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28 August 2019

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
2019 Annual Reports and Annual General Meeting Materials

Dear Sir / Madam

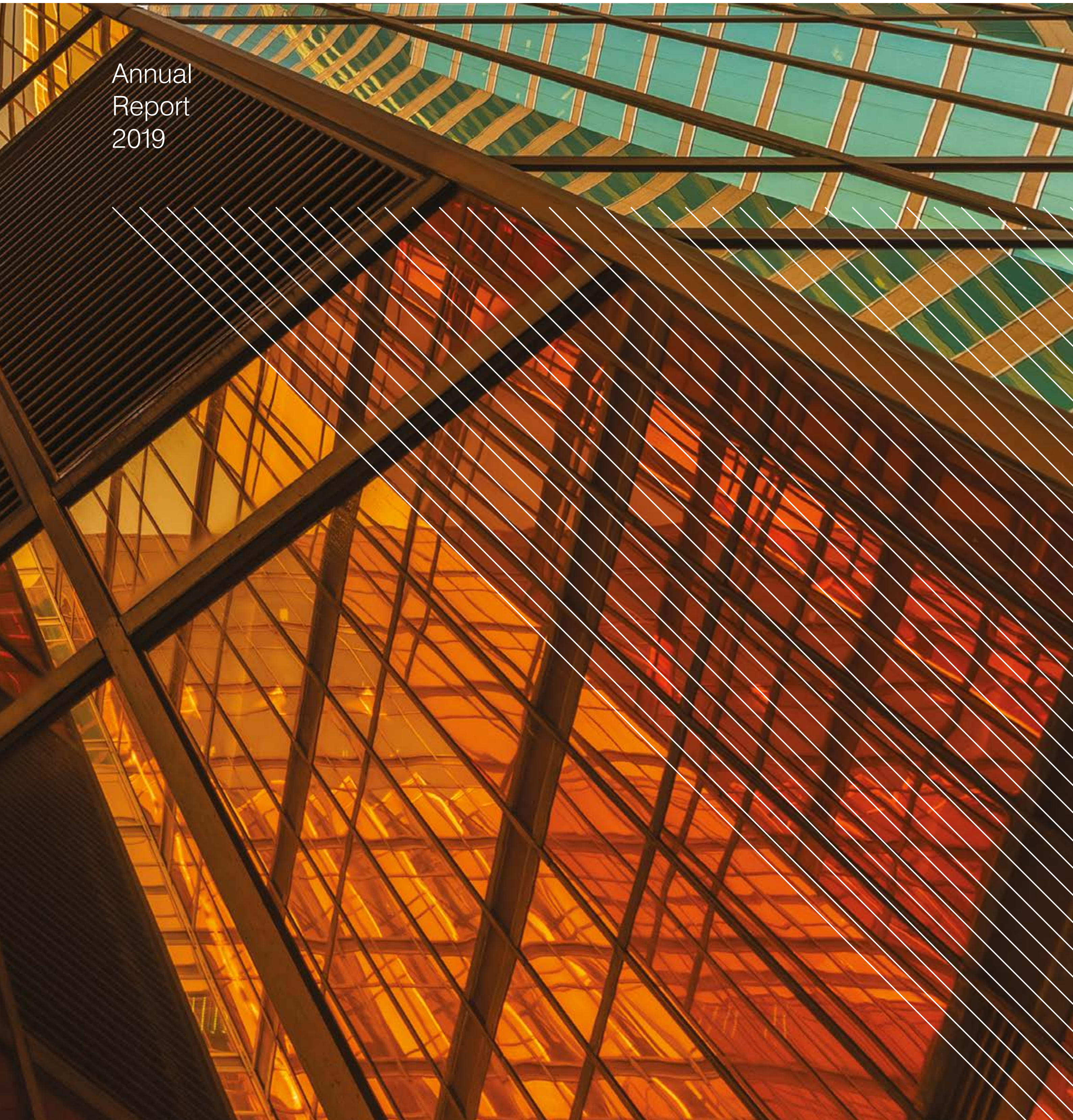
Please find attached the 2019 Statutory Annual Report, Annual Shareholder Review, Chairman's Letter, Notice of Meeting and Proxy Form and Question Form being sent to shareholders.

Yours faithfully

Matthew Rowe
Company Secretary

AUSTRALIAN FOUNDATION INVESTMENT COMPANY

Annual Report 2019



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

Year in Summary

Profit for the Year
$406.4m

Up 45.6% from 2018

Total Shareholder Return
9.2% Including franking*

Share price plus dividend

Fully Franked Dividend
14¢ Final

32¢ Total

24 cents total in 2018

Management Expense Ratio
0.13%

0.14% in 2018

Total Portfolio Return
11.4% Including franking*

S&P/ASX 200 Accumulation Index including franking* 13.4%

Total Portfolio
$7.8b

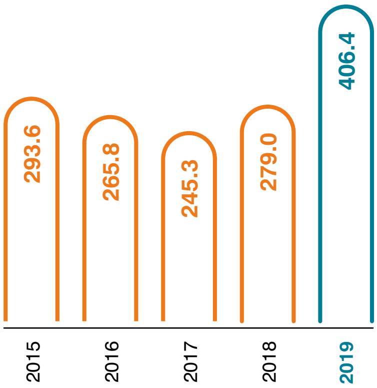
Including cash at 30 June

$7.4 billion in 2018

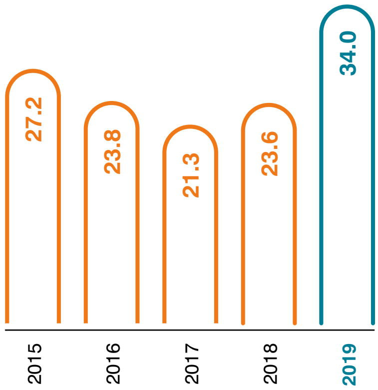
* Assumes a shareholder can take full advantage of the franking credits.

5 Year Summary

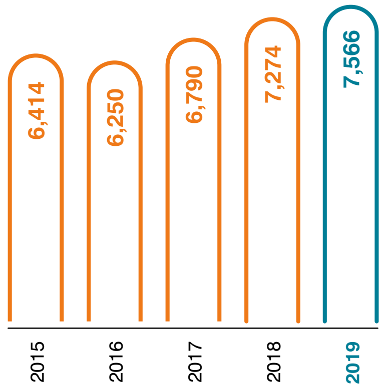
Net Profit After Tax ($ Million)



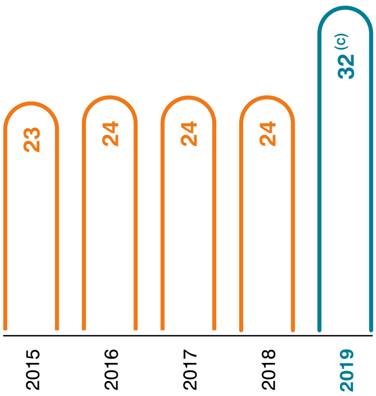
Net Profit Per Share (Cents)



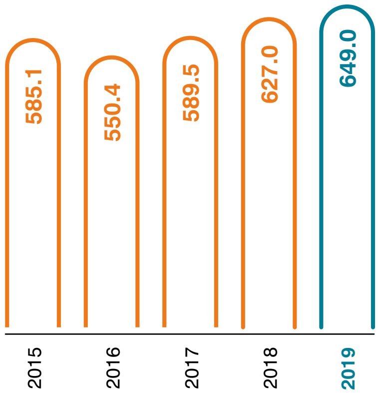
Investments at Market Value ($ Million)[a]



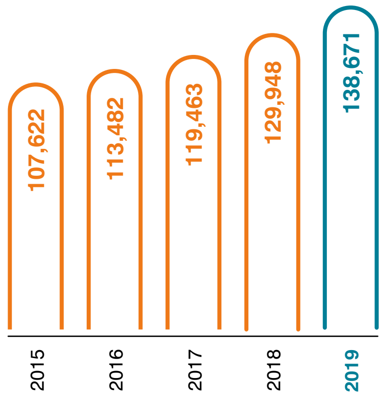
Dividends Per Share (Cents)[b]



Net Asset Backing Per Share (Cents)[d]



Number of Shareholders (30 June)



Notes

(a) Excludes cash.

(b) All dividends were fully franked. The LIC attributable gain attached to the dividend was: 2019: 7.14 cents, 2018: 2.86 cents, 2017: nil, 2016: 2.1 cents, 2015: 7.1 cents.

(c) Includes 8 cents fully franked special dividend paid with the interim dividend.

(d) 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. These include, 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 2019 this was 0.13 per cent, or 13 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

Full year profit was $406.4 million, up 45.6 per cent from $279.0 million in the corresponding period last year. A number of one-off factors increased investment income by 43.2 per cent to $433.0 million. This included participation in the Rio Tinto and BHP off-market share buy-backs, receipt of special dividends and the recognition of a dividend resulting from the Coles demerger from Wesfarmers.

The trading portfolio recorded a loss of $4.7 million compared with a gain of $0.3 million in the corresponding period last year. This was primarily due to call option positions. A significant number of in-the-money call option positions were bought back and moved into the current financial year at higher exercise prices to capture more of the potential capital upside of the underlying holdings. This will move some income from option activity into the current financial year.

Earnings per share were 34.0 cents, up from 23.6 cents. The final dividend was maintained at 14 cents per share fully franked. A special dividend of 8 cents per share fully franked was paid along with the interim dividend of 10 cents per share fully franked in February 2019. Total fully franked dividends applicable for the year, including the special, are 32 cents per share compared with 24 cents per share last year.

Five 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 7.14 cents. This enables some shareholders to claim a tax deduction in their tax return.

Market and Portfolio Performance

The Australian share market produced another strong year of returns as interest rates continued to decline. Many large companies enjoyed strong support as investors searched for yield from the large resource companies as well as businesses such as the ASX, Commonwealth Bank and Telstra. Real estate trusts and infrastructure companies were also very strong in response to the fall in bond yields. Selected perceived high growth stocks: Afterpay Touch, The a2 Milk Company, Appen and Xero (the only one of these stocks in the AFIC portfolio) continued to rally. These companies have seen a remarkable appreciation in their respective share prices following a strong lift in their already high valuations.

This produced a market which had a very mixed profile for returns, with the Mid-Cap 50 Accumulation Index up 3.7 per cent and the Small Ordinaries Accumulation Index up 1.9 per cent over the year to 30 June 2019. The Fifty Leaders Accumulation Index was up 14.2 per cent over the corresponding period.

Over the year to 30 June 2019, the S&P/ASX 200 Accumulation Index, including the benefit of franking, increased 13.4 per cent.

AFIC's portfolio return over this period, including the benefit of franking, was up 11.4 per cent.

