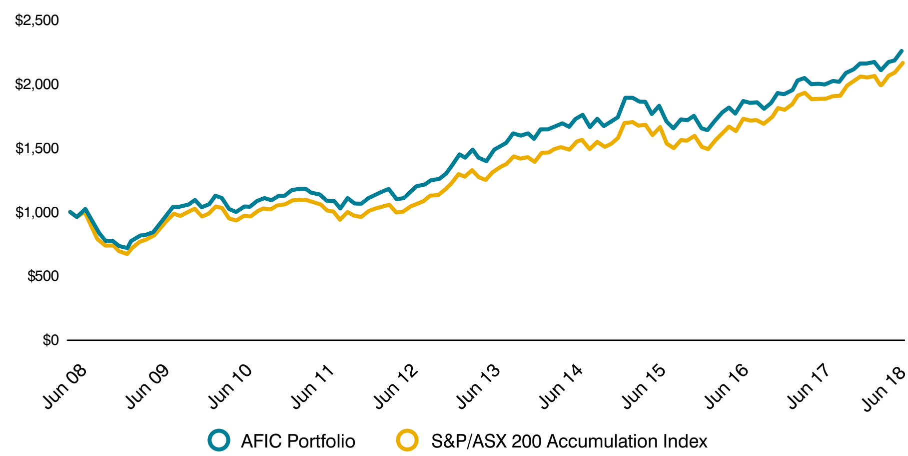


Figure 5: Growth in Investment of $1,000 (Including Benefit of Franking) – 10 Years to 30 June 2018



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

The most notable change is the position of banks in the portfolio, which has declined over recent years relative to the market weight. Whilst banks continue to supply a large part of the dividend income, the outlook for growth relative to recent years, in our view, has diminished as credit for housing slows and competitive and regulatory pressures become greater. In addition, AFIC traditionally has not been a large investor in Property Trusts given the observation that over the long term, industrial companies have tended to outperform Property Trusts and the distribution from these Trusts do not carry franking credits. The other major variation from the Index is in Consumer Discretionary, which includes gambling stocks.

A significant percentage of the AFIC portfolio, by value, remains exposed to the large companies in the Australian market. Nevertheless, there are a significant number of companies that sit outside of these, many of which we believe have the capacity to grow their business and dividends over time. This is outlined in Figure 8 (page 8), with 71 holdings outside of the S&P/ASX 20.

Going Forward

The ongoing strength of the Australian market continues to create a challenging investment environment. In particular, the drive by investors towards companies displaying good growth prospects is pushing share prices for these businesses very high. In this context, high valuation levels at a time when interest rates are starting to move from very low levels may create some uncertainty for markets and therefore could then provide appropriate investment opportunities.

In addition, the geo-political environment remains unpredictable, with issues such as trade, leading concerns. Markets at this point have largely overlooked any potential implications given economic fundamentals appear sound across most large developed markets. However, the key implication for Australia is the impact any significant change to global trade through imposition of trade tariffs and retaliatory measures has on China, and the influence this has on the ongoing demand for Australian exports, particularly resources.

For AFIC, it is a matter of being alert but patient, and when appropriate, making adjustments to the portfolio over time that make sense as a long-term investor in quality and growing companies.

Directorship Matters

As previously announced in September 2017 and detailed in the Company's Half-Yearly Review, Ross Barker retired as Managing Director and Chief Executive Officer (CEO) on 31 December 2017. Mark Freeman, who was previously the Chief Investment Officer of AFIC, became the Managing Director and CEO of AFIC on 1 January 2018.

The Board wishes to record its deep appreciation to Ross Barker for his 16 years of outstanding service as Managing Director and Chief Executive Officer and wish him well in his retirement. He has shown enduring leadership through this period and made a significant contribution to the growth in AFIC throughout his distinguished tenure at the Company. Mr Barker remains on the Board of AFIC as a Non-Executive Director.

Company Position

Capital Changes

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

Under the Company's Dividend Substitution Share Plan, 454,954 new shares were issued at nil cost in August 2017 and 342,843 new shares were issued at nil cost in February 2018.

Under the Company's Dividend Reinvestment Plan, 5,447,400 new shares were issued at a price of $5.92 in August 2017 and 3,821,934 new shares were issued at a price of $6.11 in February 2018.

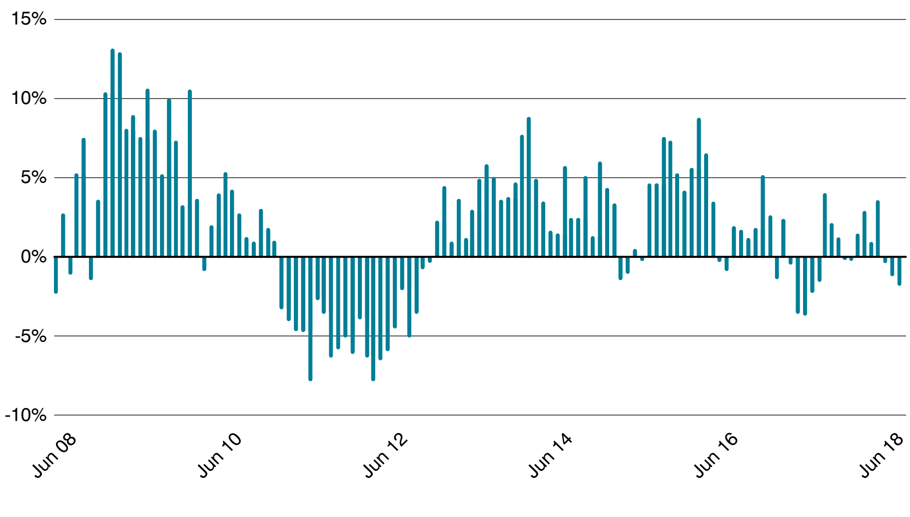
The Company's buy-back facility remains open although no shares were bought back during the year.

The Company's contributed equity, net of share issue costs, rose $55.5 million to $2.8 billion. At the close of the year the Company had 1,186 million shares on issue.

Dividends

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

Figure 6: Share Price Premium/Discount to Net Asset Backing



Source: FactSet

The dividends paid during the year ended 30 June 2018 were as follows:

	$'000
Final dividend for the year ended 30 June 2017 of 14 cents fully franked at 30 per cent paid 30 August 2017	161,955
Interim dividend for the year ended 30 June 2018 of 10 cents per share fully franked at 30 per cent, paid 23 February 2018	116,099
	278,054

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. The Company also had agreements with Commonwealth Bank of Australia for loan facilities totalling $140 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. As at 30 June 2018, the facilities are drawn by $100,000.

Listed Investment Company Capital Gains

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

Tax legislation sets out the definition of a 'listed investment company' which AFIC satisfies. Furthermore, from time to time the Company sells securities out of the investment portfolio held for more than one year which may result in capital gains being made and tax being paid. The Company is therefore on occasion in a position to be able to make available to shareholders a LIC capital gain attributable part with our dividends.

In respect of this year's final dividend of 14.0 cents per share for the year ended 30 June 2018, it carries with it a 2.86 cents per share LIC capital gain attributable part (2017: nil). The amount which shareholders may be able to claim as a tax deduction depends on their individual situation. Further details are provided in the dividend statements.

Figure 7: AFIC Investment by Sector versus the S&P/ASX 200 Index as at 30 June 2018

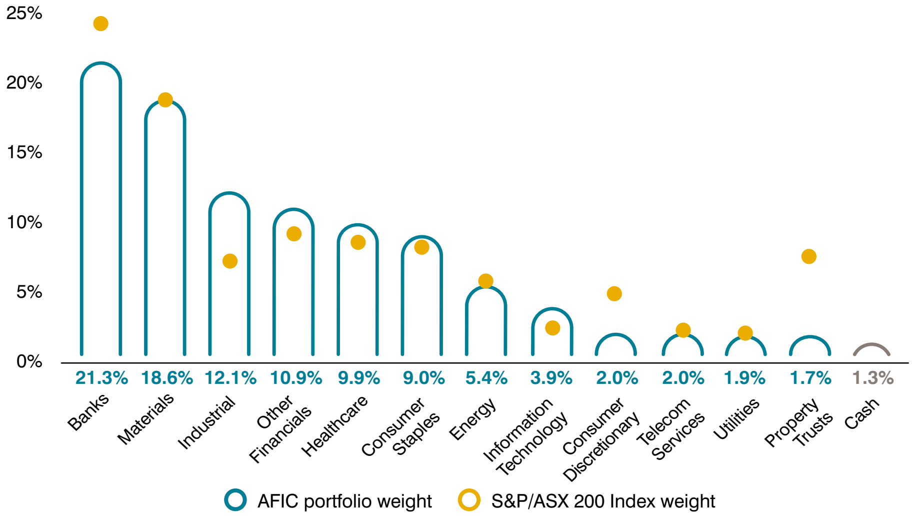
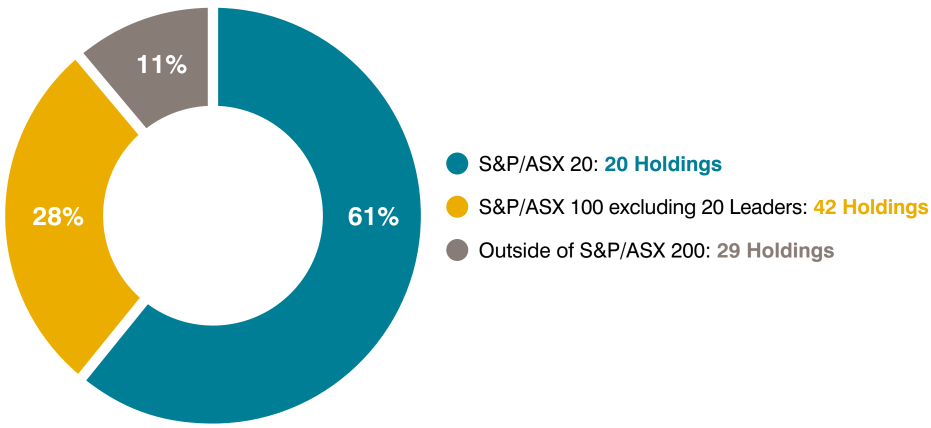


Figure 8: AFIC Investment by Company Size – Percentage of the Portfolio by Value



Likely Developments

The Company intends to continue its investment activities going forward as it has done since its inception in 1928. The results of these investment activities depend upon the performance of the companies and securities in which we invest. Their performance in turn depends on many economic factors. These include economic growth rates, inflation, interest rates, exchange rates and taxation levels. There are also industry and company-specific issues such as management competence, capital strength, industry economics and competitive behaviour. We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities. However, the Company's focus is on results over the medium to long term and its twin objectives are to grow dividends at a rate faster than inflation and to provide shareholders with attractive capital growth.

Significant Changes in the State of Affairs

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

Events Since Balance Date

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

Environmental Regulations

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

Rounding of Amounts

The Company is of the kind referred to in 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 2018 will be found on the Company's website at:

afi.com.au/Corporate-Governance.aspx

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

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

Top 25 Investments

As at 30 June 2018

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 30 June 2018

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	575.7	7.9
2	BHP*	477.7	6.6
3	Westpac Banking Corporation	455.5	6.3
4	CSL*	372.6	5.1
5	Wesfarmers	331.8	4.6
6	Rio Tinto	288.4	4.0
7	National Australia Bank	256.1	3.5
8	Australia and New Zealand Banking Group	239.7	3.3
9	Transurban Group	237.3	3.3
10	Macquarie Group*	206.4	2.8
11	Amcor	180.5	2.5
12	Woolworths Group*	174.6	2.4
13	Oil Search	146.7	2.0
14	Woodside Petroleum	129.3	1.8
15	Telstra Corporation	115.3	1.6
16	Brambles	107.8	1.5
17	Sydney Airport*	107.3	1.5
18	AGL Energy	96.8	1.3
19	Treasury Wine Estates	94.9	1.3
20	James Hardie Industries	91.9	1.3
21	Computershare	85.9	1.2
22	Qube Holdings	84.3	1.2
23	Sonic Healthcare	82.0	1.1
24	Seek*	77.9	1.1
25	Ramsay Health Care	76.4	1.1
Total		5,092.6	
As a percentage of total portfolio value (excludes cash)			70.0%

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

Board and Management

Directors

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

Mark Freeman BE, MBA, Grad Dip App Fin (Sec Inst), AMP (INSEAD). Managing Director. Member of the Investment Committee. Managing Director of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

Mr Freeman became Chief Executive Officer and Managing Director in January 2018 having 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. He is also Managing Director of Djerriwarrh Investments Limited, AMCIL Limited and Mirrabooka Investments Limited.

Ross E Barker BSc (Hons) (Melb), MBA (Melb), F Fin. Non-Executive Director. Member of the Investment Committee.

Mr Barker transitioned to a Non-Executive Director in January 2018 having been appointed Chief Executive Officer of the Company in February 2001 and Managing Director in October 2001 and prior to that an Alternate Director of the Company since April 1987. He is also Chairman of Melbourne Business School Ltd. He is a Non-Executive Director of AMCIL Limited and Mirrabooka Investments Limited.

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 and DuluxGroup Limited, a Director of Australia and New Zealand Banking 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, Australian Investment Company Services Limited.

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

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 is Chairman of Cricket Australia and Brisbane Airport Group Pty Ltd. Mr Peever is a member of the Foreign Investment Review Board. He chaired the 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. David is also a Non-Executive Director of Naval Group Australia and Stars Foundation, a not for profit body which 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 Chairman of Melbourne Genomics Health Alliance and the Financial Adviser Standards and Ethics Authority (FASEA). Mrs Walter is a Director of the RBA's Payments System Board and a Trustee of the Helen Macpherson Smith Trust. 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, Australian Investment Company Services Limited.

Mr Williams was appointed to the Board in February 2010. He is Chairman of Fiig Securities Limited – MIPS Advisory Committee. He is a Director of the NAB Trustees Services Limited (NAB Subsidiary), Cricket Victoria Ltd, Foundation for Young Australians Ltd, House with No Steps and an Advisory Board Member of TLC Aged Care Limited. Mr Williams was formerly Chairman of Olympic Park Sports Medical Centre Pty Ltd, Managing Director of Equity Trustees Limited, a Director of the Trustee Corporations Association of Australia, a Director of the Australian Baseball Federation Inc 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 Chairman of Trust for Nature (Victoria).

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 of 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 currently President of the G100, the peak body for CFOs and a Director of Melbourne Anglican Foundation and was formerly a Non-Executive Director of the Royal Victorian Eye and Ear Hospital.

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 12 years of experience in corporate governance with a particular focus in listed investment companies. He was previously a corporate governance advisor at a professional services firm which included acting as Company Secretary for three ASX listed companies. Prior to that Matthew 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 2018 and the numbers of meetings attended by each Director were:

	Board		Investment		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
TA Campbell	13	11	21	19	-	2*	2	2	1	1
M Freeman^	6	6	10	9	-	2*	-	2*	-	1*
RE Barker	13	12	21	18	-	2*	-	2*	-	-
JC Hey	13	13	21	19	-	1*	-	-	1	1
GR Liebelt	13	13	-	15*	-	-	2	2	-	-
J Paterson	13	13	21	19	4	4	2	2	1	1
DA Peever	13	13	-	16*	4	4	-	-	-	-
CM Walter	13	13	21	21	4	4	2	2	-	-
PJ Williams	13	13	21	21	4	4	-	1*	1	1

* Attended meetings by invitation.

^ M Freeman appointed Managing Director on 1 January 2018.

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 2018 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year.

During the year our long-standing MD and CEO Ross Barker retired (he remains on the Board as a Non-Executive Director), to be replaced by Mark Freeman, the Chief Investment Officer. Mr Freeman remains as Chief Investment Officer. His remuneration for the year is 50 per cent as Chief Investment Officer, and 50 per cent as CEO, reflecting the fact that he started in this new role on 1 January 2018. Next year he will be remunerated purely as CEO, not as a member of the investment team.

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:

Appendix

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.

Periodically, we review our remuneration policies and plans to ensure that they continue to meet these objectives, and such a review is currently underway.

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:

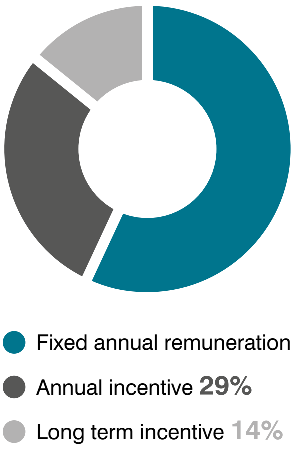
- the key performance indicators chosen to determine performance-related pay are those that the Company considers most relevant to its objectives of improving shareholder wealth over the medium to long term;
- the focus is on performance over the medium to long term with only a small proportion of both annual incentives and LTI being dependent on a single year's performance; and
- 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 misstatement of the Company's financial statements.

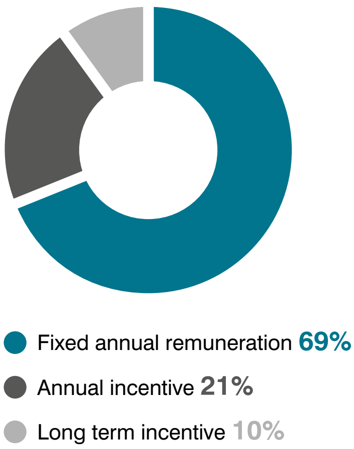
1.2 What is Our Target Remuneration Mix?

The target remuneration mix for Executives is as follows:

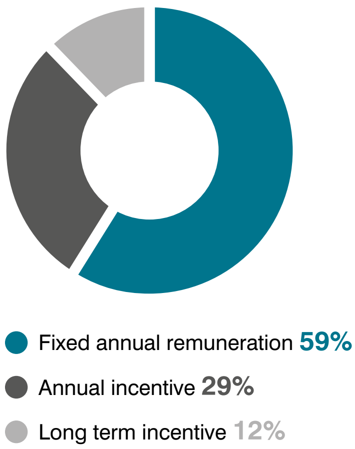
Managing Director's Target Remuneration Mix*



Other Executives' Target Remuneration Mix



Investment Team's Target Remuneration Mix**



* Note: relevant for Ross Barker and for 50 per cent of Mark Freeman's remuneration for the year ended 30 June 2018.

** Relevant for Mark Freeman for 2017 and for 50 per cent of his remuneration for the year ended 30 June 2018.

1.3 How is the Remuneration Paid in 2018 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 Table 1 on the following page for details of the differences.

Table 1: Actual Executive Remuneration Outcomes

	Total FAR $	Other[1] $	Annual Incentive $	Prior Years' LTI Received[4] $	Dividends on Unvested ELTIP Shares $	Total Remuneration[5] $	Annual Incentive Forfeited[3] $	LTI Forfeited $	Possible Future LTI (to Vest Over Next 4 Years)[6] $
Ross Barker – Managing Director (until 31 December 2017)									
2018	**378,180**	**-**	**106,843**	**-**	**-**	**485,023**	**(79,132)**	**(227,181)**	**745,543**
2017	741,837	-	176,156	94,573	2,063	1,014,629	(195,794)	(265,639)	806,039
Mark Freeman – Chief Investment Officer until 31 December 2017, Managing Director from 1 January 2018									
2018	**841,000**	**-**	**225,765**	**12,320**	**-**	**1,079,085**	**(194,735)**	**(147,680)**	**507,456**
2017	832,000	-	228,592	56,225	-	1,116,817	(187,408)	(98,239)	501,920
Andrew Porter – Chief Financial Officer									
2018	**653,438**	**-**	**114,188**	**-**	**-**	**767,626**	**(81,843)**	**(114,839)**	**439,362**
2017	637,500	-	90,576	48,637	1,125	777,838	(100,674)	(139,188)	412,578
Geoff Driver – General Manager – Business Development and Investor Relations									
2018	**538,432**	**-**	**93,122**	**-**	**-**	**631,554**	**(68,408)**	**(91,746)**	**361,964**
2017	525,300	-	73,689	39,146	905	639,040	(83,901)	(111,998)	337,019
Matthew Rowe – Company Secretary[2]									
2018	**235,000**	**-**	**40,220**	**-**	**-**	**275,220**	**(30,280)**	**-**	**75,053**
2017	195,513	2,000	28,056	-	-	225,569	(31,944)	-	32,280

1. Other relates to a 'sign-on' charge in relation to incentives foregone by Matthew Rowe in joining AFIC.
2. Joined on 11 July 2016.
3. For Mark Freeman, the amount forfeited is the difference between the target amount that would have been paid if all targets were met and the amount paid, under the investment team LTI. The amount shown for the other Executives (excluding Mark Freeman and Matthew Rowe who was not eligible for an award under the 2012 and 2013 LTIP) is the amount that would have been paid to them with respect to the 2013 LTIP should all targets have been achieved (2017: 2012 LTIP). See Table 4.

   The value of Annual Incentive forfeited is the difference between the target amount and the amount awarded. See Table 10.

   The differences between the amounts disclosed in Table 1 and the amounts in Table 7 are as follows:
4. 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.
5. Total remuneration in Table 1 includes the amount of dividends paid to Executives in relation to unvested ELTIP shares during the 2017 year. There were none outstanding in 2018. For accounting purposes, the dividends are recognised as distributions in equity and not as an expense.
6. 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 estimated amounts payable under the two LTIP plans 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 at least annually 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 16
Other LIC other metrics	14.5	-	Table 16
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.

Share price performance underperformed the Index as the share price moved from a premium to a discount. However, the investment performance over the short to medium term was also below the benchmark. Only for the 10-year benchmark, which is the Company's preferred timeline, were returns above the Index. 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. Furthermore, 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.

The MER continues to be of importance to the Board, and this continues to be below the benchmark set. The increase in payouts by companies that AFIC invests in has also led to an increase in earnings per share, with that figure now almost completely covering the dividend.

With regard to the other investment companies, Djerriwarrh did not meet most of its shorter or medium-term benchmarks, although in the longer term (10 year) many, like AFIC, were exceeded. Mirrabooka's short-term performance was affected by the strength in the small and mid-cap resources sector, a volatile market in which it does not materially invest, but the medium and longer term figures continue to out-perform. Some of AMCIL's short-term metrics were above the Index as were most of its medium to short-term figures.

During the second half of the year two new senior portfolio managers have been employed by AICS.

The 2014 award under the Executive Long Term Incentive Plan was available for vesting as of 30 June 2018. However, the calculations needed to determine how much actually vests are not performed until after the date of the Annual Report. Therefore, the full amount that may vest is shown, and the actual settlement of the 2014 award will take place in the year ended 30 June 2019. The actual amount settled will be reported in the relevant year. The 2013 award was available for vesting but was forfeited in its entirety due to the hurdles not having been met. It is this forfeiture which is reflected in Table 1 above.

For the investment team whose LTIP encompasses all of the investment companies (unlike Executives, for which only the AFIC performance is counted) the recent short-term underperformance was reflected in the figures which are measured over four years for all of the investment companies. Consequently, all LTIP available under this metric as forfeited. Detailed information about the performance of each investment company is provided in Section E of the Appendix (Table 16).

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	13.0%	10.3%	Unfavourable ●
Share price return – three years	9.0%	4.4%	Unfavourable ●
Share price return – five years	10.0%	6.7%	Unfavourable ●
Share price return – eight years	9.4%	7.8%	Unfavourable ●
Share price return – ten years	6.4%	6.5%	Favourable ●
Growth in net operating result per share (8.3 per cent)	2.0%	9.6%	Favourable ●
Management expense ratio compared to base of 0.19 per cent (5.6 per cent)	0.19%	0.14%	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	13.0%	11.3%	Unfavourable ●
Investment return – three years	9.0%	7.3%	Unfavourable ●
Investment return – five years	10.0%	8.7%	Unfavourable ●
Investment return – eight years	9.4%	9.2%	Unfavourable ●
Investment return – ten years	6.4%	7.0%	Favourable ●
Gross return – one year	14.6%	12.7%	Unfavourable ●
Gross return – three years	10.7%	8.7%	Unfavourable ●
Gross return – five years	11.6%	10.1%	Unfavourable ●
Gross return – eight years	11.1%	10.7%	Unfavourable ●
Gross return – ten years	8.0%	8.5%	Favourable ●
Reward to risk – three years	1st qtr	123rd/155 4th qtr	Unfavourable ●
Reward to risk – five years	1st qtr	115th/147 3rd qtr	Unfavourable ●
Reward to risk – eight years	1st qtr	76th/121 3rd qtr	Unfavourable ●
Reward to risk – ten years	1st qtr	43rd/104 2nd qtr	Unfavourable ●

Outcome
- ● Achieved
- ● Partially achieved
- ● Not achieved

Table 4: Vesting and Forfeiture of Long Term Incentives During the Year*

Award Date	Assessment Dates	Measure Tested 2017	Benchmark Result	AFIC Result	% Vested	% Forfeited
ELTIP – performance rights*						
1 July 2013	30 June 2017	Total gross shareholder return	10.6%	7.4%	0%	50%
		Total portfolio return	9.2%	7.6%	0%	50%
Investment team LTI						
1 July 2014	30 June 2018	Gross return	9.8%	7.9%	0%	100%

* Of the rights awarded on 1 July 2013, 100 per cent were forfeited as the targets were not achieved. Under the investment team LTI, all amounts are 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

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

	Managing Director	Other Executives	Investment Team
Targeted % of FAR	50%	30%	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 2018	Some longer-term measures achieved but shorter-term measures with the exception of the MER and profit per share were not (see Tables 2 and 3 above).		Some longer-term measures achieved but shorter-term measures were not (see Tables 2 and 3 above).
Outcomes for 2018 (see Table 10 for details)	57.5 per cent (Ross Barker) 58.8 per cent (Mark Freeman)	Average 57.7 per cent	48.5 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 2018, 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). Table 6 outlines the purpose and the key terms and conditions of each plan.

Table 6: Long Term Incentives – Key Terms and Conditions

	Executive ELTIP (Performance Rights)	Investment Team LTI Plan
Target	50 per cent of targeted STI	20 per cent of FAR
Objectives	Align remuneration with growth in shareholder wealth over a forward looking period of four years. Reward outperformance.	
Performance measures	See Table 15 in the Appendix for details.	See Table 15 in the Appendix for details.
Performance for awards tested in 2018 (Table 4)	July 2013: 0 per cent vested (see Table 4).	July 2014: 0 per cent vested (see Table 4).

For more detailed information about the LTI plans and their performance conditions, including vesting schedules and outcomes for 2018, 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 (until 31 December 2017)				
2018	**359,450**	**6,230**	**-**	**12,500**
2017	701,436	10,401	-	30,000
Mark Freeman – Chief Investment Officer until 31 December 2017, Managing Director from 1 January 2018				
2018	**816,000**	**-**	**-**	**25,000**
2017	807,000	-	-	25,000
Andrew Porter – Chief Financial Officer				
2018	**628,438**	**-**	**-**	**25,000**
2017	612,500	-	-	25,000
Geoff Driver – General Manager – Business Development and Investor Relations				
2018	**513,432**	**-**	**-**	**25,000**
2017	495,300	-	-	30,000
Matthew Rowe – Company Secretary[2]				
2018	**214,612**	**-**	**-**	**20,388**
2017	178,377	-	2,000	17,136

1. Non-cash benefits relate to the provision of a car parking space.
2. Joined effective 11 July 2016.
3. Includes amounts credited for non-vesting.
4. Other relates to 'sign-on' charge in relation to incentives foregone by Matthew Rowe in joining AFIC.

Total Fixed Remuneration $	Short Term Annual Incentives $	Long-term Share-based Payments LTI Cash-settled[3] $	Other Long-term Payments[3] $	Total Remuneration $	% Fixed/ Performance Related
378,180	**106,843**	**(9,892)**	**-**	**475,131**	**80%/20%**
741,837	176,156	38,830	-	956,823	78%/22%
841,000	**225,765**	**21,025**	**(16,625)**	**1,071,165**	**79%/21%**
832,000	228,592	-	64,161	1,124,753	74%/26%
653,438	**114,188**	**10,899**	**-**	**778,525**	**84%/16%**
637,500	90,576	19,386	-	747,462	85%/15%
538,432	**93,122**	**11,839**	**-**	**643,393**	**84%/16%**
525,300	73,689	16,901	-	615,890	85%/15%
235,000	**40,220**	**19,643**	**-**	**294,863**	**80%/20%**
197,513	28,056	8,070	-	233,639	85%/15%

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 available 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			
2018	**168,950**	**16,050**	**185,000**
2017	164,384	15,616	180,000
RE Barker – Non-Executive Director (Non-Executive from 1 January 2018)			
2018	**43,379**	**4,121**	**47,500**
2017	-	-	-
JC Hey – Non-Executive Director			
2018	**84,475**	**8,025**	**92,500**
2017	82,192	7,808	90,000
GR Liebelt – Non-Executive Director			
2018	**84,475**	**8,025**	**92,500**
2017	82,192	7,808	90,000
J Paterson – Non-Executive Director			
2018	**84,475**	**8,025**	**92,500**
2017	82,192	7,808	90,000
DA Peever – Non-Executive Director			
2018	**84,475**	**8,025**	**92,500**
2017	82,192	7,808	90,000
CM Walter AM – Non-Executive Director			
2018	**84,475**	**8,025**	**92,500**
2017	82,192	7,808	90,000
PJ Williams – Non-Executive Director			
2018	**84,475**	**8,025**	**92,500**
2017	82,192	7,808	90,000
Total Remuneration of Non-Executive Directors			
2018	**719,179**	**68,321**	**787,500**
2017	657,536	62,464	720,000

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.

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

It is the Board's responsibility to review and approve the recommendations of the Remuneration Committee.

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
- monitoring the Group's compliance with 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.

During the year, the Remuneration Committee engaged Ernst & Young to provide advice on the remuneration levels of Non-Executive Directors. Ernst & Young received $13,030 (including GST) for this report.

The Board is satisfied that these arrangements seek to 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 seek to ensure that the independent advice that the Remuneration Committee receives is not perceived as having been compromised by management.

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

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

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

(c) proposed remuneration levels for employees 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 ELTIP.

Ernst & Young were paid $0 during the year ended 30 June 2018 for other general remuneration advice including confirmation of vesting calculations (2017: $3,965) and during the year the Group also paid $245,723 for other professional advice received, which included acting as the internal auditor for AICS and general taxation and accountancy advice (2017: $115,880)(all including GST).

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

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

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	57.4%	$106,843	42.6%	$79,132
Mark Freeman	53.7%	$225,765	46.3%	$194,735
Andrew Porter	58.2%	$114,188	41.8%	$81,843
Geoff Driver	57.7%	$93,122	42.3%	$68,408
Matthew Rowe	57.1%	$40,220	42.9%	$30,280

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 1, 3, 5, 8 and 10-year periods (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• 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: measured against CPI.	• 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'.
	• Management expense ratio (MER): measured against prior years' results or, in the case of AFIC, measured against a base of 0.19 per cent.	• MER reflects the costs of running the Company.
Investment performance (37 per cent)	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'.	
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 1, 3, 5, 8 and 10 years, relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• 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): measure of the movement in the net asset backing of the Company (per share) plus the dividends assumed to be reinvested grossed up for franking credits over the previous 1, 3, 5, 8 and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• 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: This is a measure over 3, 5, 8 and 10 years of the past performance of the Company, compared to the performance of the Company's peers (i.e. investment funds) as reported by Mercer. (Note: this measure is used for AFIC's performance only, reflecting that Company's focus on producing stable returns over the medium to long term).	• 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.

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
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 outperformance 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 1, 3, 5, 8 and 10 years. Measured relative to the S&P/ASX 200 Accumulation Index (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• Investment return reflects the returns generated by the mix of the investments that the Company has invested in. These reflect the value added to shareholders' wealth by the investment decisions of the Company.
Gross return 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 1, 3, 5, 8 and 10 years. This return is compared to the S&P/ASX 200 Accumulation Index grossed up for franking credits (Combined Mid Cap 50 and Small Ordinaries for Mirrabooka).	• 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 3, 5, 8 and 10 years of Company performance. It is calculated by using the movement in the net asset backing of the Company (per share) plus the dividends 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 Executives 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 percentage of the average investable assets. It is a one-year measure only, and measures the ability of the investment team to generate returns from the assets of 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.

Performance Areas and Relative Weighting	Performance Measures	Objectives These Measures Aim to Achieve
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 outperformance 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 member of the investment team with the Remuneration Committee.

C. Long Term Incentives: Details of Outcomes and Conditions

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

Table 13: Vesting of ELTIP and Investment Team LTI

ELTIP Award Date	Vesting Date Subject to Performance Hurdles	Value at Award Date $	Number of Rights Awarded	Value Per Right $	Award Vested for the Year Number of Rights/%	Value Yet to Vest 30 June 2018 $
Ross Barker – Managing Director (until 31 December 2017)						
1 July 2013	30 June 2017	$182,000	33,562	$5.423	0/0%	-
1 July 2014	30 June 2018	$178,750	29,707	$6.017	-	$214,799
1 July 2015	30 June 2019	$182,325	29,459	$6.189	-	$205,269
1 July 2016	30 June 2020	$185,975	33,205	$5.601	-	$221,924
1 July 2017	30 June 2021	$92,888	16,153	$5.757	-	$103,551
Mark Freeman – Managing Director (from 1 January 2018)						
1 January 2018	30 June 2021	$85,000	14,765	$5.757	-	$94,656

ELTIP Award Date	Vesting Date Subject to Performance Hurdles	Value at Award Date $	Number of Rights Awarded	Value Per Right $	Award Vested for the Year Number of Rights/%	Value Yet to Vest 30 June 2018 $
Andrew Porter – Chief Financial Officer						
1 July 2013	30 June 2017	$92,000	16,965	$5.423	0/0%	-
1 July 2014	30 June 2018	$92,000	15,290	$6.017	-	$110,554
1 July 2015	30 June 2019	$93,750	15,148	$6.189	-	$105,548
1 July 2016	30 June 2020	$95,625	17,074	$5.601	-	$114,109
1 July 2017	30 June 2021	$98,016	17,026	$5.757	-	$109,151
Geoff Driver – General Manager – Business Development and Investor Relations						
1 July 2013	30 June 2017	$73,500	13,554	$5.423	0/0%	-
1 July 2014	30 June 2018	$75,750	12,589	$6.017	-	$91,027
1 July 2015	30 June 2019	$77,250	12,482	$6.189	-	$86,971
1 July 2016	30 June 2020	$78,795	14,069	$5.601	-	$94,026
1 July 2017	30 June 2021	$80,765	14,030	$5.757	-	$89,940
Matthew Rowe – Company Secretary (joined 11 July 2016)						
11 July 2016	30 June 2020	$30,000	5,356	$5.601	-	$35,799
1 July 2017	30 June 2021	$35,250	6,123	$5.757	-	$39,254

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount $	Award Vested for the Year $	Award Vested for the Year %	Value Yet to Vest 30 June 2018 $
Mark Freeman – Chief Investment Officer (investment team LTI) – Until 31 December 2017					
1 July 2014	30 June 2018	$160,000	0	0%	-
1 July 2015	30 June 2019	$163,200	-	-	$163,200
1 July 2016	30 June 2020	$166,400	-	-	$166,400
1 July 2017	30 June 2021	$83,200	-	-	$83,200

See Table 1 for actual amounts vested and Table 4 for details of vesting calculations.