Companies in the portfolio that contributed strongly to relative returns through the 12-month period were BHP, Commonwealth Bank, Transurban, Telstra, Brambles and CSL. In contrast, companies such as CYBG (Clydesdale Bank) and Challenger, both of which were sold during the second half of the financial year, significantly underperformed. In addition, AFIC does not own gold stocks in the portfolio, which have been very strong recently in response to global uncertainties. Participation in the BHP and Rio Tinto off-market buy-backs, which had the advantage of generating

Figure 1: Performance of Different Sectors of the Market by Company Size

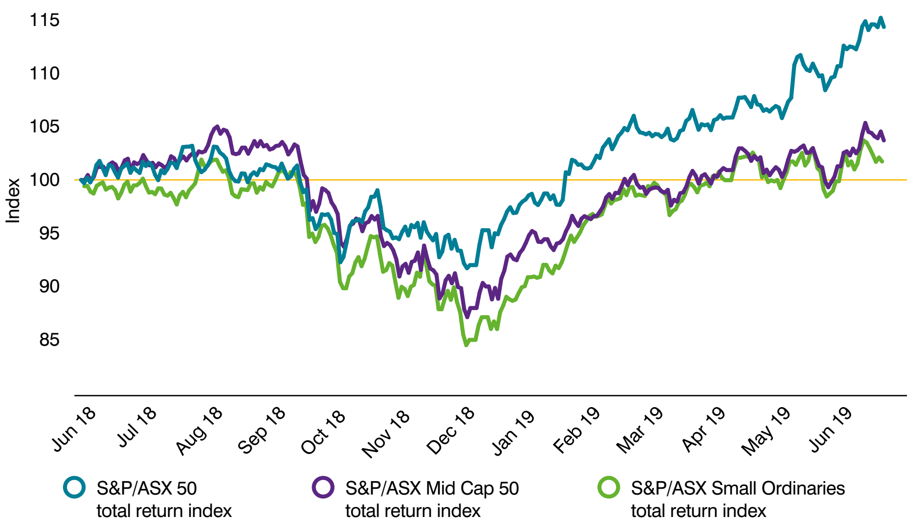
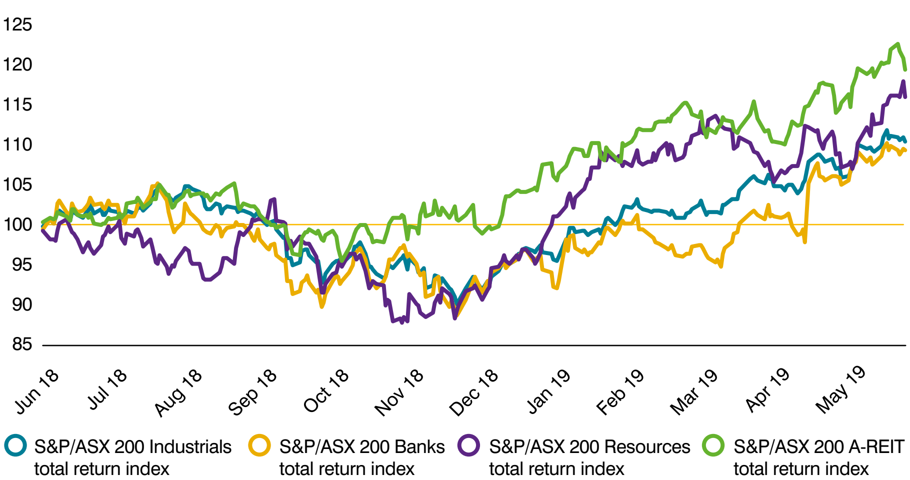


Figure 2: Performance of Key Sectors of the Market

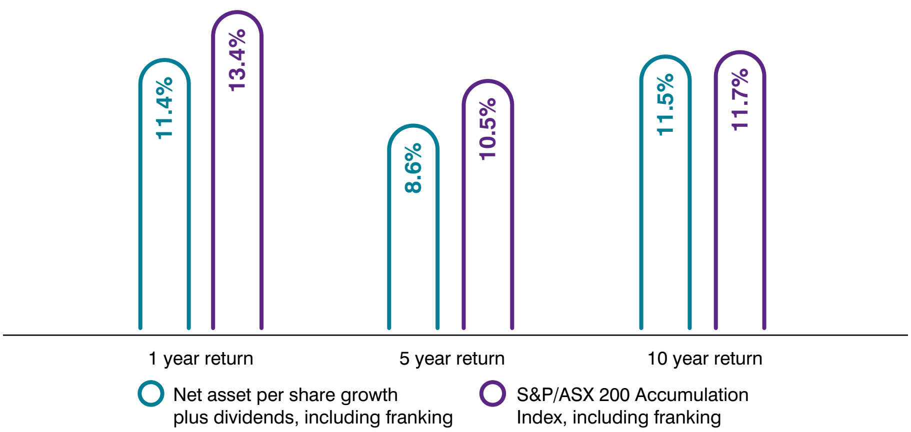


The return of the market over the year was characterised by a pronounced divergence of performance across sectors and companies.

significant franking credits for the Company, also provided some headwind to performance as holdings were sold at a 14 per cent discount to the market. The share prices of these companies have continued to appreciate since the buy-backs because of high iron ore prices following supply disruptions out of Brazil.

The long-term performance of the portfolio, which is more aligned with the Company's investment timeframes, was 11.5 per cent per annum for the 10 years to 30 June 2019. This is broadly in line with the Index return over the same period of 11.7 per cent. Both figures include the benefit of franking. AFIC's performance numbers are after costs.

Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2019



* Assumes an investor can take full advantage of the franking credits. AFIC's portfolio return is also calculated after management fees, income tax and capital gains tax on realised sales of investments. It should be noted that Index returns for the market do not include management expenses or tax.

Figure 4 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 2019. It also includes the benefits of franking credits for both.

Positioning the Portfolio

With the market reaching close to all-time highs and against the backdrop of an economy vulnerable to slowing trade and subdued consumer sentiment, the focus of adjustments to the portfolio was to ensure quality companies, with strong industry positions, formed the core of the portfolio moving forward. As a result, the number of holdings in the investment portfolio was reduced from 91 to 76 over the year.

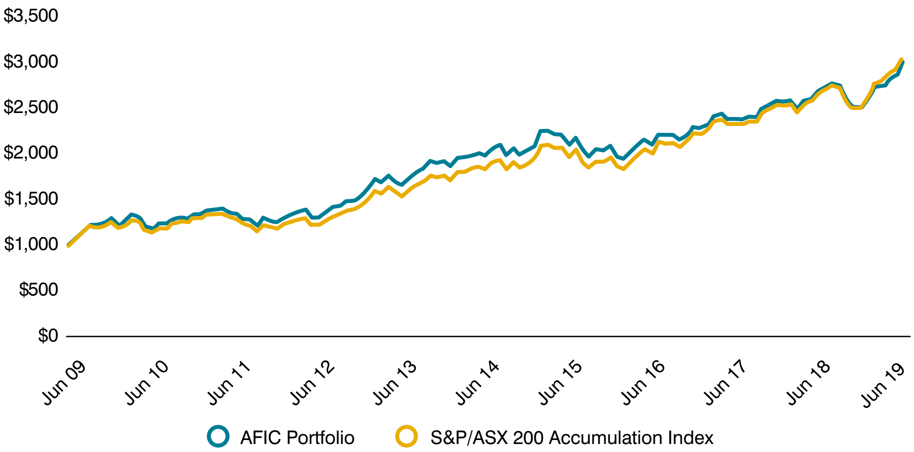
The more significant purchases for the year included additions to holdings in National Australia Bank, because of the attractive dividend yield on offer at the time of purchase, Reliance Worldwide, James Hardie Industries, Transurban Group (via participation in its rights issue to fund the WestConnex purchase), Adelaide Brighton and ARB Corporation. There were also additions during periods of share price weakness to our holdings in Macquarie Group and CSL, as both these companies have strong industry positions and quality international franchises.

The new holding in Coles Group arose because of its demerger from Wesfarmers. The only new company actively added to the portfolio during the year was a New Zealand listed company, Freightways. Freightways, which has operations in New Zealand and Australia, engages in the provision of express package and business mail services; and information management services. The company was founded in 1964 and is headquartered in Auckland, New Zealand.

Major sales arose because of participation in the Rio Tinto off-market share buy-back and the decision to remove some holdings from the portfolio. There was also a reduction in the holding in AGL Energy as the energy industry continues to face further structural adjustment in the future.

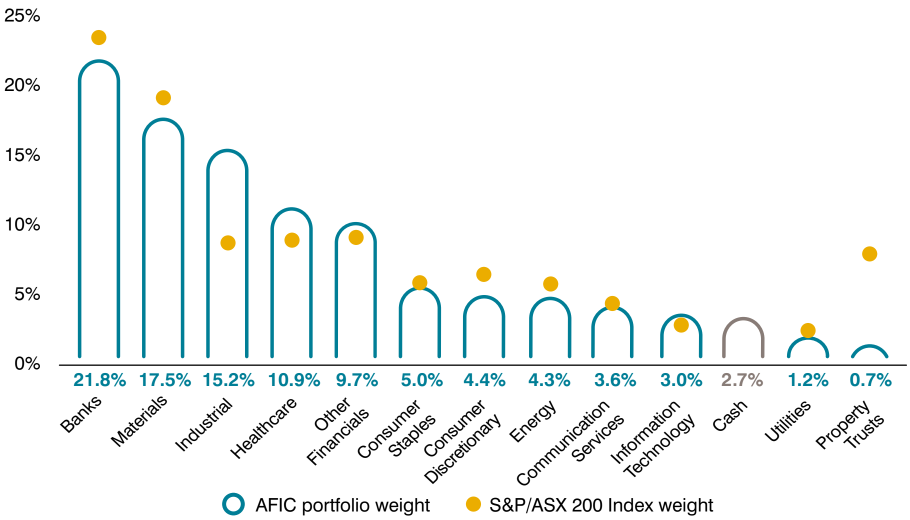
Figure 5 highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the financial year and how it differs from the Index.

Figure 4: Growth in Investment of $1,000 (Including Benefit of Franking) – 10 Years to 30 June 2019



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 5: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2019



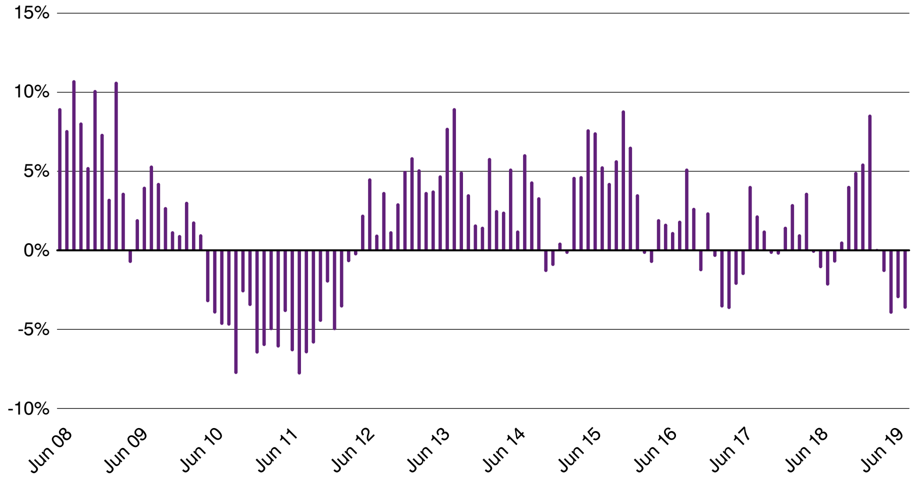
AFIC traditionally has not been a large investor in property trusts given the observation that over the long term industrial companies have tended to outperform property trusts and the distribution from these trusts do not carry franking credits.

Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2019 was 9.2 per cent, which is below the portfolio return for the year. This was because the share price was trading at a discount of 3.7 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2019, whereas one year ago, at 30 June 2018 the discount was 1.7 per cent (Figure 6). The current discount is the reason the Dividend Reinvestment Plan does not have a discount in place for the final dividend.

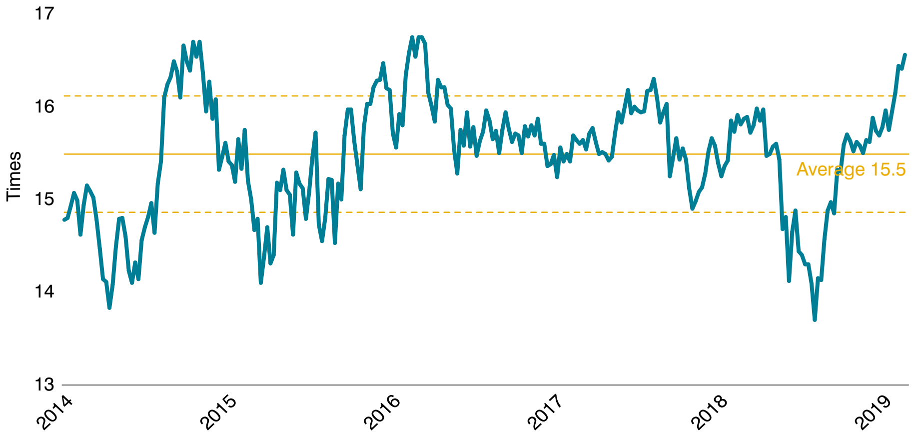
Whilst the share price can often fluctuate between a premium and discount, over the long term the share price return is often very close to the portfolio return.

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



Source: FactSet

Figure 7: Valuation of the Market – Price Earnings Ratio of the S&P ASX 200 Index



Source: FactSet

Outlook

The Australian equity market is facing an interesting dilemma. Very low interest rates are reinforcing the move by many investors to buy equities at a time when the Reserve Bank of Australia is concerned about the outlook for the economy. If the economy does weaken, then this is likely to have implications for the earnings outlook for a number of companies. We believe, against this backdrop, a focus on owning quality companies, with strong industry positions, is essential. AFIC is typically close to fully invested, however we have some cash available to add to selected holdings should there be any short-term disappointments during the upcoming reporting season that produces resulting share price weakness.

Figure 7 shows market valuations, as represented by the price earnings ratio of the S&P/ASX 200 Index, is currently trading well above its average in the present low interest rate environment.

Dividend Imputation

The Company notes that the refundability of franking credits under the dividend imputation system, which was subject to debate over the course of the year, continues without change to the benefit of shareholders.

Directorship Matters

As previously announced in October 2018 and detailed in the Company's Half-Yearly Review, Mr Terry Campbell did not seek re-election as Chairman of the Company at the 2018 Annual General Meeting and therefore retired at the conclusion of that meeting.

Mr John Paterson was elected as Chairman by the Board with effect from the conclusion of the Annual General Meeting. Mr Paterson has been a Director of the Company since 2005 and prior to that served as an Alternate Director 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.

The Board wishes to record its sincere appreciation to Mr Campbell for his invaluable contribution to the Board deliberations over the last 34 years. Mr Campbell has been a Director since 1984, Deputy Chairman since October 2008 and Chairman since October 2013. His very broad industry experience at the highest levels of the Australian corporate world has been of outstanding value to the Board, executives and shareholders of Australian Foundation Investment Company Limited.

Ms Jacqueline Hey retired as a Director on 18 January 2019. Ms Hey has been a Director of the Company since July 2013. She has been a member of the Company's Investment Committee and Nomination Committee.

Ms Hey has been a valuable contributor to Board and executive discussions reflecting her deep knowledge and experience gained in her long career in the telecommunications technology sector and the subsequent exposure she has had to a wide range of industries.

Her contributions to Board deliberations will be missed and the Board wishes to record its thanks to Ms Hey for her valued service to shareholders and wishes her well for the future.

Ms Rebecca Dee-Bradbury was appointed as an Independent Non-Executive Director of the Company on 6 May 2019.

Ms Dee-Bradbury was previously Chief Executive Officer/President of Developed Markets (Asia Pacific and ANZ) for Mondelez from 2010 to 2014. Before joining Mondelez Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other Senior Executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers.

Ms Dee-Bradbury is a Non-Executive Director of BlueScope Steel Limited (appointed April 2014) and Grain Corp Limited (appointed September 2014), and was previously a Non-Executive Director of Tower Limited until her resignation in 2016. Ms Dee-Bradbury is also a Director of EnergyAustralia Holdings following her appointment in April 2017.

We are delighted to welcome Rebecca to the Board. Her depth of knowledge across all aspects of business and the Fast-moving Consumer Goods (FMCG) sector both in Australia and internationally will be of great assistance to the Board.

Company Position

Capital Changes

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

- Under the Company's Dividend Substitution Share Plan, 526,689 new shares were issued at nil cost in August 2018 and 791,073 new shares were issued at nil cost in February 2019.
- Under the Company's Dividend Reinvestment Plan, 5,355,892 new shares were issued at a price of $6.18 in August 2018 and 7,328,161 new shares were issued at a price of $5.93 in February 2019.

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 $76.4 million to $2.9 billion. At the close of the year the Company had 1,200 million shares on issue.

Dividends

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

The dividends paid during the year ended 30 June 2019 were as follows:

	$'000
Final dividend for the year ended 30 June 2018 of 14 cents fully franked at 30 per cent paid 31 August 2018	162,800
Interim dividend for the year ended 30 June 2019 of 10 cents per share fully franked at 30 per cent, paid 25 February 2019	116,594
Special dividend for the year ended 30 June 2019 of 8 cents per share fully franked at 30 per cent, paid 25 February 2019	93,276
Total	372,670

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 2019, the facilities are undrawn.

Listed Investment Company Capital Gains

Listed Investment Companies (LICs) 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 LICs on a similar footing with holders of managed investment trusts with respect to capital gains tax (CGT) 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 2019, it carries with it a 7.14 cents per share LIC capital gain attributable part (2018: 2.86 cents). 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.

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 2019 will be found on the Company's website at:

afi.com.au/corporate-governance

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.

Top 25 Investments

As at 30 June 2019

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 28 June 2019

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	654.0	8.6
2	BHP*	554.8	7.3
3	Westpac Banking Corporation	440.9	5.8
4	CSL	440.3	5.8
5	National Australia Bank*	341.0	4.5
6	Transurban Group	333.1	4.4
7	Australia and New Zealand Banking Group*	258.7	3.4
8	Macquarie Group	246.1	3.3
9	Wesfarmers	243.1	3.2
10	Amcor	202.8	2.7
11	Rio Tinto	201.9	2.7
12	Woolworths Group	188.3	2.5
13	Woodside Petroleum*	157.8	2.1
14	Brambles	156.3	2.1
15	Telstra Corporation	154.7	2.0
16	Sydney Airport	144.1	1.9
17	Oil Search*	127.3	1.7
18	Mainfreight	125.0	1.7
19	Ramsay Health Care	114.5	1.5
20	James Hardie Industries	113.4	1.5
21	Qube Holdings	106.3	1.4
22	Sonic Healthcare	100.4	1.3
23	Coles Group*	97.2	1.3
24	Seek	90.3	1.2
25	Treasury Wine Estates	81.3	1.1
Total		5,673.7	

As a percentage of total portfolio value (excludes cash)	75.0%

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

Board and Management

Directors

John Paterson BCom (Hons)(Melb), CPA, F Fin. Chairman and Independent Non-Executive Director. Chairman of the Investment and Nomination Committees. Member of the Remuneration and Audit Committees. Director 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 and Chairman in October 2018. 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.

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

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 he was an Alternate Director of the Company since April 1987. He is a Non-Executive Director of AMCIL Limited and Mirrabooka Investments Limited, Chairman of Melbourne Business School Ltd and an Advisory Board member of the Faculty of Business and Economics at the University of Melbourne.

Rebecca Dee-Bradbury BBus, GAICD. Independent Non-Executive Director.

Ms Dee-Bradbury was previously Chief Executive Officer/President of Developed Markets (Asia Pacific and ANZ) for Mondelez from 2010 to 2014. Before joining Mondelez Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other Senior Executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers. Ms Dee-Bradbury is a Non-Executive Director of BlueScope Steel Limited (appointed April 2014) and Grain Corp Limited (appointed September 2014), and was previously a Non-Executive Director of Tower Limited (NZ) until her resignation in 2016. Ms Dee-Bradbury is also a Director of Energy Australia Holdings Ltd following her appointment in April 2017. Ms Dee-Bradbury is an inaugural member of the Business Advisory Board at Monash Business School and a member of Chief Executive Women and of the Women Corporate Directors Foundation, and a former member of the Federal Government's Asian Century Strategic Advisory Board.

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.

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 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 was Chair of the Oversight Board which helped guide implementation (with Defence) of the Review's recommendations. David is also a Non-Executive Director of Naval Group Australia and a former Director of the 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, Remuneration, Nomination and Audit Committees.

Mrs Walter is an Australian lawyer and company Director. She was appointed to the Board in August 2002. Mrs Walter is Chair of Melbourne Genomics Health Alliance and the Financial Adviser Standards & 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, Deputy Chair of Victorian Funds Management Corporation and a Director of ASX, National Australia Bank Ltd, Orica Limited and Melbourne Business School.

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

Mr Williams was appointed to the Board in February 2010. He is Chairman of NAB Trustees Services Limited (NAB Subsidiary), Director of Cricket Victoria Ltd and ARUMA (formerly House with No Steps), an Advisory Board Member of TLC Aged Care Limited and Chairman MIPS Advisory Committee for Fiig Securities Limited. Mr Williams was formerly Managing Director of Equity Trustees Limited, Director and Treasurer of Foundation for Young Australians, Chairman of Olympic Park Sports Medical Centre Pty Ltd, 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 23 years experience in accounting and financial management both in the United Kingdom with Andersen Consulting and Credit Suisse First Boston, and in Australia where he was Regional Chief Operating Officer for the Corporate and Investment Banking Division of CSFB. He is Chair of The Group of 100 (G100), the peak body for CFOs and a Director of the Anglican Foundation.

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 2019 and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
J Paterson	12	12	21	20	4	4	2	2	2	2
TA Campbell^	3	3	5	5	-	-	1	1	-	-
M Freeman	12	12	21	20	-	4#	-	2#	-	-
RE Barker	12	12	21	19	-	3#	-	-	-	-
RP Dee-Bradbury^^	2	2	-	2#	-	-	-	-	-	-
JC Hey**	6	5	11	7	-	-	-	-	-	-
GR Liebelt	12	12	-	15#	-	-	2	2	-	-
DA Peever	12	12	-	19#	4	4	-	-	-	-
CM Walter***	12	12	21	21	4	4	2	2	2	2
PJ Williams	12	12	21	21	4	4	-	2#	2	2

\# Attended meetings by invitation.

^ TA Campbell retired with effect from 9 October 2018.

** JC Hey retired with effect from 18 January 2019.

*** CM Walter was appointed to the Nomination Committee on 21 January 2019.

^^ RP Dee-Bradbury was appointed to the Board on 6 May 2019.

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 2019 Remuneration Report which outlines key aspects of our remuneration policy and remuneration awarded this year.

This is the first year that Mark Freeman has been remunerated for the whole period as CEO, and on the same basis as other Executives. Last year, his remuneration covered two periods – as Chief Investment Officer before 1 January 2018, and as CEO and Managing Director afterwards.

This report therefore has details as to the remuneration policies, targets and outcomes (with the exception of the Investment Team Long-Term Plan which continues to be eligible for vesting and was awarded when Mr Freeman was Chief Investment Officer) for the Executive Plan. Details of the Investment Team Incentive Plans for which Mr Freeman was partially remunerated for last year can be found in the 2018 Annual Report, available on the Company's website afi.com.au.

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 Remuneration Committee regularly reviews the structure and composition of Executive Incentive Plans seeking to ensure that they continue to meet their objectives. It is likely that the current review will result in some minor changes to the incentive plan, particularly with regard to the allocation between the LICs, during the financial year ended 30 June 2020.

The report is structured as follows:

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

Appendix

A. Remuneration Governance

B. Annual Incentives: Details of Outcomes and Conditions

C. Long Term Incentives: Details of Outcomes and Conditions

D. Directors and Executives: Equity Holdings and Other Transactions

E. Detailed Performance Measures by Investment Company

1. Remuneration Policy and Link to Performance

1.1 What is Our Remuneration Policy?

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

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

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

Periodically, we review our remuneration policies and plans seeking to ensure that they continue to meet these objectives.

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, whilst also considering the relative levels of risk;
- 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 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 Board may, at its discretion, direct that any performance rights that are yet to vest or to be tested be cancelled in the event of 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

- Fixed annual remuneration **57%**
- Annual incentive **29%**
- Long term incentive **14%**

Other Executives' Target Remuneration Mix

- Fixed annual remuneration **69%**
- Annual incentive **21%**
- Long term incentive **10%**

1.3 How is the Remuneration Paid in 2019 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 the following page for details of the differences.