The value of the outstanding ELTIP performance rights as in the table above was estimated at 30 June 2018 using the Total Share Return (TSR – which includes dividends reinvested) based on a closing price on 29 June 2018 of AFI shares of $6.16 (the TSR for AFI at 30 June 2018 was 4.0 per cent p.a. for four years, 4.4 per cent p.a. for three years, 9.1 per cent for two years and 10.3 per cent for one year). 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.

During the year ended 30 June 2018, Mark Freeman received $12,320 in respect of the four years ended 30 June 2017, which was 7.7 per cent of the target amount of $160,000. The benchmark annualised return for the period was 10.9 per cent whilst AFIC's return was 9.4 per cent. As noted last year, Mirrabooka's performance was such that although AFIC narrowly under-performed, a proportion of the award still vested. No vesting of LTIP will be made in the year ended 30 June 2019.

Table 14 – Long Term Incentive Plans

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 outperformance is rewarded. Outperformance 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 outperformance 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 outperformance	Straight line between 25 per cent and 50 per cent
	> 20 per cent outperformance	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

D. Directors and Executives: Equity Holdings and Other Transactions

Tables 15 sets 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 15: Shareholdings of Directors and Executives

	Opening Balance	Changes During Year	Closing Balance
TA Campbell	409,262	12,469	421,731
RM Freeman	139,222	2,961	142,183
RE Barker	897,254	1,287	898,541
JC Hey	19,189	775	19,964
GR Liebelt	236,893	81,570	318,463
J Paterson	557,237	13,200	570,437
DA Peever	23,814	2,995	26,809
CM Walter	311,169	12,572	323,741
PJ Williams	67,431	-	67,431
GN Driver	129,952	3,076	133,028
MJ Rowe	197	820	1,017
AJB Porter	175,570	2,875	178,445

Other Arrangements with Non-Executive Directors

Non-Executive Directors Ross Barker, John Paterson and Catherine Walter have rented office space and, for Ross Barker and 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 $
RE Barker	10,098
J Paterson	26,047
CM Walter	14,169

E. Detailed Performance Measures by Investment Company

Table 16 below 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 16: 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	**2018**	2017	2016	2015	2014
Comparative returns										
S&P/ASX 200 Accumulation Return	6.4%	9.4%	10.0%	8.2%	9.0%	**13.0%**	14.1%	0.6%	5.7%	17.4%
Gross S&P/ASX 200 Accumulation Return	8.0%	11.1%	11.6%	9.8%	10.7%	**14.6%**	15.7%	2.2%	6.8%	19.2%
Combined Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	4.9%	9.1%	14.0%	13.3%	16.0%	**19.3%**	12.7%	16.1%	5.6%	16.9%
Gross Combined Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	5.9%	10.2%	15.1%	14.4%	17.1%	**20.4%**	13.8%	17.2%	6.3%	18.0%
AFIC										
Total shareholder return	6.5%	7.8%	6.7%	4.0%	4.4%	**10.3%**	8.0%	-4.4%	2.8%	17.9%
Total portfolio return	6.5%	8.8%	8.2%	6.0%	6.8%	**10.8%**	11.7%	-1.6%	3.9%	17.3%
Growth in net operating result per share	1.1%	3.3%	0.8%	-0.8%	-4.9%	**9.6%**	-9.6%	-12.4%	11.8%	7.5%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.14%**	0.14%	0.16%	0.16%	0.17%
Risk/reward return[1]	43rd/104	76th/121	115th/147	123rd/152	123rd/155	**105th/156**	119th/169	n/a[2]	139th/176	36th/177
Gross return	8.5%	10.7%	10.1%	7.9%	8.7%	**12.7%**	13.7%	0.2%	5.6%	19.2%
Investment return	7.0%	9.2%	8.7%	6.6%	7.3%	**11.3%**	12.3%	-1.0%	4.6%	17.0%

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.

Year Ending 30 June	10-year Return	8-year Return	5-year Return	4-year Return	3-year Return	2018	2017	2016	2015	2014
Djerriwarrh Investments Limited										
Total shareholder return	4.0%	4.4%	1.3%	-2.4%	-4.8%	**-2.8%**	-3.8%	-7.7%	5.2%	17.4%
Total portfolio return	4.9%	7.0%	6.3%	4.2%	5.5%	**8.8%**	13.0%	-4.5%	0.2%	15.6%
Growth in net operating profit per share	-3.1%	-2.9%	0.4%	-4.2%	-9.5%	**5.7%**	-19.9%	-10.0%	10.8%	20.7%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.44%**	0.46%	0.46%	0.41%	0.39%
Gross return	8.2%	10.3%	9.6%	7.4%	8.8%	**11.7%**	16.6%	-1.1%	3.2%	19.1%
Investment return	6.7%	8.8%	7.9%	5.6%	6.6%	**9.7%**	13.0%	-2.7%	2.8%	16.3%
Operating earnings as a percentage of available investable assets	n/a	n/a	n/a	n/a	n/a	**7.1%**	7.1%	8.7%	7.9%	7.6%
Mirrabooka Investments Limited										
Total shareholder return	10.0%	12.3%	9.1%	6.3%	6.9%	**4.9%**	3.0%	13.1%	4.3%	21.2%
Total portfolio return	9.4%	12.0%	11.7%	9.1%	11.2%	**14.7%**	7.1%	12.0%	3.1%	22.8%
Growth in net operating result per share	-0.5%	2.9%	1.7%	4.0%	8.4%	**35.7%**	-17.8%	16.6%	-10.0%	-7.0%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.60%**	0.62%	0.65%	0.67%	0.64%
Gross return	12.3%	15.0%	15.0%	12.3%	14.2%	**17.3%**	9.9%	15.4%	6.8%	26.4%
Investment return	11.8%	14.6%	14.6%	11.7%	13.4%	**16.0%**	9.3%	14.8%	6.5%	26.5%
AMCIL Limited										
Total shareholder return	8.7%	10.9%	8.0%	4.6%	6.4%	**9.1%**	-1.2%	11.8%	-0.9%	22.7%
Total portfolio return	8.8%	10.0%	8.4%	6.8%	8.4%	**12.3%**	5.3%	7.6%	2.2%	14.7%
Growth in net operating result per share	2.6%	-1.1%	-5.1%	-4.0%	-7.0%	**14.4%**	-32.6%	4.8%	4.3%	-9.6%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.69%**	0.68%	0.65%	0.67%	0.65%
Gross return	10.8%	12.1%	10.8%	8.9%	10.2%	**13.9%**	7.0%	9.7%	5.1%	18.8%
Investment return	10.5%	11.8%	10.2%	8.4%	10.0%	**14.0%**	7.1%	9.3%	3.9%	17.9%

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.

Terrence Campbell AO
Chairman

Melbourne
23 July 2018

Auditor's Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) 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.

Nadia Carlin

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
23 July 2018

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FINANCIAL STATEMENTS

Consolidated Income Statement

For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Dividends and distributions	A3	302,389	270,887
Revenue from deposits and bank bills	A3	1,409	1,659
Other revenue	A3	4,703	5,105
Total revenue		**308,501**	**277,651**
Net gains on trading portfolio and non-equity investments	A3	264	3,065
Income from operating activities		**308,765**	**280,716**
Finance costs		(848)	(8,969)
Administration expenses	B1	(14,533)	(14,483)
Profit before income tax expense		**293,384**	**257,264**
Income tax expense	B2, E2	(14,377)	(11,964)
Profit for the year		**279,007**	**245,300**
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		278,709	245,029
Minority interest		298	271
		279,007	**245,300**
		Cents	**Cents**
Basic earnings per share	A5	23.57	21.32

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

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2018

	Year to 30 June 2018			Year to 30 June 2017		
	Revenue[1] $'000	Capital[1] $'000	Total $'000	Revenue $'000	Capital $'000	Total $'000
Profit for the year	**279,007**	**-**	**279,007**	245,300	-	245,300
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains for the period	-	454,180	**454,180**	-	500,389	500,389
Tax on above	-	(136,841)	**(136,841)**	-	(154,791)	(154,791)
Total other comprehensive income	-	**317,339**	**317,339**	-	345,598	345,598
Total comprehensive income	**279,007**	**317,339**	**596,346**	245,300	345,598	590,898

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'.

	Year to 30 June 2018			Year to 30 June 2017		
	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	278,709	317,339	596,048	245,029	345,598	590,627
Minority Interests	298	-	298	271	-	271
	279,007	317,339	596,346	245,300	345,598	590,898

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

Consolidated Balance Sheet

As at 30 June 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash	D1	99,183	105,125
Receivables		77,234	52,011
Total current assets		**176,417**	**157,136**
Non-current assets			
Investment portfolio	A2	7,280,706	6,790,368
Deferred tax assets		1,257	349
Total non-current assets		**7,281,963**	**6,790,717**
Total assets		**7,458,380**	**6,947,853**
Current liabilities			
Payables		712	6,953
Tax payable		8,245	1,980
Borrowings – bank debt	D2	100	-
Trading portfolio		6,757	546
Provisions		4,385	4,448
Total current liabilities		**20,199**	**13,927**
Non-current liabilities			
Provisions		1,394	1,332
Deferred tax liabilities – investment portfolio	B2	1,097,527	967,091
Total non-current liabilities		**1,098,921**	**968,423**
Total liabilities		**1,119,120**	**982,350**
Net assets		**6,339,260**	**5,965,503**
Shareholders' equity			
Share capital	A1, D6	2,811,721	2,756,256
Revaluation reserve	A1, D3	2,422,568	2,123,209
Realised capital gains reserve	A1, D4	448,892	430,912
General reserve	A1	23,637	23,637
Retained profits	A1, D5	631,725	631,070
Parent entity interest		**6,338,543**	**5,965,084**
Minority interest		**717**	419
Total equity		**6,339,260**	**5,965,503**

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2018

Year Ended 30 June 2018	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,756,256**	**2,123,209**
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	55,601	-
Other share capital adjustments		(136)	-
Total transactions with shareholders		**55,465**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	317,339
Other comprehensive income for the year		-	317,339
Transfer to realised capital gains of cumulative gains on investments sold		-	(17,980)
Total equity at the end of the year		**2,811,721**	**2,422,568**

Year Ended 30 June 2017	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		2,521,441	1,767,628
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	55,242	-
– Conversion of notes	D6	179,755	-
Other share capital adjustments		(182)	-
Total transactions with shareholders		234,815	-
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	345,598
Other comprehensive income for the year		-	345,598
Transfer to realised capital gains of cumulative losses on investments sold		-	9,983
Dividend paid to minority interests by AICS		-	-
Total equity at the end of the year		2,756,256	2,123,209

This Consolidated 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
430,912	**23,637**	**631,070**	**5,965,084**	**419**	**5,965,503**
-	-	(278,054)	**(278,054)**	**-**	**(278,054)**
-	-	-	**55,601**	**-**	**55,601**
-	-	-	**(136)**	**-**	**(136)**
-	**-**	**(278,054)**	**(222,589)**	**-**	**(222,589)**
-	-	278,709	**278,709**	**298**	**279,007**
-	-	-	**317,339**	-	**317,339**
-	-	-	**317,339**	-	**317,339**
17,980	-	-	**-**	-	
448,892	**23,637**	**631,725**	**6,338,543**	**717**	**6,339,260**

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
457,593	23,637	637,094	5,407,393	1,148	5,408,541
(16,698)	-	(251,053)	(267,751)	-	(267,751)
-	-	-	55,242	-	55,242
-	-	-	179,755	-	179,755
-	-	-	(182)	-	(182)
(16,698)	-	(251,053)	(32,936)	-	(32,936)
-	-	245,029	245,029	271	245,300
-	-	-	345,598	-	345,598
-	-	-	345,598	-	345,598
(9,983)	-	-	-	-	-
-	-	-	-	(1,000)	(1,000)
430,912	23,637	631,070	5,965,084	419	5,965,503

Consolidated Cash Flow Statement

For the Year Ended 30 June 2018

	Note	**2018 $'000 Inflows/ (Outflows)**	2017 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		66,478	29,002
Purchases for trading portfolio		(4,770)	(18,305)
Interest received		1,347	1,668
Dividends and distributions received		243,605	259,553
		306,660	271,918
Other receipts		4,957	5,111
Administration expenses		(14,803)	(14,173)
Finance costs paid		(848)	(12,550)
Taxes paid		(14,808)	(23,645)
Net cash inflow/(outflow) from operating activities	E1	**281,158**	226,661
Cash flows from investing activities			
Sales from investment portfolio		689,030	216,497
Purchases for investment portfolio		(753,667)	(269,443)
Net cash inflow/(outflow) from investing activities		**(64,637)**	(52,946)
Cash flows from financing activities			
Redeeming of convertible notes		-	(10,722)
Net bank borrowings		100	-
Share issue transaction costs		(136)	(59)
Dividends paid		(222,427)	(213,712)
Net cash inflow/(outflow) from financing activities		**(222,463)**	(224,493)
Net increase/(decrease) in cash held		(5,942)	(50,778)
Cash at the beginning of the year		105,125	155,903
Cash at the end of the year	D1	**99,183**	105,125

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

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

NOTES TO THE FINANCIAL STATEMENTS

A. Understanding AFIC's Financial Performance

A1. How AFIC Manages its Capital

AFIC's objective is to provide shareholders with attractive investment returns through access to a growing 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:

	2018 $'000	2017 $'000
Share capital	2,811,721	2,756,256
Revaluation reserve	2,422,568	2,123,209
Realised capital gains reserve	448,892	430,912
General reserve	23,637	23,637
Retained profits	631,725	631,070
	6,338,543	5,965,084

Refer to notes D3–D6 for a reconciliation of movement from period to period for each equity account (except the general reserve, which is historical, relates to past profits which can be distributed and has had no movement).

A2. Investments Held and How They Are Measured

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

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

The balance and composition of the investment portfolio was:

	2018 $'000	2017 $'000
Equity instruments (excluding below) at market value	6,940,638	6,495,320
Equity instruments (over which options may be written)	327,764	282,754
Hybrids	12,304	12,294
	7,280,706	6,790,368

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 Board 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 2018 and 30 June 2017 were as follows:

	30 June 2018 $	30 June 2017 $
Net tangible asset backing per share		
Before tax	**6.27**	5.89
After tax	5.34	5.07

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

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

During the period $712.6 million (2017: $217.2 million) of equity securities were sold. The cumulative gain on the sale of securities was $18.0 million for the period after tax (2017: $10.0 million loss). 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.

A3. Operating Income

The total income received from AFIC's investments in 2018 is set out below.

Dividends and Distributions	2018 $'000	2017 $'000
Income from securities held in investment portfolio at 30 June	272,362	264,658
Income from investment securities sold during the year	29,918	6,120
Income from securities held in trading portfolio at 30 June	-	109
Income from trading securities sold during the year	109	-
	302,389	270,887
Interest income		
Income from cash investments	1,409	1,659
Other income		
Administration fees	4,681	5,022
Other income	22	83
	4,703	5,105

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

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

Net Gains		2018 $'000	2017 $'000
Net realised gains from trading portfolio	– shares	672	470
	– options	3,559	1,912
Unrealised gains/(losses) from trading portfolio	– shares	-	496
	– options	(3,967)	187
		264	**3,065**

$115.7 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2017: $112.9 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 $61.7 million worth of securities at an agreed price – the 'exposure' (2017: $82.4 million). If all put options were exercised, this would lead to the purchase of $19.7 million of securities at an agreed price (2017: $18.4 million).

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2018 are shown below:

(a) Dividends Paid During the Year	2018 $'000	2017 $'000
Final dividend for the year ended 30 June 2017 of 14 cents fully franked at 30 per cent paid 30 August 2017 (2017: 14 cents fully franked at 30 per cent paid on 30 August 2016).	161,955	155,852
Interim dividend for the year ended 30 June 2018 of 10 cents per share fully franked at 30 per cent, paid 23 February 2018 (2017: 10 cents fully franked at 30 per cent paid 24 February 2017).	116,099	111,899
	278,054	**267,751**
Dividends paid in cash	222,453	212,509
Dividends reinvested in shares	55,601	55,242
	278,054	**267,751**
Dividends forgone via DSSP	**4,788**	**4,241**
(b) Franking Credits		
Opening balance of franking account at 1 July	158,730	159,869
Franking credits on dividends received	104,609	92,267
Tax paid during the year	14,069	23,164
Franking credits paid on ordinary dividends paid	(119,166)	(114,750)
Franking credits deducted on DSSP shares issued	(2,055)	(1,820)
Closing balance of franking account	**156,187**	**158,730**
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	22,534	16,008
Adjusted closing balance	**178,721**	**174,738**
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(71,169)	(70,565)
Net available	**107,552**	**104,173**
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	250,955	243,070

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

	2018 $'000	2017 $'000
(Figures in A$ at year-end exchange rate: 2018: $NZ1.093: $A1; 2017: $NZ1.047: $A1)		
Opening balance	13,357	7,660
Imputation credits on dividends received	5,987	6,284
Imputation credits on dividends paid	(12,348)	-
Closing balance	**6,996**	13,944

(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 2018 to be paid on 31 August 2018, but not recognised as a liability at the end of the financial year is:	166,061

(e) Listed Investment Company Capital Gain Account

	2018 $'000	2017 $'000
Balance of the listed investment company (LIC) capital gain account:	32,686	9,883
This equates to an attributable amount of:	46,694	14,118

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. $33.9 million attributable gain is attached to the final dividend to be paid on 31 August 2018.