Table 1: Actual Executive Remuneration Outcomes

	Total FAR $	Annual Incentive $	Prior Years' LTI Received* $	Total Remuneration $	Annual Incentive Forfeited $	LTI Forfeited $	Possible Future LTI (to Vest Over Next 4 Years)# $
Mark Freeman – Chief Investment Officer until 31 December 2017, Managing Director from 1 January 2018							
2019	**850,000**	**230,987**	**-**	**1,080,987**	**(194,013)**	**(160,000)**	**533,500**
2018	841,000	225,765	12,320	1,079,085	(194,735)	(147,680)	507,456
Andrew Porter – Chief Financial Officer							
2019	**666,507**	**106,814**	**-**	**773,321**	**(93,138)**	**(110,554)**	**457,421**
2018	653,438	114,188	-	767,626	(81,843)	(114,839)	439,362
Geoff Driver – General Manager – Business Development and Investor Relations							
2019	**549,201**	**88,015**	**-**	**637,216**	**(76,745)**	**(91,027)**	**376,914**
2018	538,432	93,122	-	631,554	(68,408)	(91,746)	361,964
Matthew Rowe – Company Secretary							
2019	**252,000**	**40,310**	**-**	**292,310**	**(35,290)**	**-**	**120,558**
2018	235,000	40,220	-	275,220	(30,280)	-	75,053

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 2013 and 2014 LTIP) is the amount that would have been paid to them with respect to the 2014 LTIP in the event that all targets had been achieved (2018: 2013 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:

* 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.

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 an expense over the vesting period.

Ross Barker, who retired on 31 December 2017 as Managing Director, is not included in the above table or in Table 7 as he ceased to be an Executive in the prior year. However, he is still entitled to ELTIP for the years in which he was employed (see Table 12). As with the other Executives, all ELTIP for the 2014–15 year was forfeited during the year, and Mr Barker thus forfeited $214,799 worth of ELTIP. At the end of 30 June 2019, the total value of the ELTIP yet to vest for Mr Barker was $564,397.

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:

	%	Result
AFIC investment performance	24.5	Table 3
AFIC other metrics	28.5	Table 2
AFIC qualitative assessment	-	n/a
Percentage of annual incentive determined by AFIC performance	**53**	
Other LIC investment performance	12.5	Table 15
Other LIC other metrics	14.5	Table 15
Other LIC qualitative assessment	-	n/a
Percentage of annual incentive determined by other LICs performance	**27**	
Total percentage of annual incentive determined by AFIC/Other LIC performance	**80**	
Personal metrics	20	n/a
	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.

Both share price and portfolio performance underperformed the Index across all the periods considered by the Remuneration Committee, with the performance closer to the benchmark over the longer term, which is AFIC's preferred timeline. The share price performance was further impacted by an increase in the discount to the NTA at June, a turnaround from earlier in the year when the premium was over 5 per cent.

This continued underperformance has negatively impacted the incentive awarded to the Executives, with over 45 per cent of the short term incentive and all of the long term incentive being forfeited.

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. These figures include the buy-backs from BHP and Rio Tinto and the demerger dividend recorded as part of the Coles/Wesfarmers demerger. The proceeds of the buy-back were paid out to shareholders as a special dividend accompanying the interim dividend in February.

With regard to the other investment companies, Djerriwarrh also did not meet any of its benchmarks with regards to investment or share performance. Mirrabooka's investment performance outperformed its relevant benchmark for the short-term (one year) and longer term (eight and 10 year) periods. AMCIL's investment performance outperformed its benchmark for the longer term only (eight and 10 years).

The 2015 award under Executive Long Term Incentive Plan was available for vesting as of 30 June 2019. 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 2015 award will take place in the year ended 30 June 2020. The actual amount settled will be reported in the relevant year. The 2014 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 was forfeited. Detailed information about the performance of each investment company is provided in Section E of the Appendix (Table 15).

Table 2: Non-investment Return Performance Measures

Performance Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Total shareholder return (14.6 per cent)			
Share price return – one year	11.6%	6.9%	Unfavourable
Share price return – three years	12.9%	8.4%	Unfavourable
Share price return – five years	8.9%	4.6%	Unfavourable
Share price return – eight years	9.4%	9.0%	Unfavourable
Share price return – ten years	10.0%	8.2%	Unfavourable
Growth in net operating result per share (8.3 per cent)	1.7%	44.1%	Favourable
Management expense ratio compared to base of 0.19 per cent (5.6 per cent)	0.19%	0.13%	Favourable

Outcome
- Achieved
- Partially achieved
- Not achieved

Table 3: Investment Return Performance Measures

Measure	Benchmark Result	AFIC Result	Comparison to Benchmark
Investment return – one year	11.6%	9.8%	Unfavourable
Investment return – three years	12.9%	11.1%	Unfavourable
Investment return – five years	8.9%	7.3%	Unfavourable
Investment return – eight years	9.4%	8.8%	Unfavourable
Investment return – ten years	10.0%	9.8%	Unfavourable
Gross return – one year	13.4%	11.4%	Unfavourable
Gross return – three years	14.6%	12.6%	Unfavourable
Gross return – five years	10.5%	8.6%	Unfavourable
Gross return – eight years	11.1%	10.4%	Unfavourable
Gross return – ten years	11.7%	11.5%	Unfavourable
Reward to risk – one year	1st qtr	33rd/133 1st qtr	Favourable
Reward to risk – three years	1st qtr	76th/132 3rd qtr	Unfavourable
Reward to risk – five years	1st qtr	100th/129 4th qtr	Unfavourable
Reward to risk – eight years	1st qtr	69th/114 3rd qtr	Unfavourable
Reward to risk – ten years	1st qtr	50th/98 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 2018	Benchmark Result	AFIC Result	% Vested	% Forfeited
ELTIP – Performance rights*						
1 July 2014	30 June 2018	Total gross shareholder return	8.9%	6.1%	0%	50%
		Total portfolio return	8.2%	6.0%	0%	50%
Investment team LTI						
1 July 2015	30 June 2019	Gross return	11.3%	9.4%	0%	100%

* Of the rights awarded on 1 July 2014, 100 per cent were forfeited as the targets were not achieved.

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.

2.2 Annual Incentive

Table 5 below outlines the key terms and conditions of the annual incentive plan.

Table 5: Annual Incentives – Key Terms and Conditions

Targeted % of FAR	Managing Director 50%	Other Executives 30%
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.	
Performance measures	• Company performance (43 per cent) • Investment performance (37 per cent) • Personal objectives (20 per cent) • See Table 11 for details	
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.	
Performance measured in 2019	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).	
Outcomes for 2019 (see Table 10 for details)	54 per cent	Average 53 per cent

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 2019, 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. Mr Freeman continues to be eligible for awards made to him whilst he was CIO until 2021, the last grant having been made for the year ended 30 June 2018. 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 2019 (Table 4)	July 2014: 0 per cent vested (see Table 4).	July 2015: 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 2019, 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	Post-employment		Short Term	Long-term Share-based Payments			
	Base Salary $	Superannuation $	Total Fixed Remuneration $	Annual Incentives $	LTI Cash-settled* $	Other Long-term Payments* $	Total Remuneration $	% Fixed/ Performance Related
Mark Freeman – Chief Investment Officer until 31 December 2017, Managing Director from 1 January 2018								
2019	**825,000**	**25,000**	**850,000**	**230,987**	**75,114**	**(57,025)**	**1,099,076**	**77%/23%**
2018	816,000	25,000	841,000	225,765	21,025	(16,625)	1,071,165	79%/21%
Andrew Porter – Chief Financial Officer								
2019	**641,507**	**25,000**	**666,507**	**106,814**	**14,168**	**-**	**787,489**	**85%/15%**
2018	628,438	25,000	653,438	114,188	10,899	-	778,525	84%/16%
Geoff Driver – General Manager – Business Development and Investor Relations								
2019	**524,201**	**25,000**	**549,201**	**88,015**	**11,744**	**-**	**648,960**	**85%/15%**
2018	513,432	25,000	538,432	93,122	11,839	-	643,393	84%/16%
Matthew Rowe – Company Secretary								
2019	**230,101**	**21,899**	**252,000**	**40,310**	**31,898**	**-**	**324,208**	**78%/22%**
2018	214,612	20,388	235,000	40,220	19,643	-	294,863	80%/20%

* Includes amounts credited for non-vesting.

4. Contract Terms

Each Executive is employed under an open-ended contract, the terms of which can be varied by mutual agreement. There are no contractual provisions for cessation of employment other than statutory requirements. Either the Company or the Executive can give notice in accordance with statutory requirements. 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 $
J Paterson – Chairman from 9 October 2018			
2019	**149,940**	**14,244**	**164,184**
2018	84,475	8,025	92,500
TA Campbell AO – Chairman (retired 9 October 2018)			
2019	**47,679**	**4,530**	**52,209**
2018	168,950	16,050	185,000
RE Barker – Non-Executive Director (Non-Executive from 1 January 2018)			
2019	**86,758**	**8,242**	**95,000**
2018	43,379	4,121	47,500
RP Dee-Bradbury – Non-Executive Director (appointed 6 May 2019)			
2019	**13,347**	**1,268**	**14,615**
JC Hey – Non-Executive Director (retired 18 January 2019)			
2019	**47,623**	**4,524**	**52,147**
2018	84,475	8,025	92,500
GR Liebelt – Non-Executive Director			
2019	**86,758**	**8,242**	**95,000**
2018	84,475	8,025	92,500
DA Peever – Non-Executive Director			
2019	**86,758**	**8,242**	**95,000**
2018	84,475	8,025	92,500
CM Walter AM – Non-Executive Director			
2019	**86,758**	**8,242**	**95,000**
2018	84,475	8,025	92,500
PJ Williams – Non-Executive Director			
2019	**86,758**	**8,242**	**95,000**
2018	84,475	8,025	92,500
Total Remuneration of Non-Executive Directors			
2019	**692,379**	**65,776**	**758,155**
2018	719,179	68,321	787,500

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.

$114,500 was paid to TA Campbell on his retirement during the year ended 30 June 2019, which was the amount accrued.

Table 9: Non-Executive Director Retirement Allowance

	Amount Payable on Retirement $
CM Walter AM	42,385
Total	42,385

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 three NEDs (GR Liebelt (Chairman), 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.

No reports or recommendations were requested by the Committee or the Board for the year ended 30 June 2019. 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 2019 for other general remuneration advice including confirmation of vesting calculations (2018: $0) and during the year the Group also paid $183,464 for other professional advice received which included acting as the internal auditor for AICS and general taxation and accountancy advice (2018: $245,723)(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. Table 11 sets 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	% of Target Paid	$ Paid	% of Target Forfeited	$ Forfeited
Mark Freeman	54.4%	$230,987	45.6%	$194,013
Andrew Porter	53.4%	$106,814	46.6%	$93,138
Geoff Driver	53.4%	$88,015	46.6%	$76,745
Matthew Rowe	53.3%	$40,310	46.7%	$35,290

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 1, 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 out-performance on non-financial metrics. These metrics can be important determinants of business success in the medium term. The Managing Director reviews the performance of each Executive with the Remuneration Committee, and the Remuneration Committee alone determines how the Managing Director is performing against these objectives

C. Long Term Incentives: Details of Outcomes and Conditions

This section shows the outstanding cash bonuses under the ELTIP and the investment team LTI schemes (Table 12). It also explains the detailed terms and conditions of the two LTIs that are currently in operation (Table 13). For a high-level overview see Section 2.3 of the main body of the Remuneration Report.

Table 12: 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 2019 $
Ross Barker – Managing Director (until 31 December 2017)						
1 July 2014	30 June 2018	$178,750	29,707	$6.017	0/0%	-
1 July 2015	30 June 2019	$182,325	29,459	$6.189	-	$218,279
1 July 2016	30 June 2020	$185,975	33,205	$5.601	-	$236,002
1 July 2017	30 June 2021	$92,888	16,153	$5.757	-	$110,116
						$564,397
Mark Freeman – Managing Director (from 1 January 2018)						
1 Jan 2018	30 June 2021	$85,000	14,765	$5.757	-	$100,657
1 July 2018	30 June 2022	$170,000	27,974	$6.077	-	$183,243
						$283,900
Andrew Porter – Chief Financial Officer						
1 July 2014	30 June 2018	$92,000	15,290	$6.017	0/0%	-
1 July 2015	30 June 2019	$93,750	15,148	$6.189	-	$112,238
1 July 2016	30 June 2020	$95,625	17,074	$5.601	-	$121,348
1 July 2017	30 June 2021	$98,016	17,026	$5.757	-	$116,071
1 July 2018	30 June 2022	$99,876	16,451	$6.077	-	$107,764
						$457,421
Geoff Driver – General Manager – Business Development and Investor Relations						
1 July 2014	30 June 2018	$75,750	12,589	$6.017	0/0%	-
1 July 2015	30 June 2019	$77,250	12,482	$6.189	-	$92,484
1 July 2016	30 June 2020	$78,795	14,069	$5.601	-	$99,991
1 July 2017	30 June 2021	$80,765	14,030	$5.757	-	$95,642
1 July 2018	30 June 2022	$82,380	13,556	$6.077	-	$88,797
						$376,914

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 2019 $
Matthew Rowe – Company Secretary (joined 11 July 2016)						
11 July 2016	30 June 2020	$30,000	5,356	$5.601	-	$38,070
1 July 2017	30 June 2021	$35,250	6,123	$5.757	-	$41,743
1 July 2018	30 June 2022	$37,800	6,220	$6.077	-	$40,745
						$120,558

Investment Team LTI Award Date	Vesting Date Subject to Performance Hurdles	Target Amount $	Award Vested for the Year $	%	Value Yet to Vest 30 June 2019 $
Mark Freeman – Chief Investment Officer (investment team LTI) – until 31 December 2017					
1 July 2015	30 June 2019	$163,200			$0
1 July 2016	30 June 2020	$166,400	-	-	$166,400
1 July 2017	30 June 2021	$83,200	-	-	$83,200
					$249,600

The total value of the two LTIP plans for Mr Freeman that are yet to vest is $533,500.

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 2019 using the Total Share Return (TSR – which includes dividends reinvested) based on a closing price on 28 June 2019 of AFI shares of $6.25 (the TSR for AFI at 30 June 2019 was 5.0 per cent p.a. for four years, 8.4 per cent p.a. for three years, 8.6 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.

No vesting of the 2018 Investment Team Long Term Incentive Plan was made during the year due to underperformance. 100 per cent was forfeited. No vesting of LTIP will be made in the year ended 30 June 2020.

Table 13: 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 14 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 14: Shareholdings of Directors and Executives

	Opening Balance	Changes During Year	Closing Balance
J Paterson	570,437	36,506	606,943
TA Campbell	421,731	n/a	n/a
RM Freeman	142,183	5,567	147,750
RE Barker	898,541	6,321	904,862
RP Dee-Bradbury	n/a	-	0
JC Hey	19,964	n/a	n/a
GR Liebelt	318,463	145,000	463,463
DA Peever	26,809	3,500	30,309
CM Walter	323,741	17,383	341,124
PJ Williams	67,431	1,991	69,422
GN Driver	133,028	3,019	136,047
MJ Rowe	1,017	1,223	2,240
AJB Porter	178,445	4,475	182,920

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	20,418
J Paterson	26,430
CM Walter	14,303

E. Detailed Performance Measures by Investment Company

Table 15 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 15: 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	2019	2018	2017	2016	2015
Comparative returns										
S&P/ASX 200 Accumulation Return	10.0%	9.4%	8.9%	9.7%	12.9%	**11.6%**	13.0%	14.1%	0.6%	5.7%
Gross S&P/ASX 200 Accumulation Return	11.7%	11.1%	10.5%	11.3%	14.6%	**13.4%**	14.6%	15.7%	2.2%	6.8%
Combined Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	8.7%	7.6%	11.1%	12.6%	11.4%	**2.8%**	19.3%	12.7%	16.1%	5.6%
Gross Combined Midcap 50 and Small Ordinaries Accumulation Return (used for Mirrabooka Investments Limited)	9.7%	8.6%	12.2%	13.6%	12.5%	**3.8%**	20.4%	13.8%	17.2%	6.3%

Year Ending 30 June	10-year Return	8-year Return	5-year Return	4-year Return	3-year Return	**2019**	2018	2017	2016	2015
AFIC										
Total shareholder return	8.2%	9.0%	4.6%	5.0%	8.4%	**6.9%**	10.3%	8.0%	-4.4%	2.8%
Total portfolio return	9.5%	8.5%	6.6%	7.3%	10.5%	**9.0%**	10.8%	11.7%	-1.6%	3.9%
Growth in net operating result per share	5.2%	5.3%	6.9%	5.7%	11.2%	**44.1%**	9.6%	-9.6%	-12.4%	11.8%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.13%**	0.14%	0.14%	0.16%	0.16%
Risk/reward return[1]	50th/98	69th/114	100th/129	94th/132	76th/132	**33rd/133**	105th/156	119th/169	n/a[2]	139th/176
Gross return	11.5%	10.4%	8.6%	9.4%	12.6%	**11.4%**	12.7%	13.7%	0.2%	5.6%
Investment return	9.8%	8.8%	7.3%	7.9%	11.1%	**9.8%**	11.3%	12.3%	-1.0%	4.6%
Djerriwarrh Investments Limited										
Total shareholder return	5.3%	5.0%	-0.3%	-1.7%	0.4%	**8.4%**	-2.8%	-3.8%	-7.7%	5.2%
Total portfolio return	7.4%	6.4%	4.6%	5.7%	9.3%	**6.3%**	8.8%	13.0%	-4.5%	0.2%
Growth in net operating profit per share	-4.5%	-5.1%	-2.6%	-5.7%	-4.4%	**3.7%**	5.7%	-19.9%	-10.0%	10.8%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.43%**	0.44%	0.46%	0.46%	0.41%
Gross return	10.7%	9.7%	7.7%	8.9%	12.4%	**9.1%**	11.7%	16.6%	-1.1%	3.2%
Investment return	8.7%	7.7%	5.6%	6.4%	9.5%	**6.8%**	9.7%	13.0%	-2.7%	2.8%
Operating earnings as a percentage of available investable assets	n/a	n/a	n/a	n/a	n/a	**7.0%**	7.1%	7.1%	8.7%	7.9%
Mirrabooka Investments Limited										
Total shareholder return	11.7%	9.9%	4.6%	4.7%	2.0%	**-1.9%**	4.9%	3.0%	13.1%	4.3%
Total portfolio return	12.0%	10.2%	7.6%	8.8%	7.8%	**1.8%**	14.7%	7.1%	12.0%	3.1%
Growth in net operating result per share	-1.9%	-2.4%	-0.1%	2.6%	-1.8%	**-14.9%**	35.7%	-17.8%	16.6%	-10.0%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.61%**	0.60%	0.62%	0.65%	0.67%
Gross return	15.1%	13.4%	11.0%	12.1%	11.0%	**5.9%**	17.3%	9.9%	15.4%	6.8%
Investment return	14.4%	12.9%	10.1%	11.1%	9.9%	**4.8%**	16.0%	9.3%	14.8%	6.5%
AMCIL Limited										
Total shareholder return	10.4%	9.4%	3.5%	4.6%	2.3%	**-0.7%**	9.1%	-1.2%	11.8%	-0.9%
Total portfolio return	10.2%	8.7%	6.1%	7.2%	7.0%	**3.5%**	12.3%	5.3%	7.6%	2.2%
Growth in net operating result per share	1.9%	-3.7%	-1.5%	-2.9%	-6.0%	**8.8%**	14.4%	-32.6%	4.8%	4.3%
Management expense ratio	n/a	n/a	n/a	n/a	n/a	**0.72%**	0.69%	0.68%	0.65%	0.67%
Gross return	12.5%	11.1%	8.5%	9.4%	9.3%	**7.0%**	13.9%	7.0%	9.7%	5.1%
Investment return	12.4%	10.8%	7.9%	9.0%	8.9%	**5.8%**	14.0%	7.1%	9.3%	3.9%

1. This represents the Company's ranking in the Mercer IDPS Australian Share Universe – i.e. 10th out of 71 funds. The period used is year to May.
2. n/a as cannot be calculated when return is negative.

Non-audit Services

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

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

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

A copy of the Auditor's Independence Declaration is set out on page 31.

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

John Paterson
Chairman

Melbourne
22 July 2019

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Australian Foundation Investment Company Limited for the year ended 30 June 2019, 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 entity it controlled during the period.

Nadia Carlin
Partner
PricewaterhouseCoopers

Melbourne
22 July 2019

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Consolidated Income Statement

For the Year Ended 30 June 2019

	Note	2019 $'000	2018 $'000
Dividends and distributions	A3	433,009	302,389
Revenue from deposits and bank bills	A3	3,615	1,409
Other revenue	A3	4,729	4,703
Total revenue		**441,353**	**308,501**
Net gains/(losses) on trading portfolio	A3	(4,686)	264
Income from operating activities		**436,667**	**308,765**
Finance costs		(826)	(848)
Administration expenses	B1	(14,312)	(14,533)
Profit before income tax expense		**421,529**	**293,384**
Income tax expense	B2, E2	(15,156)	(14,377)
Profit for the year		**406,373**	**279,007**
Profit is attributable to:			
Equity holders of Australian Foundation Investment Company Ltd		405,932	278,709
Minority interest		441	298
		406,373	**279,007**
		Cents	**Cents**
Basic earnings per share	A5	34.00	23.57

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

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2019

	Year to 30 June 2019			Year to 30 June 2018		
	Revenue[1] $'000	**Capital[1] $'000**	**Total $'000**	Revenue $'000	Capital $'000	Total $'000
Profit for the year	**406,373**	**-**	**406,373**	279,007	-	279,007
Other comprehensive income						
Items that will not be recycled through the Income Statement						
Gains for the period	-	261,984	**261,984**	-	454,180	**454,180**
Tax on above	-	(86,616)	**(86,616)**	-	(136,841)	**(136,841)**
Total other comprehensive income	**-**	**175,368**	**175,368**	-	317,339	317,339
Total comprehensive income	**406,373**	**175,368**	**581,741**	279,007	317,339	596,346

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 2019			Year to 30 June 2018		
	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	405,932	175,368	581,300	278,709	317,339	596,048
Minority interests	441	-	441	298	-	298
	406,373	175,368	581,741	279,007	317,339	596,346

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

Consolidated Balance Sheet

As at 30 June 2019

	Note	2019 $'000	2018 $'000
Current assets			
Cash	D1	206,429	99,183
Receivables		40,128	77,234
Total current assets		**246,557**	**176,417**
Non-current assets			
Investment portfolio	A2	7,572,640	7,280,706
Deferred tax assets		-	1,257
Total non-current assets		**7,572,640**	**7,281,963**
Total assets		**7,819,197**	**7,458,380**
Current liabilities			
Payables		932	712
Tax payable		17,052	8,245
Borrowings – bank debt	D2	-	100
Trading portfolio		7,033	6,757
Provisions		4,114	4,385
Total current liabilities		**29,131**	**20,199**
Non-current liabilities			
Provisions		1,471	1,394
Deferred tax liabilities		100	-
Deferred tax liabilities – investment portfolio	B2	1,163,749	1,097,527
Total non-current liabilities		**1,165,320**	**1,098,921**
Total liabilities		**1,194,451**	**1,119,120**
Net assets		**6,624,746**	**6,339,260**
Shareholders' equity			
Share capital	A1, D6	2,888,136	2,811,721
Revaluation reserve	A1, D3	2,561,314	2,422,568
Realised capital gains reserve	A1, D4	462,257	448,892
General reserve	A1	23,637	23,637
Retained profits	A1, D5	688,244	631,725
Parent entity interest		**6,623,588**	**6,338,543**
Minority interest		**1,158**	717
Total equity		**6,624,746**	**6,339,260**