A5. Earnings Per Share

The table below shows the earnings per share based on the profit for the year:	2018	2017
Basic earnings per share	**Number**	Number
Weighted average number of ordinary shares used as the denominator	1,182,444,510	1,149,255,591
	$'000	$'000
Profit for the year	278,709	245,029
	Cents	Cents
Basic earnings per share	23.57	21.32

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2018 $'000	2017 $'000
Rental expense relating to non-cancellable leases	(621)	(636)
Employee benefit expenses	(8,911)	(9,138)
Depreciation charge	-	-
Other administration expenses	(5,001)	(4,709)
	(14,533)	**(14,483)**

Employee Benefit Expenses

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

	Short-term Benefit $	Other Long-term Benefits $	Post-employment Benefits $	Share Based Payments $	Total $
2018					
Non-Executive Directors	719,179	-	68,321	-	787,500
Executives	3,118,300	(16,625)	107,888	53,514	3,263,077
Total	**3,837,479**	**(16,625)**	**176,209**	**53,514**	**4,050,577**
2017					
Non-Executive Directors	657,536	-	62,464	-	720,000
Executives	3,404,083	64,161	127,136	83,187	3,678,567
Total	4,061,619	64,161	189,600	83,187	4,398,567

Detailed remuneration disclosures are provided in the Remuneration Report.

The Group (i.e. AFIC and its subsidiary, Australian Investment Company Services (AICS) – see Note F8) 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

	2018 $'000	2017 $'000
Profit before income tax expense	**293,384**	257,264
Tax at the Australian tax rate of 30 per cent (2017: 30 per cent)	88,015	77,179
Tax offset for franked dividends received	(70,989)	(63,495)
Tax effect of sundry items taxable in current year but not included in income	(15)	322
	17,011	14,006
Over provision in prior years	(2,634)	(2,042)
Total tax expense	**14,377**	11,964

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.

	2018 $'000	2017 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	1,097,527	967,091
Opening balance at 1 July	967,091	812,947
Tax on realised gains	(6,405)	(647)
Charged to OCI for ordinary securities on gains or losses for the period	136,841	154,791
	1,097,527	967,091

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 which are not risk free – the market price of these securities will fluctuate.

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment portfolio, would have led to a reduction in AFIC's comprehensive income of $254.8 million and $509.6 million respectively, at a tax rate of 30 per cent (2017: $237.7 million and $475.3 million).

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 total investment exposure by sector is as below:

	2018 %	2017 %
Energy	5.44	4.37
Materials	18.61	16.73
Industrials	12.08	10.96
Consumer discretionary	2.01	1.80
Consumer staples	8.99	8.64
Banks	21.31	24.52
Other financials	10.86	10.69
Property trusts	1.72	2.18
Telecommunications	2.02	3.79
Health care	9.90	9.80
Information technology	3.86	2.67
Utilities	1.85	2.33
Cash	1.35	1.52
Securities representing over 5 per cent of the investment portfolio at 30 June were:		
Commonwealth Bank	7.9	9.6
BHP	6.6	4.8
Westpac	6.3	7.0
CSL	5.1	3.5

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 are short term for 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 in cash management trusts which invest predominantly in securities with an A1+ rating. 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 2018	**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	712	-	-	712	712
Borrowings – bank debt	100	-	-	100	100
	812	**-**	**-**	**812**	**812**
Derivatives					
Options in trading portfolio*	19,726	-	-	19,726	6,757
	19,726	**-**	**-**	**19,726**	**6,757**

30 June 2017	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	6,953	-	-	6,953	6,953
	6,953	-	-	6,953	6,953
Derivatives					
Options in trading portfolio*	18,352	-	-	18,352	3,839
	18,352	-	-	18,352	3,839

* 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 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

	2018 $'000	2017 $'000
Cash at bank and in hand (including on-call)	95,183	103,125
Fixed term deposits	4,000	2,000
	99,183	105,125

Cash holdings yielded an average floating interest rate of 1.80 per cent (2017: 1.93 per cent). All cash investments are held in a transactional account or an over-night 'at call' account invested in cash management trusts which invest predominantly in securities with an A1+ rating.

D2. Credit Facilities

	2018 $'000	2017 $'000
Commonwealth Bank of Australia – cash advance facilities	140,000	140,000
Amount drawn down	100	0
Undrawn facilities	**139,900**	140,000
Westpac Bank – cash advance facilities	-	10,000
Amount drawn down	-	0
Undrawn facilities	**-**	10,000
Total short-term loan facilities	140,000	150,000
Amount drawn down	100	0
Undrawn facilities	**139,900**	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. Revaluation Reserve

	2018 $'000	2017 $'000
Opening balance at 1 July	2,123,209	1,767,628
Gains on investment portfolio		
– Equity instruments	454,180	500,389
Provision for tax on above	(136,841)	(154,791)
Cumulative taxable realised (gains)/losses (net of tax)	(17,980)	9,983
	2,422,568	2,123,209

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

D4. Realised Capital Gains Reserve

	2018 $'000	2017 $'000
Opening balance at 1 July	430,912	457,593
Dividends paid	-	(16,698)
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	17,980	(9,983)
	448,892	430,912

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

D5. Retained Profits

	2018 $'000	2017 $'000
Opening balance at 1 July	631,070	637,094
Dividends paid	(278,054)	(251,053)
Profit for the year	278,709	245,029
	631,725	631,070

This reserve relates to past profits.

D6. Share Capital

Movements in Share Capital

Date	Details	Notes	Number of Shares '000	Issue Price $	Paid-up Capital $'000
1/07/2016	Balance		1,130,305		2,521,441
30/08/2016	Dividend Reinvestment Plan	(i)	5,823	5.58	32,493
30/08/2016	Dividend Substitution Share Plan	(ii)	428	5.58	n/a
31/08/2016	Convertible note conversion	(iv)	1,009	5.09	5,133
24/02/2017	Dividend Reinvestment Plan	(i)	3,895	5.84	22,749
24/02/2017	Dividend Substitution Share Plan	(ii)	317	5.84	n/a
28/02/2017	Convertible note conversion	(iv)	34,331	5.09	174,622
Various	Cancellation of ELTIP shares not vested		(29)	n/a	(123)
Various	Costs of issue		-	-	(59)
30/06/2017	Balance		1,176,079		2,756,256
30/08/2017	Dividend Reinvestment Plan	(i)	5,448	5.92	32,249
30/08/2017	Dividend Substitution Share Plan	(ii)	455	5.92	n/a
23/02/2018	Dividend Reinvestment Plan	(i)	3,822	6.11	23,352
23/02/2018	Dividend Substitution Share Plan	(ii)	343	6.11	n/a
Various	Costs of issue		-	-	(136)
30/06/2018	Balance		1,186,147		2,811,721

(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 (2017: nil).

(iv) 1,797,547 Feb 2017 convertible notes were converted into shares during the year ending 30 June 2017. All remaining convertible notes were redeemed at their face value.

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

	2018 $'000	2017 $'000
Profit for the year	**279,007**	245,300
Net decrease/(increase) in trading portfolio	6,211	320
Dividends received as securities under DRP investments	-	(1,870)
Decrease/(increase) in current receivables	(25,223)	(6,653)
– Less increase/(decrease) in receivables for investment portfolio	22,366	5,129
Increase in deferred tax liabilities	129,528	154,829
– Less (increase)/decrease in deferred tax liability on investment portfolio	(130,436)	(154,144)
Increase/(decrease) in current payables	(6,241)	(13,979)
– Less decrease/(increase) in payables for investment portfolio	6,113	9,943
– Less increase/(decrease) in dividends payable	(27)	80
Increase/(decrease) in provision for tax payable	6,265	(12,413)
Capital gains tax charge taken through equity	(6,405)	(647)
Increase/(decrease) in other provisions/non-cash items (including convertible note expenses)	-	766
Net cash flows from operating activities	**281,158**	226,661

E2. Tax Reconciliations

Tax Expense Composition

	2018 $'000	2017 $'000
Charge for tax payable relating to the current year	17,919	13,321
Over provision in prior years	(2,634)	(2,042)
(Increase)/decrease in deferred tax assets	(908)	685
	14,377	11,964

Amounts Recognised Directly Through Other Comprehensive Income

	2018 $'000	2017 $'000
Net increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	136,841	154,791
	136,841	154,791

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2018 $'000	2017 $'000
(a) Tax on unrealised gains or losses in the trading portfolio	1,190	(100)
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,738	1,740
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(1,671)	(1,291)
	1,257	349
Movements:		
Opening asset balance at 1 July	349	1,034
Credited/(charged) to Income Statement	908	(685)
	1,257	349

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.

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 R Barker, J Paterson and C Walter have rented office space and, for R Barker and 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 $50,314 (2017: $39,945).

(b) AICS Transactions with Minority Interests

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

	2018 $'000	2017 $'000
Administration expenses charged for the year	2,450	2,437

(c) AICS Transactions with Other Listed Investment Companies

AICS had the following transactions with other listed investment companies to which it provides services:

	2018 $'000	2017 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,400	1,481
Administration expenses charged for the year to AMCIL Ltd	899	918

F2. Remuneration of Auditors

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

	2018 $	2017 $
PricewaterhouseCoopers		
Audit or review of Financial Reports	190,820	248,256
AFSL compliance audit and review	7,796	9,925
Non-audit services		
Taxation compliance services	38,819	81,444
Total remuneration	**237,435**	339,625

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 one investment comprising more than 10 per cent of AFIC's income, including realised income from the trading and options written portfolios – Commonwealth Bank (11.0 per cent) ((2017: two investments: Commonwealth Bank (11.8 per cent) and Westpac Bank (10.4 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 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 2018 ('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. Historically, all awards have been cash. Expenses are recognised over the four-year assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the Balance Sheet over the assessment period.

Under the Senior Executive Long Term Incentive Plan which was introduced for the year ended 30 June 2013, the amount awarded is represented by performance shares. The 30-day Volume Weighted Average Price (VWAP) of AFIC shares up to but not including 1 July is calculated. The amount of ELTIP available is then divided by this 30-day VWAP price to determine the number of performance shares that may vest at the vesting point in four years' time. The value of each performance shares will be adjusted by the accumulation return on the AFI share price (being the movement in the share price assuming the reinvestment of any dividends) up to vesting date, based on a final share price calculated on the 30-day VWAP price up to 30 June. No shares vested during the year ended 30 June 2018.

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

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.

10,706 shares (2017: 14,331 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $64,277 (2017: $80,048).

(ii) Senior Executive Long Term Incentive Plan

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

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

68,098 rights were awarded under the plan during the year ended 30 June 2018 (2017: 69,704). An expense of $481,768 (2017: $437,634) was incurred for the 2014/15, 2015/16, 2016/17 and 2017/18 plans. 64,081 rights under the 2013/14 plan were forfeited during the year.

(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.

$52,563 vested in the period (2017: $140,114) 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 need to be held for three years. 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, 48.4 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in AMCIL 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 (excluding any reversals and the Investment Team Long Term Incentive Plan) were as follows:

	2018 $'000	2017 $'000
Share-based payment expense	534	498

(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:

	2018 $'000	2017 $'000
Due within one year	667	667
Later than one year but less than five	2,001	2,669
Greater than five years	-	-
	2,668	3,336

F8. Principles of Consolidation

AFIC's consolidated financial statements consist of the financial statements of AFIC, the parent, and its subsidiary, Australian Investment Company Services Ltd (AICS). 25 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:

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2018	Equity Holding 2017
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:

	2018 $'000	2017 $'000
Balance sheet		
Current assets	162,696	150,696
Total assets	7,450,206	6,941,111
Current liabilities	15,607	8,612
Total liabilities	1,113,655	977,124
Shareholders' equity		
Issued capital	2,811,721	2,756,256
Reserves		
Revaluation reserve	2,422,568	2,123,209
Realised capital gains reserve	448,892	430,912
General reserve	23,637	23,637
Retained earnings	629,733	629,973
	3,524,830	3,207,731
Total shareholders' equity	6,336,551	5,963,987
Profit or loss for the year	277,815	247,216
Total comprehensive income	595,154	592,814

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 37 to 59 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 2018 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 2018. 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
23 July 2018

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Independent auditor's report

To the members of Australian Foundation Investment Company Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Australian Foundation Investment Company Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

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

What we have audited

The Group's financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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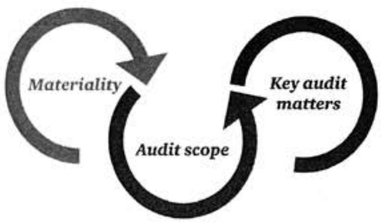
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



Materiality

- For the purpose of our audit we used overall group materiality of 1% of the Group's net assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose net assets as the benchmark because, in our view, net assets is;
  - the metric against which the performance of the group is most commonly measured; and
  - the key driver of the business and determinant of the Group's value.
- We selected 1% based on our professional judgement, noting that it is within the range of commonly acceptable net asset related thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group operates entirely out of its Melbourne office and we perform our audit procedures predominantly at that office.
- The administration and investment operations for the Group are conducted by the Company's subsidiary, Australian Investment Company Services Limited. In addition to our audit procedures, we obtained a report from other auditors that the controls over administration and investment operations operating at Australia Investment Company Services Limited were suitably designed and operated effectively for the year. We assessed the report by considering the other auditor's independence, competency and results of procedures.

Key Audit Matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
  - Existence and valuation of Investment Portfolio
- These are further described in the key audit matters section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of Investment Portfolio *(Refer to note A2)* *$7,280.7m* The Investment Portfolio consists of listed Australian equities which are valued by multiplying the quantity held by market price. Whilst there is no significant judgement in determining the valuation of the Group's investments, investments represent a key measure of the Group's performance and comprise a significant proportion of total assets in the balance sheet. The fluctuations in investment valuation will also impact the realised and unrealised gains/(losses) recognised in the statement of comprehensive income which also affects the deferred tax provisions. Given the pervasive nature investments have on the Group's key financial metrics, we determined the existence and valuation of investments to be a key audit matter.	1) Performed an investment reconciliation of the investments balance from the opening investment balance, addition/subtraction of purchases, sales and other relevant transactions and agreeing back to the 30 June 2018 balance. 2) Obtained the 2018 purchases and sales listing and • agreed a sample of purchases and sales to original contracts; and • agreed a sample of original contracts to the purchases and sales listing. 3) Agreed all the investment quantity holdings at 30 June 2018 to independent third party sources. 4) Agreed all the listed equities investment prices to independent market pricing sources. 5) Obtained a report on whether the controls over investment purchase and sales transactions were suitably designed and operated effectively for the year and assessed the report.

Other information

The directors are responsible for the other information. The other information comprises the Director's Report, Additional Information section and Other Information section included in the Group's annual report for the year ended 30 June 2018 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Australian Foundation Investment Company limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Australian Foundation Investment Company Limited for the year ended 30 June 2018 included on Australian Foundation Investment Company Limited's web site. The directors of the Company are responsible for the integrity of Australian Foundation Investment Company Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
23 July 2018

OTHER INFORMATION

Information About Shareholders

At 31 July 2018 there were 130,615 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings
1 to 1,000	40,119
1,001 to 5,000	43,712
5,001 to 10,000	20,118
10,001 to 100,000	25,628
100,000 and over	1,038
Total	130,615

Percentage held by the 20 largest holders	5.49%
Average shareholding	9,081

There were 2,640 shareholdings of less than a marketable parcel of $500 (79 shares).

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.

Major Shareholders

The 20 largest registered holdings of ordinary shares as at 31 July 2018 are listed below:

Ordinary Shares

Shareholder Name	Shares Held	% Held
HSBC Custody Nominees (Australia) Limited	9,463,194	0.80
IOOF Investment Management Limited <IPS Super A/C>	6,001,471	0.51
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,890,051	0.50
Citicorp Nominees Pty Limited	5,083,717	0.43
Bougainville Copper Limited	5,027,734	0.42
Navigator Australia Ltd <MLC Investment Sett A/C>	4,544,893	0.38
Custodial Services Limited <Beneficiaries Holding A/C>	3,100,552	0.26
Trustees of The Redemptorist Fathers	2,878,000	0.24
Netwealth Investments Limited <Wrap Services A/C>	2,678,348	0.23
Bushways Pty Ltd	2,570,592	0.22
Investment Custodial Services Limited <C A/C>	2,540,164	0.21
Investment Custodial Services Limited <C A/C>	2,210,561	0.19
J P Morgan Nominees Australia Limited	2,160,945	0.18
Kalymna Pty Ltd	1,852,186	0.16
IOOF Investment Management Limited <IPS IDPS A/C>	1,803,449	0.15
Peter & Lyndy White Foundation Pty Ltd <P & L White Foundation A/C>	1,725,072	0.15
Twibill Pty Ltd	1,443,216	0.12
Netwealth Investments Limited <Super Services A/C>	1,396,842	0.12
Australian Executor Trustees Limited <No 1 Account>	1,382,518	0.12
The Winston Churchill Memorial Trust	1,369,720	0.12

Major Transactions in the Investment Portfolio

Acquisitions	Cost $'000
Macquarie Group	105,902
CSL	48,838
Sydney Airport	47,044
Boral	41,944
Unibail-Rodamco* (takeover of Westfield Corporation)	36,078
Sonic Healthcare	35,347
James Hardie Industries	29,605
NEXTDC*	28,558
Reliance Worldwide (includes $10.91 million in 1 for 1.98 issue at $4.15 per share)	27,188
Alumina	24,308
Carsales.com	22,962
Reece (includes $10.56 million in 1 for 11 issue and placement at $9.30 per share)	20,903
Qantas Airways*	20,637

Disposals	Proceeds $'000
Incitec Pivot#	79,970
Westfield Corporation# (taken over by Unibail-Rodamco)	70,902
Healthscope	57,338
Coca-Cola Amatil#	43,656
QBE Insurance	34,096
Tox Free Solutions# (taken over by Cleanaway Waste Management)	30,592
Vicinity Centres	29,826
AMP	28,171
Japara Healthcare#	26,928
Telstra	24,288
Treasury Wine Estates	23,782

* New holding in the portfolio.