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2019

Year Ended 30 June 2019	Note	Share Capital $'000	Revaluation Reserve $'000
Total equity at the beginning of the year		**2,811,721**	**2,422,568**
Dividends paid to shareholders	A4	-	-
– Dividend Reinvestment Plan	D6	76,556	-
Other share capital adjustments		(141)	-
Total transactions with shareholders		**76,415**	**-**
Profit for the year		-	-
Other comprehensive income (net of tax)			
Net gains for the period		-	175,368
Other comprehensive income for the year		-	175,368
Transfer to realised capital gains of cumulative gains on investments sold		-	(36,622)
Total equity at the end of the year		**2,888,136**	**2,561,314**

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

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

Realised Capital Gains $'000	General Reserve $'000	Retained Profits $'000	Total Parent Entity $'000	Minority Interest $'000	Total $'000
448,892	**23,637**	**631,725**	**6,338,543**	**717**	**6,339,260**
(23,257)	-	(349,413)	**(372,670)**	**-**	**(372,670)**
-	-	-	**76,556**	**-**	**76,556**
-	-	-	**(141)**	**-**	**(141)**
(23,257)	**-**	**(349,413)**	**(296,255)**	**-**	**(296,255)**
-	-	405,932	**405,932**	**441**	**406,373**
-	-	-	**175,368**	**-**	**175,368**
-	-	-	**175,368**	**-**	**175,368**
36,622	-	-	**-**	**-**	**-**
462,257	**23,637**	**688,244**	**6,623,588**	**1,158**	**6,624,746**

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

Consolidated Cash Flow Statement

For the Year Ended 30 June 2019

	Note	2019 $'000 Inflows/ (Outflows)	2018 $'000 Inflows/ (Outflow)
Cash flows from operating activities			
Sales from trading portfolio		39,599	66,478
Purchases for trading portfolio		(28,964)	(4,770)
Interest received		3,663	1,347
Dividends and distributions received		366,436	243,605
		380,734	306,660
Other receipts		5,117	4,957
Administration expenses		(14,875)	(14,803)
Finance costs paid		(826)	(848)
Taxes paid		(24,794)	(14,808)
Net cash inflow/(outflow) from operating activities	E1	**345,356**	281,158
Cash flows from investing activities			
Sales from investment portfolio		810,462	689,030
Purchases for investment portfolio		(752,440)	(753,667)
Net cash inflow/(outflow) from investing activities		**58,022**	(64,637)
Cash flows from financing activities			
Net bank borrowings		(100)	100
Share issue transaction costs		(141)	(136)
Dividends paid		(295,891)	(222,427)
Net cash inflow/(outflow) from financing activities		**(296,132)**	(222,463)
Net increase/(decrease) in cash held		107,246	(5,942)
Cash at the beginning of the year		99,183	105,125
Cash at the end of the year	D1	**206,429**	99,183

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

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

A. Understanding AFIC's Financial Performance

A1. How AFIC Manages its Capital

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

	2019 $'000	2018 $'000
Share capital	2,888,136	2,811,721
Revaluation reserve	2,561,314	2,422,568
Realised capital gains reserve	462,257	448,892
General reserve	23,637	23,637
Retained profits	688,244	631,725
	6,623,588	6,338,543

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:

	2019 $'000	2018 $'000
Equity instruments (excluding below) at market value	7,072,586	6,940,638
Equity instruments (over which options may be written)	500,054	327,764
Hybrids	-	12,304
	7,572,640	7,280,706

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 2019 and 30 June 2018 were as follows:

	30 June 2019 **$**	30 June 2018 $
Net tangible asset backing per share		
Before tax	**6.49**	6.27
After tax	5.52	5.34

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 $782.0 million (2018: $712.6 million) of equity securities were sold. The cumulative gain on the sale of securities was $36.6 million for the period after tax (2018: $18.0 million). This has been transferred from the revaluation reserve to the realisation reserve (see Consolidated Statement of Changes in Equity). These sales were accounted for at the date of trade.

A3. Operating Income

The total income received from AFIC's investments in 2019 is set out below.

Dividends and Distributions	**2019** **$'000**	2018 $'000
Income from securities held in investment portfolio at 30 June	368,629	272,362
Income from investment securities sold during the year	64,269	29,918
Income from securities held in trading portfolio at 30 June	-	-
Income from trading securities sold during the year	111	109
	433,009	302,389
Interest income		
Income from cash investments	3,615	1,409
Other income		
Administration fees	4,729	4,681
Other income	-	22
	4,729	4,703

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.

		2019 $'000	2018 $'000
Net gains			
Net realised gains/(losses) from trading portfolio	– shares	140	672
	– options	(4,055)	3,559
Unrealised gains/(losses) from trading portfolio	– shares	-	-
	– options	(771)	(3,967)
		(4,686)	264

$131.0 million of shares are lodged with the ASX Clear Pty Ltd as collateral for sold option positions written by the Group (2018: $115.7 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 $218.4 million worth of securities at an agreed price – the 'exposure' (2018: $61.7 million). If all put options were exercised, this would lead to the purchase of $4.0 million of securities at an agreed price (2018: $19.7 million)

A4. Dividends Paid

The dividends paid and payable for the year ended 30 June 2019 are shown below:

(a) Dividends Paid During the Year	2019 $'000	2018 $'000
Final dividend for the year ended 30 June 2018 of 14 cents fully franked at 30 per cent paid 31 August 2018 (2018: 14 cents fully franked at 30 per cent paid on 30 August 2017).	162,800	161,955
Interim dividend for the year ended 30 June 2019 of 10 cents per share fully franked at 30 per cent paid 25 February 2019 (2018: 10 cents fully franked at 30 per cent paid 23 February 2018)	116,594	116,099
Special dividend of 8 cents per share fully franked at 30 per cent paid 25 February 2019 (2018: nil)	93,276	-
	372,670	278,054
Dividends paid in cash	296,114	222,453
Dividends reinvested in shares	76,556	55,601
	372,670	278,054
Dividends forgone via DSSP	**7,946**	4,788
(b) Franking Credits		
Opening balance of franking account at 1 July	156,187	158,730
Franking credits on dividends received	165,325	104,609
Tax paid during the year	24,221	14,069
Franking credits paid on ordinary dividends paid	(159,716)	(119,166)
Franking credits deducted on DSSP shares issued	(3,410)	(2,055)
Closing balance of franking account	**182,607**	156,187
Adjustments for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	25,702	22,534
Adjusted closing balance	**208,309**	178,721
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year:	(72,009)	(71,169)
Net available	**136,300**	107,552
These franking account balances would allow AFIC to frank additional dividend payments up to an amount of:	318,033	250,955

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

	2019 $'000	2018 $'000
(Figures in A$ at year-end exchange rate: 2019: $NZ1.045: $A1; 2018: $NZ1.093: $A1)		
Opening balance	7,356	13,357
Imputation credits on dividends received	7,384	5,987
Imputation credits on dividends paid	-	(12,348)
Closing balance	**14,740**	**6,996**

Three NZ cents per share of the dividend to be paid on 29 August 2019 will have a New Zealand imputation credit attached. This will utilise, at the above exchange rates, $13.4 million of the above balance.

(d) Dividends Declared After Balance Date

	2019 $'000	2018 $'000
Since the end of the year Directors have declared a final dividend of 14 cents per share fully franked at 30 per cent. The aggregate amount of the final dividend for the year to 30 June 2019 to be paid on 29 August 2019, but not recognised as a liability at the end of the financial year is:	168,021	

(e) Listed Investment Company Capital Gain Account

	2019 $'000	2018 $'000
Balance of the listed investment company (LIC) capital gain account:	63,335	32,686
This equates to an attributable gain of:	90,478	46,694

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. $85.7 million attributable gain is attached to the final dividend to be paid on 29 August 2019.

A5. Earnings Per Share

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

Basic Earnings Per Share	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator	1,193,810,502	1,182,444,510
	$'000	$'000
Profit for the year	405,932	278,709
	Cents	Cents
Basic earnings per share	34.00	23.57

B. Costs, Tax and Risk

B1. Management Costs

The total management expenses for the period are as follows:

	2019 $'000	2018 $'000
Rental expense relating to non-cancellable leases	(698)	(621)
Employee benefit expenses	(8,039)	(8,911)
Depreciation charge	-	-
Other administration expenses	(5,575)	(5,001)
	(14,312)	**(14,533)**

Employee Benefit Expenses

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

	Short-term Benefits $	Other Long-term Benefits $	Post-employment Benefits $	Share Based Payments $	Total $
2019					
Non-Executive Directors	692,379	-	65,776	-	758,155
Executives	2,686,935	(57,025)	96,899	77,662	2,804,471
Total	**3,379,314**	**(57,025)**	**162,675**	**77,662**	**3,562,626**
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

Detailed remuneration disclosures are provided in the Remuneration Report.

The above figures include share-based expenses incurred in respect of Ross Barker, former Managing Director, who is still eligible for vesting under these plans.

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

	2019 $'000	2018 $'000
Profit before income tax expense	**421,529**	293,384
Tax at the Australian tax rate of 30 per cent (2018: 30 per cent)	126,459	88,015
Tax offset for franked dividends received	(115,510)	(70,989)
Off-market buy-back income not included in profit	15,097	-
Demerger dividend non-taxable	(13,089)	-
Sundry items whose tax treatment differs from accounting treatment	4,331	(15)
	17,288	17,011
Over provision in prior years	(2,132)	(2,634)
Total tax expense	**15,156**	14,377

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.

	2019 $'000	2018 $'000
Deferred tax liabilities on unrealised gains in the investment portfolio	1,163,749	1,097,527
Opening balance at 1 July	1,097,527	967,091
Tax on realised gains	(20,394)	(6,405)
Charged to OCI for ordinary securities on gains or losses for the period	86,616	136,841
	1,163,749	1,097,527

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 $265.0 million and $530.1 million respectively, at a tax rate of 30 per cent (2018: $254.8 million and $509.6 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:

	2019 %	2018 %
Energy	4.28	5.44
Materials	17.50	18.61
Industrials	15.17	12.08
Consumer discretionary	4.37	2.01
Consumer staples	5.06	8.99
Banks	21.80	21.31
Other financials	9.73	10.86
Property trusts	0.71	1.72
Telecommunications	3.61	2.02
Health care	10.86	9.90
Info technology	3.01	3.86
Utilities	1.25	1.85
Cash	2.65	1.35
Securities representing over 5 per cent of the investment portfolio at 30 June were:		
Commonwealth Bank	8.6	7.9
BHP	7.3	6.6
Westpac	5.8	6.3
CSL	5.8	5.1

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 2019	**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	932	-	-	932	932
	932	**-**	**-**	**932**	**932**
Derivatives					
Options in trading portfolio*	3,963	-	-	3,963	7,033
	3,963	**-**	**-**	**3,963**	**7,033**

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

* 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.

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

D. Balance Sheet Reconciliations
E. Income Statement Reconciliations
F. Further 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

	2019 $'000	2018 $'000
Cash at bank and in hand (including on-call)	201,429	95,183
Fixed term deposits	5,000	4,000
	206,429	**99,183**

Cash holdings yielded an average floating interest rate of 2.07 per cent (2018: 1.80 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

	2019 $'000	2018 $'000
Commonwealth Bank of Australia – cash advance facilities	140,000	140,000
Amount drawn down	-	100
Undrawn facilities	**140,000**	**139,900**

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

	2019 $'000	2018 $'000
Opening balance at 1 July	2,422,568	2,123,209
Gains on investment portfolio		
– Equity instruments	261,984	454,180
Provision for tax on above	(86,616)	(136,841)
Cumulative taxable realised (gains)/losses (net of tax)	(36,622)	(17,980)
	2,561,314	**2,422,568**

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

	2019 $'000	2018 $'000
Opening balance at 1 July	448,892	430,912
Dividends paid	(23,257)	-
Cumulative taxable realised gains/(losses) for period through OCI (net of tax)	36,622	17,980
	462,257	**448,892**

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

	2019 $'000	2018 $'000
Opening balance at 1 July	631,725	631,070
Dividends paid	(349,413)	(278,054)
Profit for the year	405,932	278,709
	688,244	**631,725**

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
1/07/2017	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
31/08/2018	Dividend Reinvestment Plan	(i)	5,356	6.18	33,100
31/08/2018	Dividend Substitution Share Plan	(ii)	526	6.18	n/a
25/02/2019	Dividend Reinvestment Plan	(i)	7,328	5.93	43,456
25/02/2019	Dividend Substitution Share Plan	(ii)	791	5.93	n/a
Various	Costs of issue		-	-	(141)
30/06/2019	Balance		1,200,148		2,888,136

(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 (2018: nil).

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

	2019 $'000	2018 $'000
Profit for the year	**406,373**	279,007
Net decrease/(increase) in trading portfolio	276	6,211
Dividends received as securities under DRP investments	(16,848)	-
Coles demerger dividend – non-cash item	(43,629)	-
Decrease/(increase) in current receivables	37,106	(25,223)
– Less increase/(decrease) in receivables for investment portfolio	(27,495)	22,366
Increase in deferred tax liabilities	67,579	129,528
– Less (increase)/decrease in deferred tax liability on investment portfolio	(66,222)	(130,436)
Increase/(decrease) in current payables	220	(6,241)
– Less decrease/(increase) in payables for investment portfolio	-	6,113
– Less increase/(decrease) in dividends payable	(223)	(27)
Increase/(decrease) in provision for tax payable	8,807	6,265
Capital gains tax charge taken through equity	(20,394)	(6,405)
Increase/(decrease) in other provisions/non-cash items	(194)	-
Net cash flows from operating activities	**345,356**	281,158

E2. Tax Reconciliations

Tax Expense Composition

	2019 $'000	2018 $'000
Charge for tax payable relating to the current year	15,931	17,919
Over provision in prior years	(2,132)	(2,634)
Movement in deferred tax balances	1,357	(908)
	15,156	14,377

Amounts Recognised Directly Through Other Comprehensive Income

	2019	2018
Net increase in deferred tax liabilities relating to capital gains tax on the movement in gains in the investment portfolio	86,616	136,841
	86,616	136,841

Deferred Tax Assets and Liabilities

The deferred tax balances are attributable to:

	2019 $'000	2018 $'000
(a) Tax on unrealised gains or losses in the trading portfolio	231	1,190
(b) Provisions and expenses charged to the accounting profit which are not yet tax deductible	1,680	1,738
(c) Interest and dividend income receivable which is not assessable for tax until receipt	(2,011)	(1,671)
	(100)	1,257

Movements:		
Opening asset balance at 1 July	1,257	349
Credited/(charged) to Income Statement	(1,357)	908
	(100)	1,257

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. Further Information

This section covers 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 $61,275 (2018: $50,314).

(b) AICS Transactions with Minority Interests

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

	2019 $'000	2018 $'000
Administration expenses charged for the year	2,515	2,450

(c) AICS Transactions with Other Listed Investment Companies

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

	2019 $'000	2018 $'000
Administration expenses charged for the year to Mirrabooka Investments Ltd	1,382	1,400
Administration expenses charged for the year to AMCIL Ltd	906	899

F2. Remuneration of Auditors

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

	2019 $	2018 $
PricewaterhouseCoopers		
Audit services		
Audit or review of Financial Reports	195,987	190,820
Audit related services		
AFSL compliance audit and review	7,998	7,796
Non-audit services		
Taxation compliance services	30,670	38,819
Total remuneration	**234,655**	**237,435**

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 three investments comprising more than 10 per cent of AFIC's income (as a consequence of buy-backs and demerger dividends), including realised income from the trading and options written portfolios – Wesfarmers (14.9 per cent), Rio Tinto (13.1 per cent) and BHP (11.9 per cent)(2018: one investment: Commonwealth Bank (11.0 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 on 22 July 2019 in accordance with a resolution of the Board and is presented in the Australian currency. The Directors of the Company have 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 2019 ('the inoperative standards'). 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 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 Executive Annual Incentive Plan, Executive Long Term Incentive Plan, Investment Team Long Term Incentive Plan and the Employee Share Acquisition Scheme.

For the Employee Share Acquisition Scheme and the Executive 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 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 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 2019.

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) 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.

13,619 shares (2018: 10,706 shares) were purchased by Executives in the year (in relation to the prior year) with a fair value (being the acquisition price) of $84,147 (2018: $64,277).

(ii) Executive Long Term Incentive Plan

Under the 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 Payment*s 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.

64,201 rights were awarded under the plan during the year ended 30 June 2019 (2018: 68,098). An expense of $494,042 (2018: $481,768) was incurred for the 2015/16, 2016/17, 2017/18 and 2018/19 plans. 57,586 rights under the 2014/15 plan were forfeited during the year (100 per cent).

(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.

No LTIP vested in the period (2018 $52,563).

(b) Employee Share Acquisition Scheme

Under the current Employee Share Acquisition Scheme, each employee who is not a participant in the 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, 37.8 per cent of the possible maximum was awarded, and 50 per cent of this was used to buy shares in Djerriwarrh Investments Limited.

(c) Expenses Arising From Share Based Payment Transactions

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

	2019 $'000	2018 $'000
Share-based payment expense	542	534

(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 (incl. GST), is:

	2019 $'000	2018 $'000
Due within one year	698	667
Later than one year but less than five	1,396	2,001
Greater than five years	-	-
	2,094	2,668

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 2019	2018
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:

	2019 $'000	2018 $'000
Balance Sheet		
Current assets	230,698	162,696
Total assets	**7,803,337**	7,450,206
Current liabilities	17,487	15,607
Total liabilities	**1,183,065**	1,113,655
Shareholders' equity		
Issued capital	2,888,136	2,811,721
Reserves		
Revaluation reserve	2,561,314	2,422,568
Realised capital gains reserve	462,257	448,892
General reserve	23,637	23,637
Retained earnings	684,928	629,733
	3,732,136	3,524,830
Total shareholders' equity	**6,620,272**	6,336,551
Profit or loss for the year	**404,609**	277,815
Total comprehensive income	**579,977**	595,154

DIRECTORS' DECLARATION

In the Directors' opinion:

(1) the financial statements and notes set out on pages 33 to 55 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 2019 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 2019. 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.

John Paterson
Chairman

Melbourne
22 July 2019

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 entity (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 2019 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 financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- 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 consolidated income statement for the year then ended
- the notes to the consolidated 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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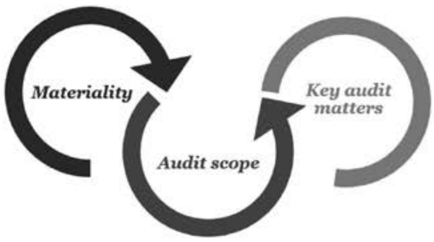
Our audit approach

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, its accounting processes and controls and the industry in which it 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 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 the determinant of the Group's value.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable net asset related thresholds.

Audit Scope

- Our audit focused on assessing the financial statements for risks of material misstatement in account balances or disclosures, and designing and performing audit procedures to obtain reasonable assurance that the financial statements as a whole were free of material misstatement due to fraud or error. This included identifying areas of higher risk, based on quantitative and qualitative assessments of the Group's operations and activities.
- 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 Australian 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.

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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. We communicated the key audit matters to the Board Audit Committee.

Key audit matter	*How our audit addressed the key audit matter*
Existence and valuation of Investment Portfolio *Refer to note A2* *$7,572.6m* The Investment Portfolio consists mainly of listed Australian equities. 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 2019 balance. 2) Obtained the 2019 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 2019 to third party sources. 4) Agreed all listed equities investment prices to third party market pricing sources.

pwc

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, 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 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 on the other information that we obtained prior to the date of this auditor's report, 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 pages 13 to 29 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Australian Foundation Investment Company Limited for the year ended 30 June 2019 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.

PricewaterhouseCoopers

Nadia Carlin
Partner

Melbourne
22 July 2019

OTHER INFORMATION

Information About Shareholders

At 22 July 2019 there were 138,949 holdings of ordinary shares. These holdings were distributed in the following categories:

Size of Holding	Shareholdings
1 to 1,000	46,266
1,001 to 5,000	45,852
5,001 to 10,000	20,290
10,001 to 100,000	25,506
100,000 and over	1,035
Total	138,949

Percentage held by the 20 largest holders	6.71%
Average shareholding	8,637

There were 2,743 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 22 July 2019 are listed below:

Ordinary Shares

Name	Units	% of Units
HSBC Custody Nominees (Australia) Limited	21,224,258	1.77
Citicorp Nominees Pty Limited	7,542,733	0.63
Australian Executor Trustees Limited <IPS Super A/C>	5,815,698	0.48
Nulis Nominees (Australia) Limited <Navigator Mast Plan Sett A/C>	5,708,278	0.48
Peter & Lyndy White Foundation Pty Ltd <P & L White Foundation A/C>	4,943,107	0.41
Bougainville Copper Limited	4,865,600	0.41
Navigator Australia Ltd <MLC Investment Sett A/C>	4,282,906	0.36
Netwealth Investments Limited <Wrap Services A/C>	3,402,898	0.28
Custodial Services Limited <Beneficiaries Holding A/C>	3,014,482	0.25
Bushways Pty Ltd	2,570,592	0.21
Investment Custodial Services Limited <C A/C>	2,510,787	0.21
J P Morgan Nominees Australia Pty Limited	2,287,245	0.19
Investment Custodial Services Limited <C A/C>	2,260,172	0.19
Kalymna Pty Ltd	1,835,886	0.15
Australian Executor Trustees Limited <IPS IDPS A/C>	1,786,369	0.15
Twibill Pty Ltd	1,443,216	0.12
Netwealth Investments Limited <Super Services A/C>	1,415,886	0.12
Mr Bruce Teele <The Teele Family A/C>	1,248,290	0.10
Australian Executor Trustees Limited <No 1 Account>	1,218,819	0.10
Australian Investors Pty Ltd	1,179,400	0.10

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($'000)
National Australia Bank*	88,952
Coles Group (Including demerger from Wesfarmers)	81,215
Reliance Worldwide	38,706
James Hardie Industries	37,665
Transurban Group (10 for 57 share issue at $10.80 per share)	37,557
Adelaide Brighton	35,208
Qantas Airways*(subsequently sold)	34,841
Macquarie Group	34,522
ARB Corporation	33,204
CSL	31,077

* Subject to call options during the period.

Disposals	Proceeds ($'000)
Rio Tinto (participation in off-market share buy-back)	105,737
AGL Energy	62,442
Challenger#	49,856
Qantas Airways#	47,197
Washington H. Soul Pattinson#	47,092
CYBG (Clydesdale Bank)#	43,676
QBE Insurance Group#	42,603

Complete disposal from the portfolio.

Sub-underwriting

The Company did not participate as a sub-underwriter in any transactions during the year.

Substantial Shareholders

The Company has not been notified of any substantial shareholders.

Transactions in Securities

During the year ended 30 June 2019, the Company recorded 1,435 transactions in securities. $4,285,019 in brokerage (including GST) was paid or accrued for the year.

Holdings of Securities

At 30 June 2019

Individual investments for the combined investment and trading portfolios as at 30 June 2019 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au.