\# Complete disposal from the portfolio.

New Companies Added to the Investment Portfolio

Unibail-Rodamco-Westfield
NEXTDC
Qantas Airways
Cleanaway Waste Management
Adelaide Brighton
AUB Group
Goodman Group

Sub-underwriting

The Company participated as a sub-underwriter in the following transaction during the year:

Company	Underwritten By	Description	Amount Underwritten
Cleanaway Waste Management Limited	Macquarie Capital (Australia) Limited	$590 million 1 for 3.65 pro rata accelerated non-renounceable entitlement offer	$4,494,082

Substantial Shareholders

The Company has not been notified of any substantial shareholders.

Transactions in Securities

During the year ended 30 June 2018, the Company recorded 1,332 transactions in securities. $3,692,889 in brokerage (including GST) was paid or accrued for the year.

Holdings of Securities

At 30 June 2018

Individual investments for the combined investment and trading portfolios as at 30 June 2018 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website site afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	Number Held 2018 '000	Market Value 2018 $'000
ABC	Adelaide Brighton	0	1,720	11,954
AGL	AGL Energy	4,465	4,305	96,776
AIA	Auckland International Airport	1,770	1,770	11,027
ALQ	ALS	9,205	8,500	64,090
ALU	Altium	625	625	14,069
AMC	Amcor	12,300	12,527	180,517
AMP	AMP	20,100	12,910	45,961
ANN	Ansell	1,284	1,284	34,908
ANZ	Australia and New Zealand Banking Group	8,488	8,488	239,693
APA	APA Group	5,075	4,040	39,794
APE	AP Eagers	1,404	1,404	11,976
ARB	ARB Corporation	1,198	1,198	27,352
ASX	ASX	709	709	45,632
AUB	AUB Group	0	729	9,904
AWC*	Alumina	5,513	15,048	40,433
BGA	Bega Cheese	2,873	2,873	21,287
BHP*	BHP	14,118	14,091	477,690
BKW	Brickworks	1,503	1,503	23,506
BLD	Boral	4,008	9,660	63,080
BXB	Brambles	13,442	12,139	107,791
CAR	Carsales.com	1,520	3,177	48,034
CBA	Commonwealth Bank of Australia	7,900	7,900	575,673
CGF	Challenger	4,265	5,548	65,631
COH	Cochlear	124	137	27,423
CPU	Computershare	4,660	4,660	85,884
CSL*	CSL	1,739	1,943	372,576
CTX	Caltex Australia	669	769	25,026
CVW	ClearView Wealth	6,179	6,179	7,168
CWY	Cleanaway Waste Management	0	7,736	13,074
CYB*	CYBG PLC	5,124	7,818	43,550
DJW	Djerriwarrh Investments	7,505	7,505	25,368
DLX	DuluxGroup	2,556	3,029	23,171
DUI	Diversified United Investment	12,030	12,030	49,324
EQT	EQT Holdings	1,303	1,303	27,107

Holdings of Securities continued

At 30 June 2018

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	Number Held 2018 '000	Market Value 2018 $'000
EVT	Event Hospitality and Entertainment	1,030	1,030	13,795
FLT	Flight Centre Travel Group	241	193	12,313
FNP	Freedom Foods Group	4,507	6,011	40,455
FPH	Fisher and Paykel Healthcare Corporation	5,008	4,400	60,192
GMG	Goodman Group	0	1,000	9,620
HSO	Healthscope	26,700	4,000	8,840
IAG	Insurance Australia Group	6,066	4,976	42,447
ICQ	iCar Asia	22,030	20,156	4,737
IEL	IDP Education	880	880	9,246
ILU	Iluka Resources	3,642	2,367	26,463
IRE	IRESS	3,737	4,024	48,455
IVC	InvoCare	1,150	1,325	18,206
JHX	James Hardie Industries	3,111	4,050	91,854
LIC	Lifestyle Communities	5,470	5,470	32,002
LNK	Link Administration Holdings	3,396	3,200	23,456
MFT	Mainfreight	2,840	2,990	76,155
MIR	Mirrabooka Investments	8,728	8,728	23,478
MLT	Milton Corporation	10,841	10,841	49,979
MPL	Medibank Private	2,000	2,000	5,840
MQG*	Macquarie Group	700	1,680	206,396
NAB	National Australia Bank	9,969	9,342	256,066
NVT	Navitas	3,678	3,678	16,328
NXT	NEXTDC	0	4,180	31,601
ORA	Orora	12,864	11,670	41,663
ORG*	Origin Energy	6,000	6,500	64,833
ORI	Orica	2,712	2,712	48,131
OSH	Oil Search	16,483	16,483	146,694
PPT	Perpetual	1,061	1,061	44,142
QAN	Qantas Airways	0	3,250	20,020
QBE	QBE Insurance Group	7,874	4,355	42,418
QUB	Qube Holdings	34,962	34,962	84,258
REA	REA Group	384	384	34,891
REH	Reece	318	3,621	45,803
RHC	Ramsay Health Care	1,415	1,415	76,382
RIO	Rio Tinto	3,652	3,457	288,441
RMD	ResMed	3,935	3,935	55,484
RWC	Reliance Worldwide Corporation	2,400	8,600	46,096
S32	South32	15,241	15,241	55,020
SCG	Scentre Group	12,950	15,650	68,704

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	**Number Held 2018 '000**	**Market Value 2018 $'000**
SEK*	Seek	3,315	3,595	77,889
SHL	Sonic Healthcare	1,841	3,342	81,982
SOL	Washington H Soul Pattinson	1,709	1,709	35,350
SUN*	Suncorp Group	3,770	4,390	63,954
SYD*	Sydney Airport	8,500	15,000	107,262
TCL	Transurban Group	18,335	19,822	237,268
TGG	Templeton Global Growth Fund	12,106	9,685	13,752
TLS	Telstra Corporation	52,445	44,000	115,280
TPM	TPG Telecom	6,228	6,500	33,605
TWE	Treasury Wine Estates	6,882	5,459	94,932
URW	Unibail-Rodamco-Westfield	0	2,472	36,263
VCX	Vicinity Centres	16,378	4,700	12,173
WBC	Westpac Banking Corporation	15,545	15,545	455,469
WES	Wesfarmers	6,723	6,723	331,823
WOW*	Woolworths Group	5,065	5,732	174,616
WPL	Woodside Petroleum	3,283	3,648	129,346
XRO	Xero	437	741	33,330
Total				**7,261,645**

* 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 2017 '000	**Number Held 2018 '000**	**Market Value 2018 $'000**
RHCPA	Ramsay Health Care Convertible Adjustable Rate Equity Securities	115	115	12,304
Total				**12,304**

Issues of Securities

Date of Issue	Type	Price	Remarks
23 February 2018	DRP/DSSP*	$6.11	
30 August 2017	DRP/DSSP*	$5.92	
24 February 2017	DRP/DSSP*	$5.84	
30 August 2016	DRP/DSSP*	$5.58	2.5 per cent discount
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 2016	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	5.0 per cent discount
1 September 2009	DRP	$4.69	5.0 per cent discount
2 March 2009	DRP	$3.72	5.0 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5.0 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	

Date of Issue	Type	Price	Remarks
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.

* Note that for the shares issued under the DSSP, the price shown is the indicative price used to determine the number of shares issued to participants. Shares issued under the DSSP are issued at nil cost. Shareholders who sell shares issued under the DSSP should consult their tax adviser as to the correct treatment of such sales for taxation purposes.

Company Particulars

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

Directors
Terrence A Campbell AO, Chairman
Robert M Freeman, Managing Director
Ross E Barker
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
Website	afi.com.au
Email	invest@afi.com.au

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

Telephone	1800 780 784 (toll free)

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

New Zealand
Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder Enquiry Line	1300 662 270 0800 333 501 (within 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)

Shareholder Meetings

Australia

Annual General Meeting
Time 10.00am
Date Tuesday 9 October 2018
Venue ZINC Function Centre
Location Corner of Swanston Street and Flinders Street
Melbourne

Sydney Shareholder Meeting
Time 10.00am
Date Monday 15 October 2018
Venue Four Seasons Hotel
Location 199 George Street
Sydney

Adelaide Shareholder Meeting
Time 10.00am
Date Friday 19 October 2018
Venue Adelaide Convention Centre
Location Panorama Rooms, North Terrace
Adelaide

Brisbane Shareholder Meeting
Time 10.00am
Date Monday 22 October 2018
Venue Brisbane Hilton Hotel
Location 190 Elizabeth Street
Brisbane

New Zealand

Auckland Shareholder Meeting
Time 10.00am
Date Monday 3 December 2018
Venue Hilton Hotel
Location 147 Quay Street
Auckland

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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Printed on environmentally friendly paper

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

90 YEARS OF INVESTMENT EXPERIENCE

Annual Review 2018

Australian Foundation Investment Company is a listed investment company investing in Australian and New Zealand equities.

This year marks the 90th anniversary of the establishment of AFIC in 1928.

Contents

Year in Summary

Profit for the Year

$279.0m

Up 13.7% from 2017

Total Shareholder Return

10.3%

Share price plus dividend

Fully Franked Dividend

14¢ Final

24¢ Total

Same as 2017

Management Expense Ratio

0.14%

0.14% in 2017

Total Portfolio Return

10.8%

S&P/ASX 200 Accumulation Index +13.0%

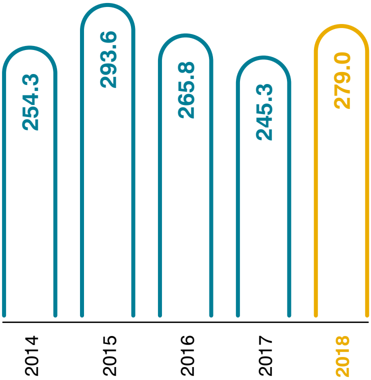
Total Portfolio

$7.4b

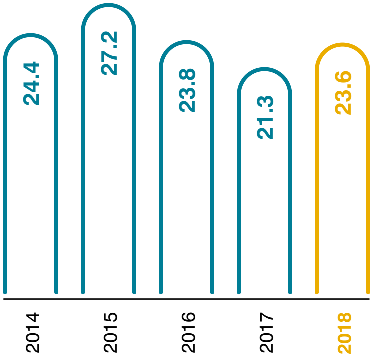
Including cash at 30 June
$6.9 billion in 2017

5 Year Summary

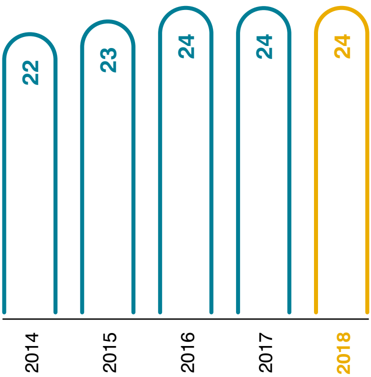
Net Profit After Tax ($ Million)



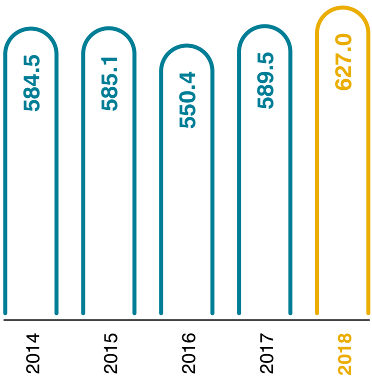
Net Profit Per Share (Cents)



Dividends Per Share (Cents)[b]

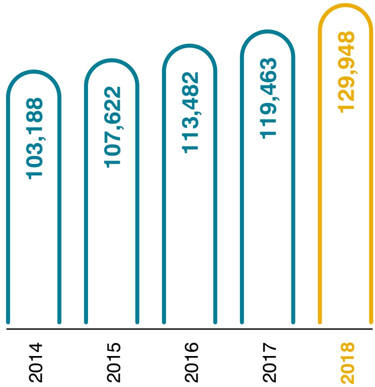


Net Asset Backing Per Share (Cents)[c]



Investments at Market Value ($ Million)[a]

Number of Shareholders (30 June)



Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2018: 2.86 cents, 2017: nil, 2016: 2.1 cents, 2015: 7.1 cents, 2014: nil.

(c) Net asset backing 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 (AFIC) is a listed investment company investing in Australian and New Zealand equities.

Investment Objectives

The Company aims to provide shareholders with attractive investment returns through access to a growing stream of fully franked dividends and growth in 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

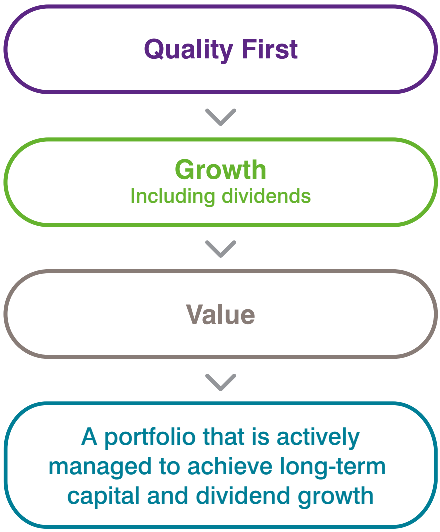
The investment philosophy is built on taking a medium to long-term view on companies in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this time frame.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics such as the level of gearing in the balance sheet, product margins and free cash flow. The structure of the industry and a company's competitive position in this industry is also an important indicator of quality. Linked to this assessment of quality is the ability of companies to grow earnings over time, which ultimately should produce good dividend growth.

Recognising value is also an important aspect of sound long-term investing. Short-term measures such as the price earnings ratio, price to book or price to sales may be of some value, but aren't necessarily strong predictors of future performance. Our assessment of value tries to capture the opportunity a business has to prosper and thrive over the medium to long term.

In building the investment portfolio in this way, we believe we can offer investors a well-diversified portfolio of high-quality companies that is intended to deliver total returns ahead of the Australian equity market and with less volatility over the long term.

How AFIC Invests – What We Look For in Companies



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

From time to time, some borrowings may be used where potential investment returns justify the use of debt. This is managed within very conservative limits, as determined by the Board.

AFIC is managed for the benefit of its shareholders with fees based on the recovery of costs rather than as a fixed percentage of the portfolio. There are no performance fees. As a result, the benefit of scale over time results in a very low expense ratio for investors. For the 12 months to 30 June 2018 this was 0.14 per cent (annualised), or 14 cents for each $100 invested.

Review of Operations and Activities

Profit and Dividend

Full year profit of $279.0 million was up 13.7 per cent from $245.3 million in the corresponding period last year. Investment income increased $31.5 million (up 11.6 per cent), due primarily to a lift in dividends across a range of companies, particularly resource companies, including participation in the Rio Tinto off-market buy-back. Finance costs were also down $8.1 million following the conversion or redemption of convertible notes in February 2017.

Earnings per share were 23.6 cents, up from 21.3 cents. The final dividend was maintained at 14 cents per share fully franked, bringing total dividends for the year to 24 cents per share fully franked, the same as last year. Two cents of the final dividend are sourced from taxable capital gains, on which the Company has paid or will pay tax. The amount of the pre tax attributable gain on this portion of the dividend, known as an 'LIC capital gain', is therefore 2.86 cents. This enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

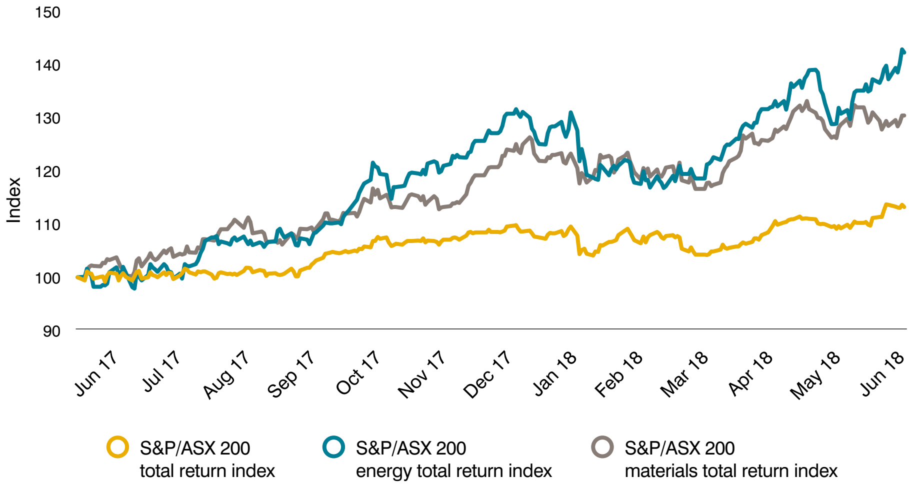
The return of the market over the year was characterised by a pronounced divergence of performance across sectors and companies. Ongoing growth across global economies, in particular the United States and China, led to rising commodity prices, with the Australian resources index up 41 per cent over the 12-month period (represented by energy and materials in Figure 1). Within this growth, the small and mid cap resource sectors were up 49 per cent and 42 per cent respectively. However, during the same period the industrial sector was up only 8 per cent, whilst the banking sector fell just over 1 per cent.

Furthermore, in an environment where many large companies are facing subdued growth, there has been an increased flow of funds into the small and mid cap section of the market. This has pushed these sectors higher relative to the S&P/ASX 50, which represents larger companies in the market (Figure 2). This has also seen very strong share price performance in those small companies with the strongest growth expectations, primarily through a re-rating of valuations (Figure 3 on page 8).

AFIC's portfolio was up 10.8 per cent for the 12 months to 30 June 2018 compared with the S&P/ASX 200 Accumulation Index which increased 13.0 per cent (Figure 4 on page 9). In the resources sector AFIC's primary exposure is to companies with long-life assets and low-cost production such as BHP and Rio Tinto, rather than the more cyclical small and mid-sized companies.

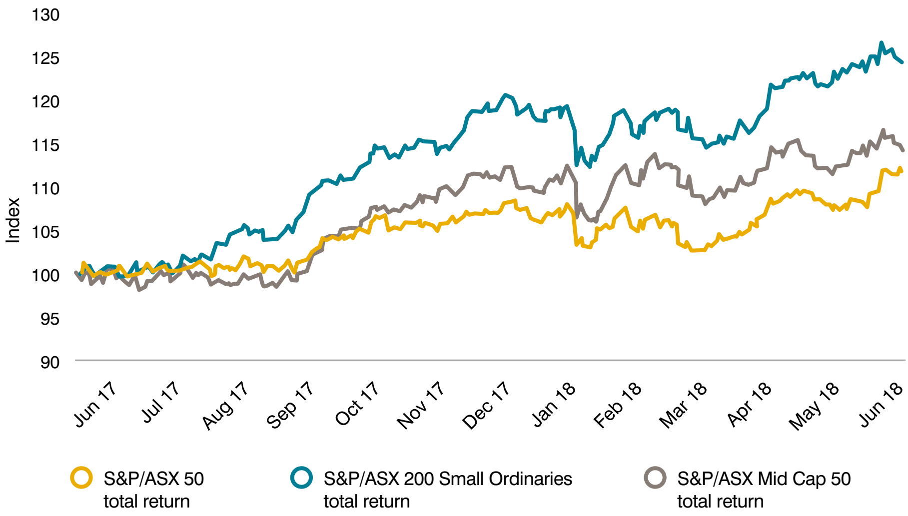
The best performing companies in the AFIC portfolio outside the large resource companies were CSL, Wesfarmers, Macquarie Group, Oil Search and Woolworths.

Figure 1: Performance of S&P/ASX 200 Companies Relative to the Energy and Materials Sectors



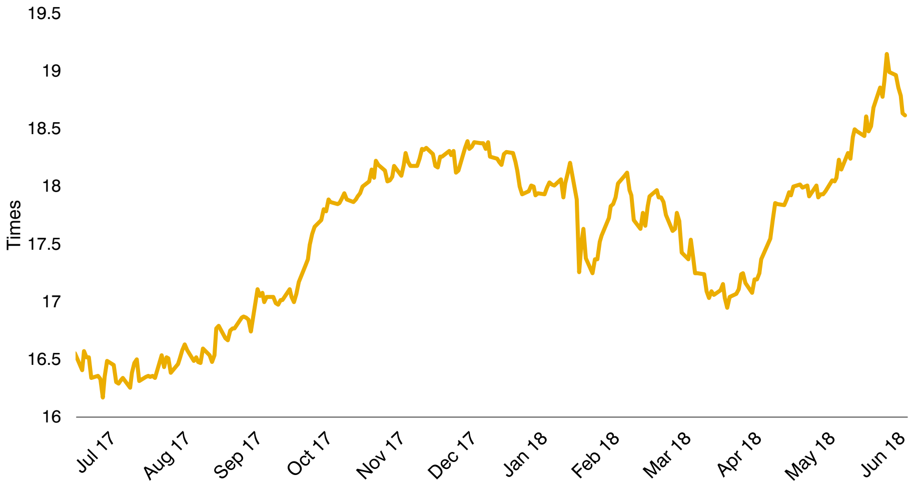
Source: FactSet

Figure 2: Performance of Different Sectors of the Market by Company Size



Source: FactSet

Figure 3: Price Earnings Ratio of Small Industrial Sector of the Australian Market



Source: FactSet

The long-term performance of the portfolio, which is more in line with the Company's investment timeframes, was 6.5 per cent per annum for the 10 years to 30 June 2018 versus the Index return of 6.4 per cent per annum. Including the full benefit of franking, these returns are 8.5 per cent per annum for AFIC and 8.0 per cent per annum for the Index. AFIC's portfolio performance numbers (Figure 4) are after costs and tax paid whereas the Index does not have expenses or tax.

Figure 5 illustrates the cumulative long term performance of the AFIC portfolio versus the S&P/ASX 200 Accumulation Index over the 10 years to 30 June 2018. It also includes the benefits of franking credits for both.

The share price was trading at a slight discount to the net asset backing (before tax on unrealised gains) at the end of June (Figure 6 on page 10) and is the reason the Dividend Reinvestment Plan did not have any discount associated with it.

Nevertheless, the share price return, including reinvestment of dividends, over the 12 months to 30 June 2108 was 10.3 per cent. Whilst the share price can often fluctuate between a premium and discount, over the long term the share price return is often very close to the portfolio return (Figure 4).

Figure 4: Relative Portfolio and Share Price Performance – Per Annum Returns to 30 June 2018

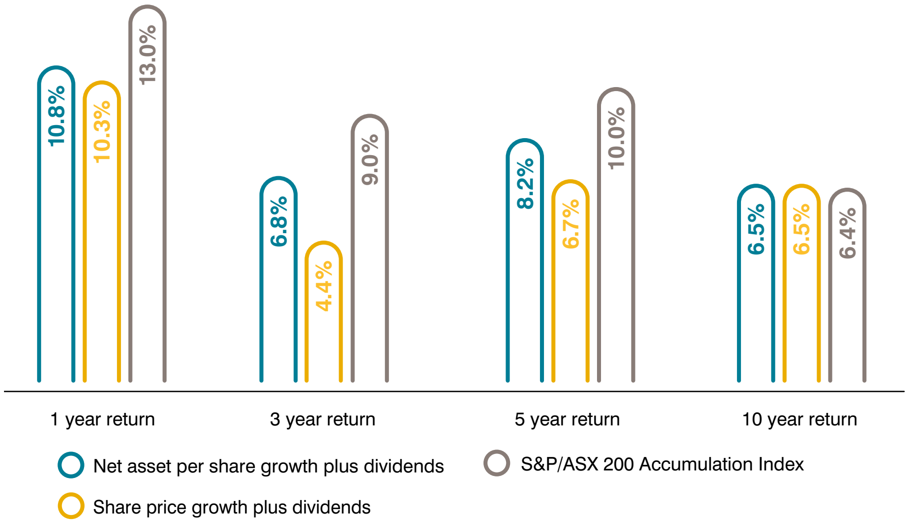
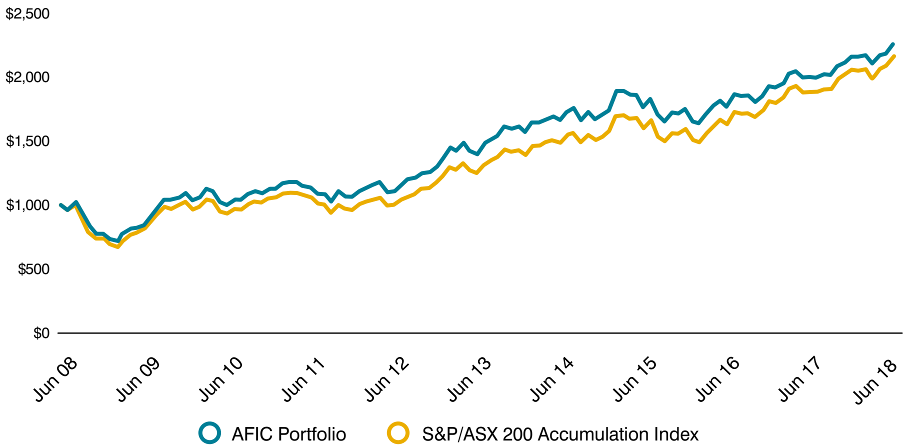
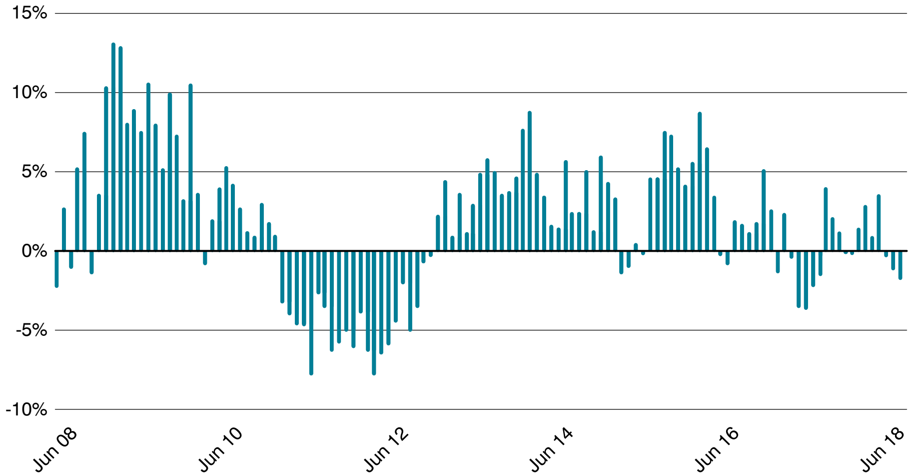


Figure 5: Growth in Investment of $1,000 (Including Benefit of Franking) – 10 Years to 30 June 2018



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

Figure 6: Share Price Premium/Discount to Net Asset Backing



Source: FactSet

Positioning the Portfolio for Long Term Opportunities

A key restraint on the current Australian market is the prolonged, subdued growth outlook facing many large companies. This arises from their market positions with no further consolidation possible, increased competition and disruption, and greater regulatory intervention. AFIC has continued to adjust the portfolio to respond to this situation. Whilst larger companies continue to make up a significant proportion of the portfolio, AFIC has been increasing its holdings in a number of mid-sized and small companies with good growth prospects. This has been done having regard to balancing the need to grow dividends as well as provide meaningful capital growth within the portfolio over the long term. Overall purchases in the investment portfolio for the year totalled $739.3 million with sales totalling $712.6 million, which is higher than last year.

Major purchases included adding to holdings in Macquarie Group, CSL, Sonic Healthcare, James Hardie Industries and Alumina, all of which have unique industry exposures in global markets, and Sydney Airport and Boral. Additions were also made to smaller companies, Reliance Worldwide and Reece, including participation in their respective capital raisings to fund offshore acquisitions, and Carsales.com.

Unibail-Rodamco-Westfield (which acquired Westfield Corporation through a scrip bid), NEXTDC and Qantas were the more significant new additions to the portfolio.

NEXTDC, which is a data centre operator, is an example of the type of company that AFIC is looking to add to the portfolio. It has a unique position in an industry that is likely to grow in excess of nominal economic growth. It is leveraged to the growth in the demand for cloud computing services as many businesses seek to outsource these services to companies with carrier neutral data centres that have greater scale and efficiencies. Given the investment required and the competitive advantage afforded by ownership of key sites, barriers to entry for this industry are high. NEXTDC currently operates five data centres in Melbourne, Sydney, Perth, Canberra and Brisbane and is in the process of building some additional new data centres in Sydney, Melbourne and Brisbane.

Major sales included the complete disposal of Incitec Pivot, Coca-Cola Amatil and Japara Healthcare. Westfield Corporation and Tox Free Solutions were sold because of takeovers. Other major sales included a small reduction in the positions of QBE Insurance, AMP, Telstra and Treasury Wine Estates, all of which have been long term holdings in the portfolio, and Vicinity Centres.

AFIC had 91 holdings in the portfolio at 30 June 2018. Whilst the S&P/ASX 200 Index can provide a useful point of reference for investors, AFIC actively manages its investments. As a result, the portfolio will differ quite markedly from the Index. The following chart (Figure 7 on page 12) highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the financial year and how it differs from the Index.

The most notable change is the position of banks in the portfolio, which has declined over recent years relative to the market weight. Whilst banks continue to supply a large part of the dividend income, the outlook for growth relative to recent years, in our view, has diminished as credit for housing slows and competitive and regulatory pressures become greater. In addition, AFIC traditionally has not been a large investor in Property Trusts given the observation that over the long term industrial companies have tended to outperform Property Trusts and the distribution from these Trusts do not carry franking credits. The other major variation from the Index is in Consumer Discretionary, which includes gambling stocks.

A significant percentage of the AFIC portfolio, by value, remains exposed to the large companies in the Australian market. Nevertheless, there are a significant number of companies that sit outside of these, many of which we believe have the capacity to grow their business and dividends over time. This is outlined in Figure 8 on page 12, with 71 holdings outside of the S&P/ASX 20.

Figure 7: AFIC Investment by Sector versus the S&P/ASX 200 Index as at 30 June 2018

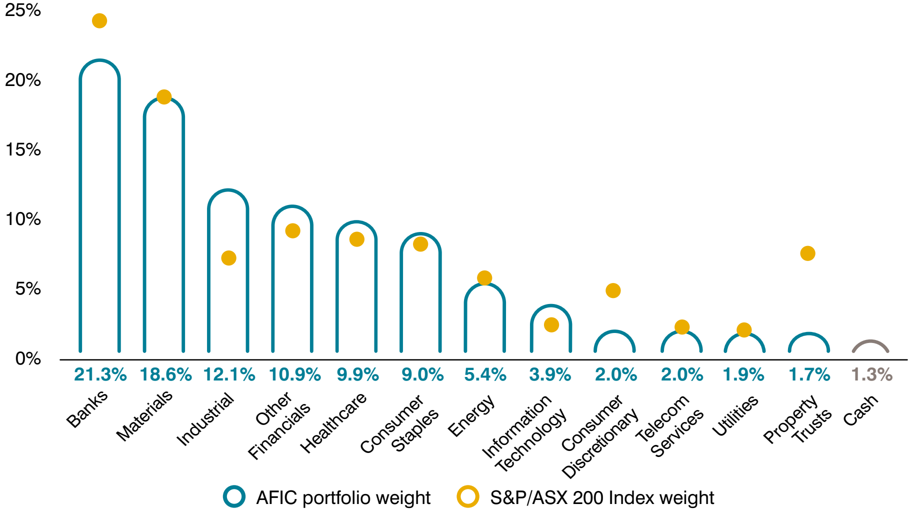
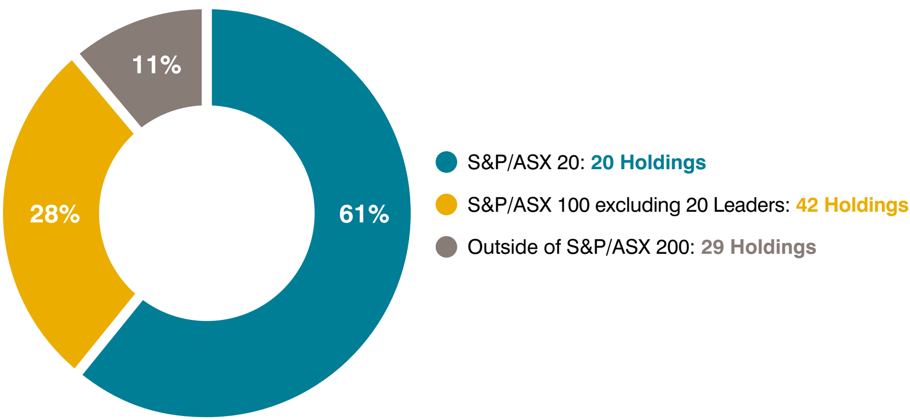


Figure 8: AFIC Investment by Company Size – Percentage of the Portfolio by Value



Australian Resources Index Up

41%

> *AFIC has been increasing its holdings in a number of mid-sized and small companies with good growth prospects.*

Review of Operations and Activities continued

Going Forward

The ongoing strength of the Australian market continues to create a challenging investment environment. In particular, the drive by investors towards companies displaying good growth prospects is pushing share prices for these businesses very high. In this context, high valuation levels at a time when interest rates are starting to move from very low levels may create some uncertainty for markets and therefore could then provide appropriate investment opportunities.

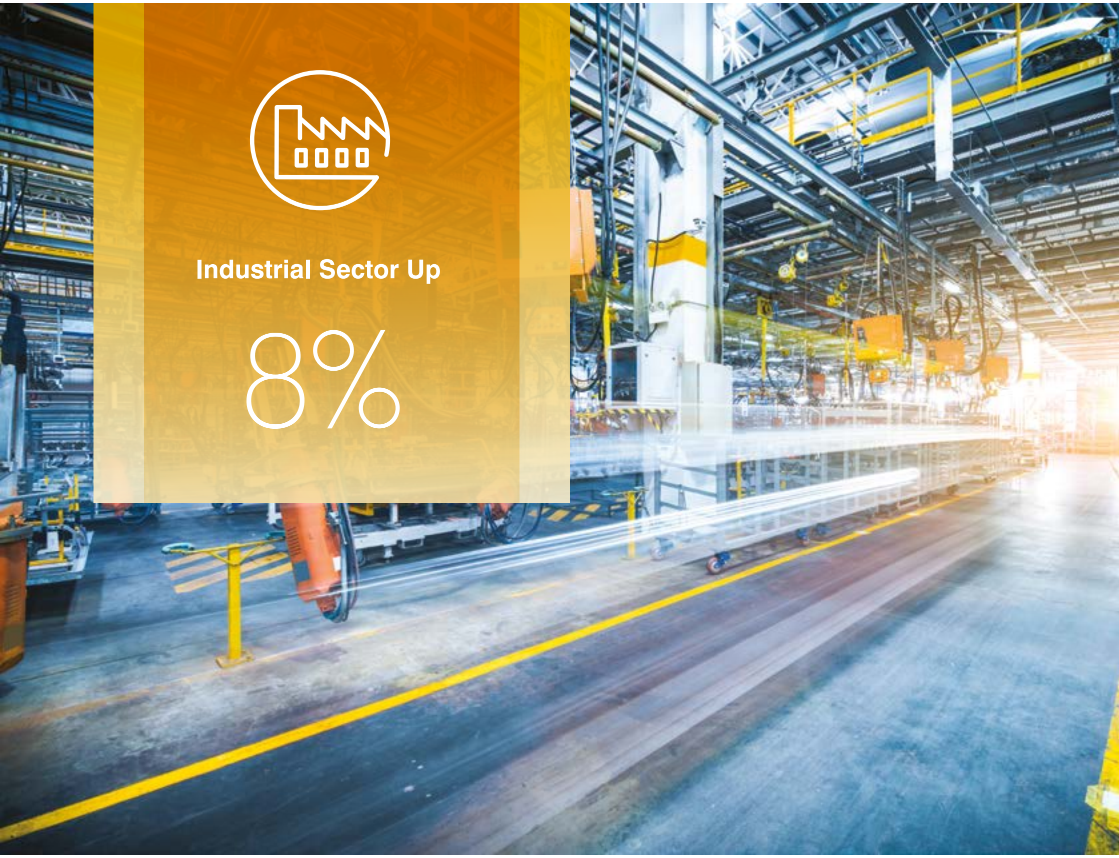
In addition, the geo-political environment remains unpredictable, with issues such as trade, leading concerns. Markets at this point have largely overlooked any potential implications given economic fundamentals appear sound across most large developed markets. However, the key implication for Australia is the impact any significant change to global trade through imposition of trade tariffs and retaliatory measures has on China, and the influence this has on the ongoing demand for Australian exports, particularly resources.

For AFIC, it is a matter of being alert but patient, and when appropriate, making adjustments to the portfolio over time that make sense as a long-term investor in quality and growing companies.

Directorship Matters

As previously announced in September 2017 and detailed in the Company's Half-Yearly Review, Ross Barker retired as Managing Director and Chief Executive Officer (CEO) on 31 December 2017. Mark Freeman, who was previously the Chief Investment Officer of AFIC, became the Managing Director and CEO of AFIC on 1 January 2018.

The Board wishes to record its deep appreciation to Ross Barker for his 16 years of outstanding service as Managing Director and Chief Executive Officer and wish him well in his retirement. He has shown enduring leadership through this period and made a significant contribution to the growth in AFIC throughout his distinguished tenure at the Company. Mr Barker remains on the Board of AFIC as a Non-Executive Director.



For AFIC, it is a matter of being alert but patient, and when appropriate, making adjustments to the portfolio over time that make sense as a long-term investor in quality and growing companies.

Top 25 Investments

As at 30 June 2018

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 30 June 2018

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	575.7	7.9
2	BHP*	477.7	6.6
3	Westpac Banking Corporation	455.5	6.3
4	CSL*	372.6	5.1
5	Wesfarmers	331.8	4.6
6	Rio Tinto	288.4	4.0
7	National Australia Bank	256.1	3.5
8	Australia and New Zealand Banking Group	239.7	3.3
9	Transurban Group	237.3	3.3
10	Macquarie Group*	206.4	2.8
11	Amcor	180.5	2.5
12	Woolworths Group*	174.6	2.4
13	Oil Search	146.7	2.0
14	Woodside Petroleum	129.3	1.8
15	Telstra Corporation	115.3	1.6
16	Brambles	107.8	1.5
17	Sydney Airport*	107.3	1.5
18	AGL Energy	96.8	1.3
19	Treasury Wine Estates	94.9	1.3
20	James Hardie Industries	91.9	1.3
21	Computershare	85.9	1.2
22	Qube Holdings	84.3	1.2
23	Sonic Healthcare	82.0	1.1
24	Seek*	77.9	1.1
25	Ramsay Health Care	76.4	1.1
Total		5,092.6	

As a percentage of total portfolio value (excludes cash) 70.0%

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

Income Statement

For the Year Ended 30 June 2018

	2018 $'000	2017 $'000
Dividends and distributions	302,389	270,887
Revenue from deposits and bank bills	1,409	1,659
Other revenue	22	83
Net gains on trading portfolio (including unrealised gains or losses)	264	3,065
Total income	**304,084**	275,694
Finance costs	(848)	(8,969)
Administration expenses (net of recoveries)	(9,852)	(9,461)
Profit before income tax	**293,384**	257,264
Income tax	(14,377)	(11,964)
Net profit	**279,007**	245,300
	Cents	Cents
Net profit per share	**23.57**	21.32

Balance Sheet

As at 30 June 2018

	2018 $'000	2017 $'000
Current assets		
Cash	99,183	105,125
Receivables	77,234	52,011
Total current assets	**176,417**	**157,136**
Non-current assets		
Investment portfolio	7,280,706	6,790,368
Deferred tax assets	1,257	349
Total non-current assets	**7,281,963**	**6,790,717**
Total assets	**7,458,380**	**6,947,853**
Current liabilities		
Payables	712	6,953
Tax payable	8,245	1,980
Borrowings – bank debt	100	-
Trading portfolio	6,757	546
Provisions	4,385	4,448
Total current liabilities	**20,199**	**13,927**
Non-current liabilities		
Provisions	1,394	1,332
Deferred tax liabilities – investment portfolio	1,097,527	967,091
Total non-current liabilities	**1,098,921**	**968,423**
Total liabilities	**1,119,120**	**982,350**
Net assets	**6,339,260**	**5,965,503**
Shareholders' equity		
Share capital	2,811,771	2,756,306
Revaluation reserve	2,422,568	2,123,209
Realised capital gains reserve	448,892	430,912
General reserve	23,637	23,637
Retained profits	632,392	631,439
Total shareholders' equity (including minority interests)	**6,339,260**	**5,965,503**

Summarised Statement of Changes in Equity

For the Year Ended 30 June 2018

	2018 $'000	2017 $'000
Total equity at the beginning of the year	**5,965,503**	5,408,541
Dividends paid	(278,054)	(267,751)
Shares – Dividend Reinvestment Plan issued	55,601	55,242
– Conversion of Convertible Notes	-	179,755
Other Share Capital Adjustments	(136)	(182)
Total transactions with shareholders	**(222,589)**	(32,936)
Profit for the year	279,007	245,300
Revaluation of investment portfolio	454,180	500,389
Provision for tax on revaluation	(136,841)	(154,791)
Revaluation of investment portfolio (after tax)	317,339	345,598
Total comprehensive income for the year	**596,346**	590,898
Realised gains/(losses) on securities sold	24,385	(9,336)
Tax expense on realised gains on securities sold	(6,405)	(647)
Net realised gains/(losses) on securities sold	17,980	(9,983)
Transfer from revaluation reserve to realised gains reserve	(17,980)	9,983
Dividends paid to minority interests by AICS	-	(1,000)
Total equity at the end of the year	**6,339,260**	5,965,503

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

Holdings of Securities

At 30 June 2018

Individual investments for the combined investment and trading portfolios as at 30 June 2018 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	Number Held 2018 '000	Market Value 2018 $'000
ABC	Adelaide Brighton	0	1,720	11,954
AGL	AGL Energy	4,465	4,305	96,776
AIA	Auckland International Airport	1,770	1,770	11,027
ALQ	ALS	9,205	8,500	64,090
ALU	Altium	625	625	14,069
AMC	Amcor	12,300	12,527	180,517
AMP	AMP	20,100	12,910	45,961
ANN	Ansell	1,284	1,284	34,908
ANZ	Australia and New Zealand Banking Group	8,488	8,488	239,693
APA	APA Group	5,075	4,040	39,794
APE	AP Eagers	1,404	1,404	11,976
ARB	ARB Corporation	1,198	1,198	27,352
ASX	ASX	709	709	45,632

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	**Number Held 2018 '000**	**Market Value 2018 $'000**
AUB	AUB Group	0	729	9,904
AWC*	Alumina	5,513	15,048	40,433
BGA	Bega Cheese	2,873	2,873	21,287
BHP*	BHP	14,118	14,091	477,690
BKW	Brickworks	1,503	1,503	23,506
BLD	Boral	4,008	9,660	63,080
BXB	Brambles	13,442	12,139	107,791
CAR	Carsales.com	1,520	3,177	48,034
CBA	Commonwealth Bank of Australia	7,900	7,900	575,673
CGF	Challenger	4,265	5,548	65,631
COH	Cochlear	124	137	27,423
CPU	Computershare	4,660	4,660	85,884
CSL*	CSL	1,739	1,943	372,576
CTX	Caltex Australia	669	769	25,026
CVW	ClearView Wealth	6,179	6,179	7,168
CWY	Cleanaway Waste Management	0	7,736	13,074
CYB*	CYBG PLC	5,124	7,818	43,550
DJW	Djerriwarrh Investments	7,505	7,505	25,368
DLX	DuluxGroup	2,556	3,029	23,171
DUI	Diversified United Investment	12,030	12,030	49,324
EQT	EQT Holdings	1,303	1,303	27,107
EVT	Event Hospitality and Entertainment	1,030	1,030	13,795
FLT	Flight Centre Travel Group	241	193	12,313

Holdings of Securities continued

At 30 June 2018

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	Number Held 2018 '000	Market Value 2018 $'000
FNP	Freedom Foods Group	4,507	6,011	40,455
FPH	Fisher & Paykel Healthcare Corporation	5,008	4,400	60,192
GMG	Goodman Group	0	1,000	9,620
HSO	Healthscope	26,700	4,000	8,840
IAG	Insurance Australia Group	6,066	4,976	42,447
ICQ	iCar Asia	22,030	20,156	4,737
IEL	IDP Education	880	880	9,246
ILU	Iluka Resources	3,642	2,367	26,463
IRE	IRESS	3,737	4,024	48,455
IVC	InvoCare	1,150	1,325	18,206
JHX	James Hardie Industries	3,111	4,050	91,854
LIC	Lifestyle Communities	5,470	5,470	32,002
LNK	Link Administration Holdings	3,396	3,200	23,456
MFT	Mainfreight	2,840	2,990	76,155
MIR	Mirrabooka Investments	8,728	8,728	23,478
MLT	Milton Corporation	10,841	10,841	49,979
MPL	Medibank Private	2,000	2,000	5,840
MQG*	Macquarie Group	700	1,680	206,396
NAB	National Australia Bank	9,969	9,342	256,066

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	Number Held 2018 '000	Market Value 2018 $'000
NVT	Navitas	3,678	3,678	16,328
NXT	NEXTDC	0	4,180	31,601
ORA	Orora	12,864	11,670	41,663
ORG*	Origin Energy	6,000	6,500	64,833
ORI	Orica	2,712	2,712	48,131
OSH	Oil Search	16,483	16,483	146,694
PPT	Perpetual	1,061	1,061	44,142
QAN	Qantas Airways	0	3,250	20,020
QBE	QBE Insurance Group	7,874	4,355	42,418
QUB	Qube Holdings	34,962	34,962	84,258
REA	REA Group	384	384	34,891
REH	Reece	318	3,621	45,803
RHC	Ramsay Health Care	1,415	1,415	76,382
RIO	Rio Tinto	3,652	3,457	288,441
RMD	ResMed	3,935	3,935	55,484
RWC	Reliance Worldwide Corporation	2,400	8,600	46,096
S32	South32	15,241	15,241	55,020
SCG	Scentre Group	12,950	15,650	68,704

Holdings of Securities continued

At 30 June 2018

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2017 '000	Number Held 2018 '000	Market Value 2018 $'000
SEK*	Seek	3,315	3,595	77,889
SHL	Sonic Healthcare	1,841	3,342	81,982
SOL	Washington H Soul Pattinson	1,709	1,709	35,350
SUN*	Suncorp Group	3,770	4,390	63,954
SYD	Sydney Airport	8,500	15,000	107,262
TCL	Transurban Group	18,335	19,822	237,268
TGG	Templeton Global Growth Fund	12,106	9,685	13,752
TLS	Telstra Corporation	52,445	44,000	115,280
TPM	TPG Telecom	6,228	6,500	33,605
TWE	Treasury Wine Estates	6,882	5,459	94,932
URW	Unibail-Rodamco-Westfield	0	2,472	36,263
VCX	Vicinity Centres	16,378	4,700	12,173
WBC	Westpac Banking Corporation	15,545	15,545	455,469
WES	Wesfarmers	6,723	6,723	331,823
WOW*	Woolworths Group	5,065	5,732	174,616
WPL	Woodside Petroleum	3,283	3,648	129,346
XRO	Xero	437	741	33,330
Total				**7,261,645**

* 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 2017 '000	**Number Held 2018 '000**	**Market Value 2018 $'000**
RHCPA	Ramsay Health Care Convertible Adjustable Rate Equity Securities	115	115	12,304
Total				**12,304**

Major Transactions in the Investment Portfolio

Acquisitions	Cost $'000
Macquarie Group	105,902
CSL	48,838
Sydney Airport	47,044
Boral	41,944
Unibail-Rodamco-Westfield* (as a result of the takeover of Westfield Corporation)	36,078
Sonic Healthcare	35,347
James Hardie Industries	29,605
NEXTDC*	28,558
Reliance Worldwide (includes $10.91 million in 1 for 1.98 issue at $4.15 per share)	27,188
Alumina	24,308
Carsales.com	22,962
Reece (includes $10.56 million in 1 for 11 issue and placement at $9.30 per share)	20,903
Qantas Airways*	20,637

* New holding in the portfolio.

Disposals	Proceeds $'000
Incitec Pivot#	79,970
Westfield Corporation# (taken over by Unibail-Rodamco)	70,902
Healthscope	57,338
Coca-Cola Amatil#	43,656
QBE Insurance	34,096
Tox Free Solutions# (taken over by Cleanaway Waste Management)	30,592
Vicinity Centres	29,826
AMP	28,171
Japara Healthcare#	26,928
Telstra	24,288
Treasury Wine Estates	23,782

Complete disposal from the portfolio.

New Companies Added to the Investment Portfolio

Unibail-Rodamco-Westfield
NEXTDC
Qantas Airways
Cleanaway Waste Management
Adelaide Brighton
AUB Group
Goodman Group

Company Particulars

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

Directors
Terrence A Campbell AO, Chairman
Robert M Freeman, Managing Director
Ross E Barker
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
Website	afi.com.au
Email	invest@afi.com.au

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

Telephone	1800 780 784 (toll free)

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

New Zealand
Computershare Investor Services Limited
159 Hurstmere Road
Takapuna Auckland 0622

Shareholder Enquiry Line	1300 662 270 0800 333 501 (within 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)

Shareholder Meetings

Australia

Annual General Meeting
Time 10.00am
Date Tuesday 9 October 2018
Venue ZINC Function Centre
Location Corner of Swanston Street and Flinders Street Melbourne

Sydney Shareholder Meeting
Time 10.00am
Date Monday 15 October 2018
Venue Four Seasons Hotel
Location 199 George Street Sydney

Adelaide Shareholder Meeting
Time 10.00am
Date Friday 19 October 2018
Venue Adelaide Convention Centre
Location Panorama Rooms, North Terrace Adelaide

Brisbane Shareholder Meeting
Time 10.00am
Date Monday 22 October 2018
Venue Brisbane Hilton Hotel
Location 190 Elizabeth Street Brisbane

New Zealand

Auckland Shareholder Meeting
Time 10.00am
Date Monday 3 December 2018
Venue Hilton Hotel
Location 147 Quay Street Auckland

The Annual Report for 2018 is available on AFIC's website afi.com.au or by contacting the Company on (03) 9650 9911.

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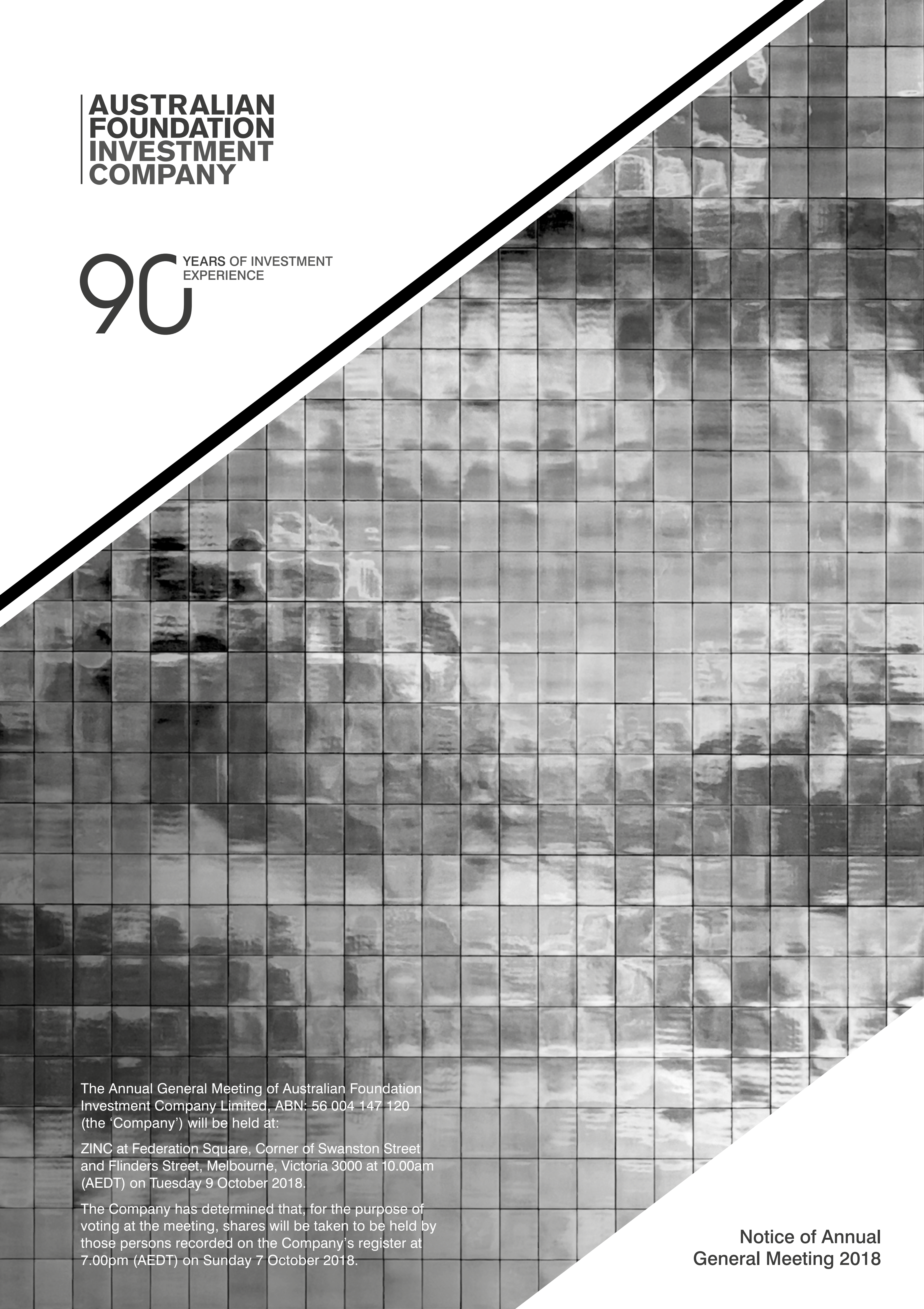
Printed on environmentally friendly paper

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

90 YEARS OF INVESTMENT EXPERIENCE



The Annual General Meeting of Australian Foundation Investment Company Limited, ABN: 56 004 147 120 (the 'Company') will be held at:

ZINC at Federation Square, Corner of Swanston Street and Flinders Street, Melbourne, Victoria 3000 at 10.00am (AEDT) on Tuesday 9 October 2018.

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 Sunday 7 October 2018.

Notice of Annual General Meeting 2018

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 2018.

(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 2018 be adopted."

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

3 and 4 Re-election of Directors

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

3. "That Graeme Liebelt, a Director retiring from office in accordance with Rule 46 of the Constitution, being eligible is re-elected as a Director of the Company."
4. "That Ross Barker, a Director retiring from office in accordance with Rule 53(f) of the Constitution, being eligible is re-elected as a Director of the Company."

5. Renewal of Proportional Takeover Provisions in the Constitution

To consider and, if thought fit, pass the following resolution (as a special resolution):

"That, pursuant to sections 136(2) and 648G of the *Corporations Act 2001* (Cth), the proportional takeover provisions in Rules 79 and 80 of the Company's Constitution are renewed for a period of three years from the date of this meeting."

By Order of the Board

Matthew Rowe
Company Secretary
30 August 2018

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 Sunday 7 October 2018.

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 2018. 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 2018 Annual Report can view or download it from the Company's website at:

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 2018 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 sections 250BD and 250R of the *Corporations Act 2001* (Cth), votes many not be cast, and the Company will disregard any votes cast, on the resolution proposed in Item 2 ('Resolution 2'):

- by or on behalf of any member of the key management personnel of the Company's consolidated group (a 'KMP member') whose remuneration details are included in the Remuneration Report, or any of their closely related parties, regardless of the capacity in which the votes are cast; or
- by any person who is a KMP member as at the time Resolution 2 is voted on at the Annual General Meeting, or any of their closely related parties, as a proxy,

unless the votes are cast as a proxy for a person who is entitled to vote on Resolution 2:

- in accordance with a direction in the proxy appointment; or
- by the Chairman of the meeting in accordance with an express authorisation in the proxy appointment to cast the votes even if Resolution 2 is connected directly or indirectly with the remuneration of a KMP member.

If the Chairman of the meeting is appointed, or taken to be appointed, as a proxy, the shareholder can direct the Chairman to vote for or against, or to abstain from voting on, Resolution 2 by marking the appropriate box opposite Item 2 on the proxy form.

Pursuant to sections 250BD(2) and 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.

For the purposes of these voting exclusions:

- A 'closely related party' of a KMP member means (1) a spouse or child of the KMP member, (2) a child of the KMP member's spouse, (3) a dependant of the KMP member or of the KMP member's spouse, (4) anyone else who is one of the KMP member's family and may be expected to influence the KMP member, or be influenced by the KMP member, in the KMP member's dealings with the Company, or (5) a company the KMP member controls.
- The Company will also apply these voting exclusions to persons appointed as attorney by a shareholder to attend and vote at the Annual General Meeting under a power of attorney, as if they were appointed as a proxy.

Items 3 and 4 Re-election of Directors

Board recommendation and undirected proxies: The Board recommends (with the exception of each Director in relation to their own re-election) that shareholders vote in **FAVOUR of items 3 and 4**. The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of items 3 and 4**.

Graeme Liebelt was re-elected as a Director by shareholders at the 2015 AGM. As such he is required to seek re-election by shareholders at this AGM. Ross Barker retired as Chief Executive Officer of the Company on 31 December 2017 and the Board resolved that Mr Barker should remain as a Non-Executive Director of the Company. Pursuant to Rule 53(f) of the Company's Constitution Mr Barker is also required to seek re-election at this AGM.

Their biographical details are set out below:

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

Mr Liebelt was appointed to the Board in June 2012. He is Chairman of Amcor Limited and DuluxGroup Limited, a Director of Australia and New Zealand Banking 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.

Ross E Barker
BSc (Hons) (Melb), MBA (Melb), F Fin. Non-Executive Director. Member of the Investment Committee.

Mr Barker transitioned to a Non-Executive Director in January 2018 after retiring as Chief Executive Officer and Managing Director of the Company in December 2017. Mr Barker was appointed Chief Executive Officer of the Company in February 2001 and Managing Director in October 2001 and prior to that an Alternate Director of the Company since April 1987. He is also Chairman of Melbourne Business School Ltd. He is a Non-Executive Director of AMCIL Limited and Mirrabooka Investments Limited.

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

afi.com.au/Corporate-Governance.aspx

5. Renewal of Proportional Takeover Provisions in the Constitution

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

Background

The *Corporations Act 2001* (Cth) permits a company to include rules in its constitution which enable the company to refuse to register a transfer of shares resulting from a proportional takeover bid unless shareholders in the bid class in a meeting approve the takeover bid.

It is a requirement of the Corporations Act that such proportional takeover approval provisions in a company's constitution apply for a maximum period of three years, unless earlier renewed. In the case of the Company, such proportional takeover approval provisions (existing Rules 79 and 80 of the Company's Constitution) were approved by shareholders at the 2015 AGM and will expire on 7 October 2018.

The Directors consider that it is in the best interests of shareholders to renew these provisions in their existing form. Accordingly, a special resolution is being put to shareholders under Section 648G of the Corporations Act to renew Rules 79 and 80 of the Company's Constitution.

If approved by shareholders at the meeting, Rules 79 and 80 will operate for three years from the date of the meeting (that is, until 9 October 2021) unless renewed earlier.

Proportional Takeover Bids

A proportional takeover bid involves the bidder offering to buy a proportion only of each shareholder's shares in the target company.

This means that control of the target company may pass without members having the chance to sell all their shares to the bidder. It also means the bidder may acquire control of the target company without paying an adequate premium for gaining control.

To address this possibility, a company may provide in its constitution that, in the event of a proportional takeover bid being made for shares in the company, the directors must convene a meeting of shareholders to vote on a resolution to approve that bid.

A meeting convened under the proportional takeover approval provisions is treated as a general meeting of the company and the majority decision of the company's members will be binding on all individual members.

Effect of Proposed Proportional Takeover Approval Provisions

Where a proportional takeover bid is made, the Directors must convene a meeting of shareholders to vote on a resolution to approve the proportional bid before the 14th day prior to the closing of the bid period.

The vote is decided on a simple majority. Each person who, as at the end of the day on which the first offer under the takeover bid was made, held bid class shares is entitled to vote. Neither the bidder nor its associates are entitled to vote on the resolution.

If a meeting is not held, Section 648E of the Corporations Act deems a resolution approving the proportional bid to have been passed thereby allowing the proportional bid to proceed. Further, the Directors will contravene the Act if they fail to ensure a resolution to approve the bid is voted on.

If the resolution is rejected, the registration of any transfer of shares resulting from that proportional takeover bid will be prohibited and the bid will be deemed to be withdrawn. If the resolution is passed or deemed to have been passed, the transfer of shares resulting from acceptance of an offer under that bid will be permitted and the transfer of shares will be registered provided they comply with the other provisions of the Constitution.

Rules 79 and 80 will not apply to full takeover bids.

Reason for Proposing the Resolution

The Directors consider that the renewal of Rules 79 and 80 is in the best interests of all shareholders of the Company. In the Directors' view, shareholders should have the opportunity to vote on a proposed proportional takeover bid.

In the absence of Rules 79 and 80 (as renewed), a proportional takeover bid for the Company may enable effective control of the Company to be acquired by a party who has not offered to acquire 100 per cent of the Company's shares (and, therefore, has not offered to pay a 'control premium' that reflects 100 per cent ownership).

As a result, if a proportional takeover bid for the Company is made:

- shareholders may not have the opportunity to dispose of all their shares; and
- shareholders risk being locked into a minority position in the Company or suffering loss following such a change of control if the bid causes a decrease in the market value of shares.

If Rules 79 and 80 are renewed, the Board considers that this risk will be minimised by enabling shareholders to decide whether or not a proportional takeover bid should be allowed to proceed.

Present Acquisition Proposals

As at the date of this notice, the Directors are not aware of any proposal by any person to acquire, or increase the extent of, a substantial interest in the Company.

Review of Proportional Takeover Approval Provisions

The Corporations Act requires these Explanatory Notes to discuss retrospectively the potential advantages and disadvantages of the proportional takeover approval provisions for both Directors and shareholders.

While the proportional takeover approval provisions have been in effect, there have been no takeover bids for the Company – either proportional or otherwise. So there are no actual examples against which to review the advantages and disadvantages of the existing proportional takeover approval provisions for the Directors and shareholders of the Company. The Directors are not aware of any potential takeover bid which was discouraged by Rules 79 and 80.

Advantages and Disadvantages

In addition to looking at the provisions retrospectively, the Corporations Act also requires these Explanatory Notes to discuss the potential future advantages and disadvantages of the proposed proportional takeover approval provisions for both Directors and shareholders.

The Directors consider that there are no advantages or disadvantages for the Directors in renewing the proposed proportional takeover approval provisions. In particular, there is no restriction on their ability to make a recommendation on whether a proportional takeover bid should be accepted.

For shareholders, the potential advantage of renewing the proportional takeover approval provisions is that they provide shareholders with the opportunity to consider, discuss in a meeting called specifically for the purpose, and vote on whether a proportional takeover bid should be approved. This ensures that shareholders have an opportunity to have a say in the future ownership and control of the Company. The Directors believe that this would encourage any future proportional bids to be structured so as to be attractive to a majority of shareholders. It may also discourage the making of a proportional takeover bid that might be considered opportunistic. Finally, knowing the view of a majority of the shareholders may help each individual shareholder to assess the likely outcome of the proportional takeover bid and decide whether or not to accept an offer under the bid.

A potential disadvantage for shareholders arising from renewing the proportional takeover approval provisions is that they may discourage proportional takeover bids being made and may reduce any speculative element in the market price of the Company's shares arising from the possibility of a proportional bid being made. As a result, shareholders may not have the opportunity to dispose of a portion of their shares at an attractive price where the majority rejects an offer from a party seeking control of the Company.

The Directors consider that the potential advantages for shareholders of the proposed proportional takeover approval provisions outweigh the potential disadvantages.

Shareholder Approval

To pass as a special resolution, this item of business requires the support of 75 per cent or more of the votes cast on the resolution.

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 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 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 Sunday 7 October 2018**. 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 and the proxy is not recorded as attending; and
     - 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 Victoria 3067

Postal Address
GPO Box 242
Melbourne Victoria 3001

Telephone
1300 662 270 (within Australia)
0800 333 501 (within New Zealand)
+61 3 9415 4373 (outside Australia)

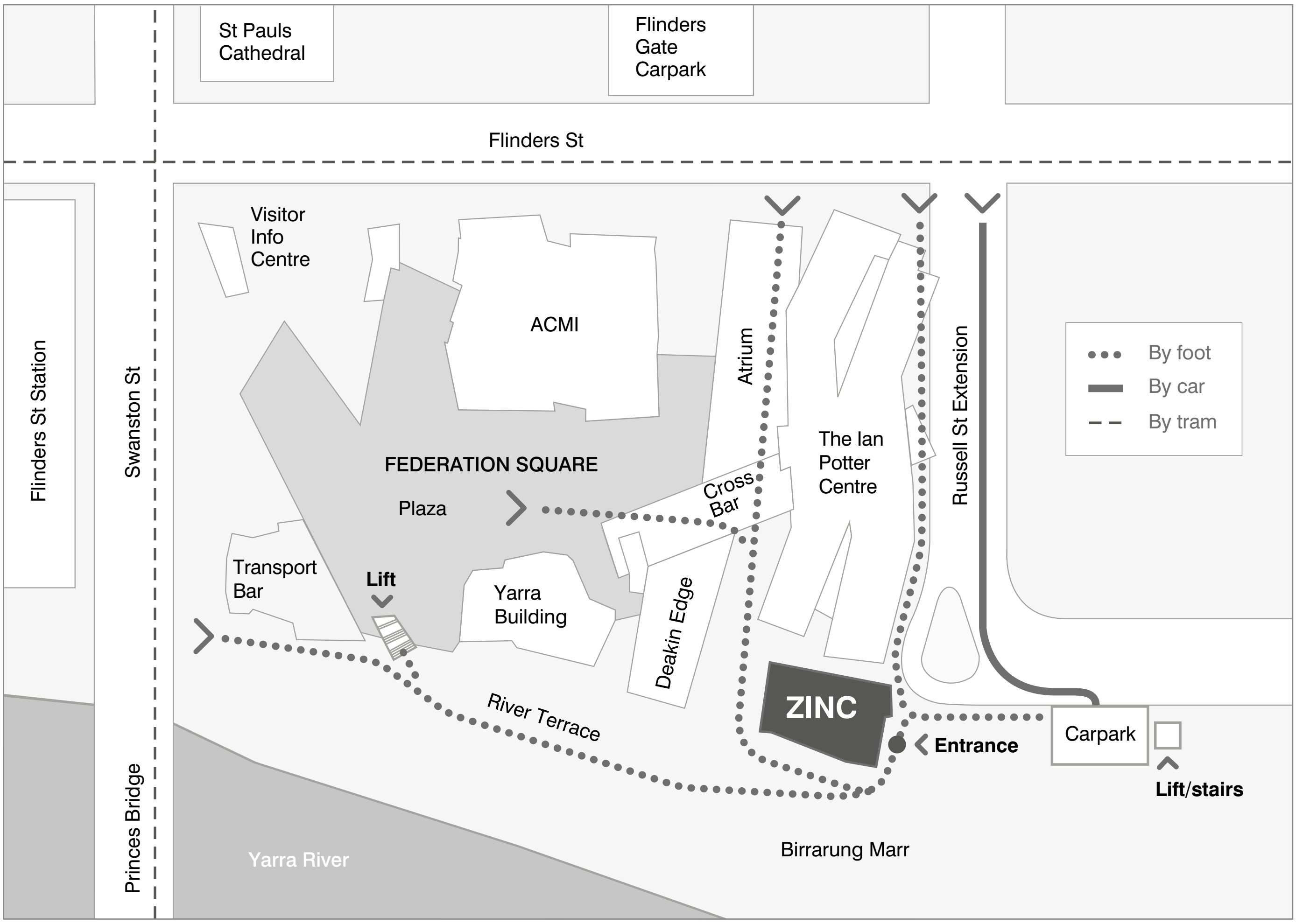
Facsimile
1800 783 447 (within Australia)
+61 3 9473 2555 (outside Australia)

Internet
investorcentre.com/au/contact

Annual General Meeting Venue

The Annual General Meeting of Australian Foundation Investment Company Limited, ABN: 56 004 147 120 (the 'Company') will be held at:

ZINC at Federation Square, Corner of Swanston Street and Flinders Street, Melbourne, Victoria 3000 at 10.00am (AEDT) on Tuesday 9 October 2018.



AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

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

XX

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 Sunday 7 October 2018

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 Sunday 7 October 2018, 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 **ZINC Federation Square, Corner of Flinders and Swanston Street, Melbourne, Victoria at 10.00am (AEDT) on Tuesday 9 October 2018** 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

		For	Against	Abstain
Item 2	Adoption of Remuneration Report	☐	☐	☐
Item 3	Re-election of Director – Mr Graeme Liebelt	☐	☐	☐
Item 4	Re-election of Director – Mr Ross Barker	☐	☐	☐
Item 5	Renewal of proportional takeover provisions in the constitution	☐	☐	☐

Board recommendations and undirected proxies: The board recommends shareholders vote in favour of each item of business. The Chairman of the meeting intends to vote undirected proxies in favour of each item of business, to the extent permitted by law.

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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