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2018 '000	**Number Held 2019 '000**	**Market Value 2019 $'000**
ABC	Adelaide Brighton	1,720	7,262	29,338
AGL	AGL Energy	4,305	1,370	27,414
AIA	Auckland International Airport	1,770	1,770	16,496
ALQ	ALS	8,500	7,542	55,359
AMC	Amcor	12,527	12,527	202,816
AMP	AMP	12,910	9,645	20,447
ANN	Ansell	1,284	1,284	34,472
ANZ*	Australia and New Zealand Banking Group	8,488	9,188	258,746
APA*	APA Group	4,040	6,540	70,031
APE	AP Eagers	1,404	1,157	11,335
ARB	ARB Corporation	1,198	3,081	56,069
ASX	ASX	709	709	58,374
AUB	AUB Group	729	2,026	21,150
AWC*	Alumina	15,048	20,923	47,650
BHP*	BHP	14,091	13,482	554,828
BKW	Brickworks	1,503	1,854	30,195
BLD	Boral	9,660	4,008	20,523
BXB	Brambles	12,139	12,139	156,346
CAR	Carsales.com	3,177	4,191	56,704
CBA	Commonwealth Bank of Australia	7,900	7,900	653,962
COH*	Cochlear	137	147	30,111
COL*	Coles Group	0	7,293	97,245
CPU	Computershare	4,660	4,660	75,539
CSL	CSL	1,943	2,048	440,280
CWY	Cleanaway Waste Management	7,736	11,276	26,273
DJW	Djerriwarrh Investments	7,505	7,505	25,893
DLX	DuluxGroup	3,029	3,029	28,229
DUI	Diversified United Investment	12,030	12,030	52,452
EQT	EQT Holdings	1,303	1,322	39,120
EVT	Event Hospitality and Entertainment	1,030	1,030	12,878
FLT	Flight Centre Travel Group	193	193	8,038
FNP	Freedom Foods Group	6,011	5,162	26,223
FPH	Fisher & Paykel Healthcare Corporation	4,400	3,800	56,354
FRE	Freightways	0	1,020	8,242
GMG	Goodman Group	1,000	2,800	42,084
IAG*	Insurance Australia Group	4,976	5,457	44,950
ILU	Iluka Resources	2,367	1,667	17,954
IRE	IRESS	4,024	5,000	69,650
IVC	InvoCare	1,325	1,325	21,187
JHX	James Hardie Industries.	4,050	6,065	113,416
LIC	Lifestyle Communities	5,470	5,228	34,662

Holdings of Securities continued

At 30 June 2019

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2018 '000	Number Held 2019 '000	Market Value 2019 $'000
LNK	Link Administration Holdings	3,200	3,200	16,000
MFT	Mainfreight	2,990	3,209	124,985
MIR	Mirrabooka Investments	8,728	8,728	21,209
MLT	Milton Corporation	10,841	10,841	51,063
MPL	Medibank Private	2,000	2,000	6,980
MQG	Macquarie Group	1,680	1,963	246,118
NAB*	National Australia Bank	9,342	12,885	341,023
NXT	NEXTDC	4,180	4,325	28,069
ORA	Orora	11,670	6,165	19,975
ORG	Origin Energy	6,500	6,500	47,515
ORI	Orica	2,712	1,970	39,932
OSH*	Oil Search	16,483	18,033	127,309
PPT	Perpetual	1,061	621	26,232
QUB	Qube Holdings	34,962	34,962	106,284
REA	REA Group	384	384	36,876
REH	Reece Australia	3,621	5,950	58,072
RHC	Ramsay Health Care	1,415	1,585	114,500
RIO	Rio Tinto	3,457	1,946	201,867
RMD	ResMed	3,935	3,935	67,564
RWC	Reliance Worldwide Corporation	8,600	16,902	59,495
S32*	South32	15,241	16,741	53,196
SCG	Scentre Group	15,650	14,450	55,488
SEK	Seek	3,595	4,270	90,345
SHL	Sonic Healthcare	3,342	3,704	100,384
SUN*	Suncorp Group	4,390	4,840	65,135
SYD	Sydney Airport	15,000	17,924	144,111
TCL	Transurban Group	19,822	22,599	333,116
TLS	Telstra Corporation	44,000	40,175	154,674
TPM	TPG Telecom	6,500	3,000	19,320
TWE	Treasury Wine Estates	5,459	5,450	81,314
WBC	Westpac Banking Corporation	15,545	15,545	440,856
WES	Wesfarmers	6,723	6,723	243,086
WOW	Woolworths	5,732	5,667	188,305
WPL*	Woodside Petroleum	3,648	4,360	157,792
XRO	Xero	741	741	44,386
Total				7,565,607

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

Issues of Securities

Date of Issue	Type	Price	Remarks
25 February 2019	DRP/DSSP	$5.93	2.5 per cent discount
31 August 2018	DRP/DSSP	$6.18	
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 2015	DRP/DSSP*	$6.03	2.5 per cent discount
20 February 2015	DRP/DSSP*	$5.97	2.5 per cent discount
6 October 2014	SPP	$5.88	2.5 per cent discount
29 August 2014	DRP/DSSP*	$5.93	2.5 per cent discount
21 February 2014	DRP/DSSP*	$5.86	2.5 per cent discount
30 August 2013	DRP/DSSP*	$5.64	2.5 per cent discount DSSP: Dividend Substitution Share Plan
22 February 2013	DRP	$5.37	
31 August 2012	DRP	$4.36	
24 February 2012	DRP	$4.26	
19 December 2011	Convertible notes	$100 face value	Mature 28 February 2017. Interest rate 6.25 per cent per annum. Conversion price: $5.0864
31 August 2011	DRP	$4.18	
25 February 2011	DRP	$4.72	2.5 per cent discount
1 September 2010	DRP	$4.65	2.5 per cent discount
2 June 2010	SPP	$4.62	2.5 per cent discount SPP=Share Purchase Plan
26 February 2010	DRP	$4.82	5 per cent discount
1 September 2009	DRP	$4.69	5 per cent discount
2 March 2009	DRP	$3.72	5 per cent discount
25 August 2008	DRP	$4.98	
11 April 2008	SAP	$5.26	
27 February 2008	DRP	$5.26	5 per cent discount
22 August 2007	DRP	$5.78	
8 March 2007	DRP	$5.60	
22 December 2006	SAP	$4.90	
23 August 2006	DRP	$4.70	
7 March 2006	DRP	$4.55	
4 November 2005	SAP	$3.96	
23 August 2005	DRP	$3.90	
18 March 2005	DRP	$3.68	
19 August 2004	DRP	$3.29	
12 March 2004	DRP	$3.29	
22 October 2003	1 for 8 rights issue	$3.00	
15 August 2003	DRP	$3.47	
16 April 2003	SAP	$3.04	
7 March 2003	DRP	$3.11	
14 August 2002	DRP	$3.11	
5 April 2002	SAP	$3.16	
7 March 2002	DRP	$3.24	
15 August 2001	DRP	$3.08	
29 June 2001	DRP	$2.87	
7 March 2001	DRP	$2.56	
16 August 2000	DRP	$2.47	
7 March 2000	DRP	$2.64	
11 August 1999	DRP	$2.95	
12 April 1999	SAP	$2.54	SAP = Share Acquisition Plan
15 March 1998	DRP	$2.79	
4 September 1998	DRP	$2.43	DRP = Dividend Reinvestment Plan

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

* 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
John Paterson, Chairman
Robert M Freeman, Managing Director
Ross E Barker
Rebecca P Dee-Bradbury
Graeme R Liebelt
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
New Zealand
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, 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

Annual General Meeting

Time	10.00am
Date	Tuesday 8 October 2019
Venue	ZINC Function Centre
Location	Corner of Swanston Street and Flinders Street Melbourne

Adelaide Shareholder Meeting

Time	10.00am
Date	Monday 14 October 2019
Venue	Adelaide Convention Centre
Location	Panorama Rooms North Terrace Adelaide

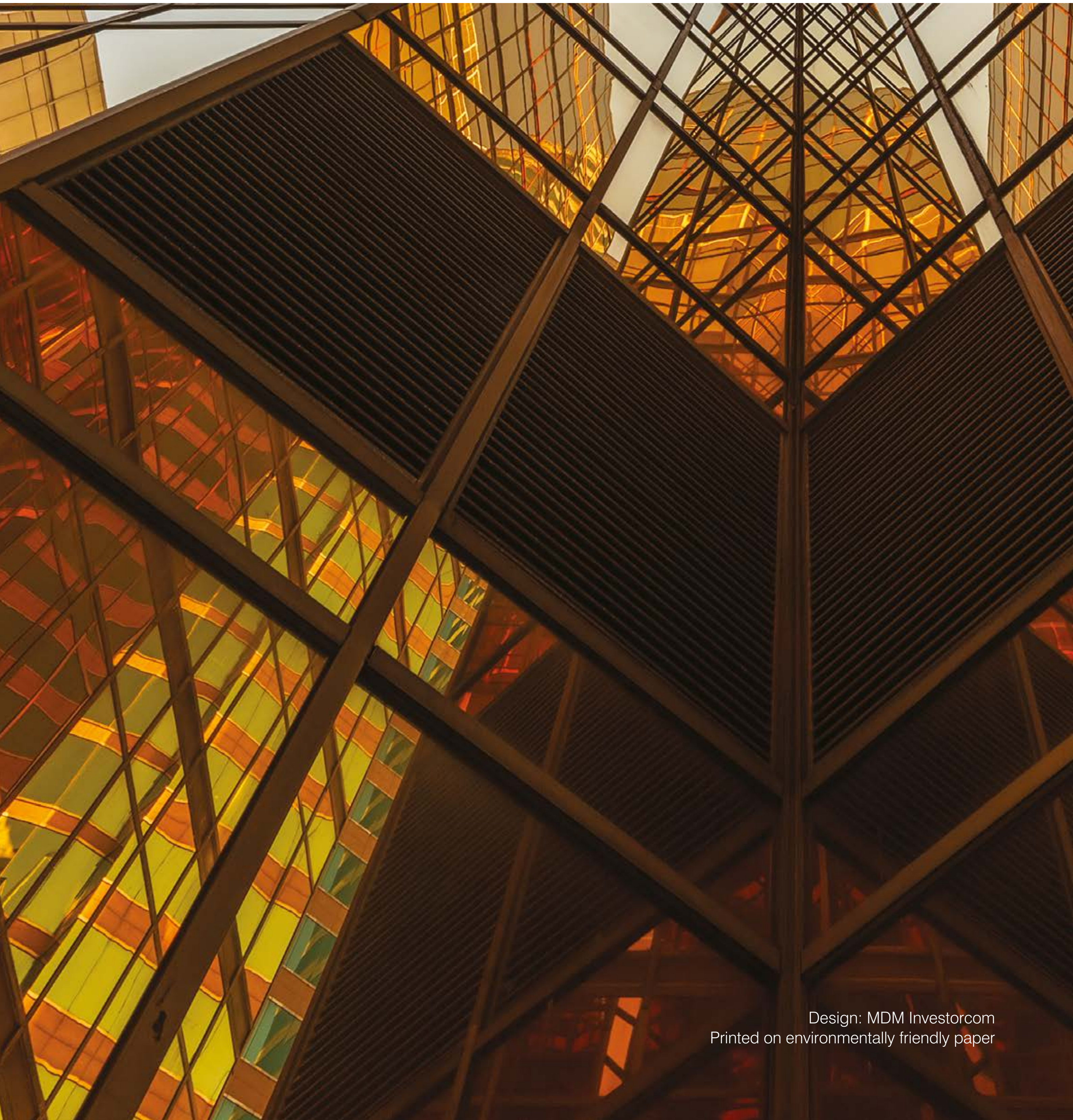
Sydney Shareholder Meeting

Time	10.00am
Date	Friday 18 October 2019
Venue	Wesley Conference Centre
Location	220 Pitt Street Sydney

Brisbane Shareholder Meeting

Time	10.00am
Date	Monday 28 October 2019
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY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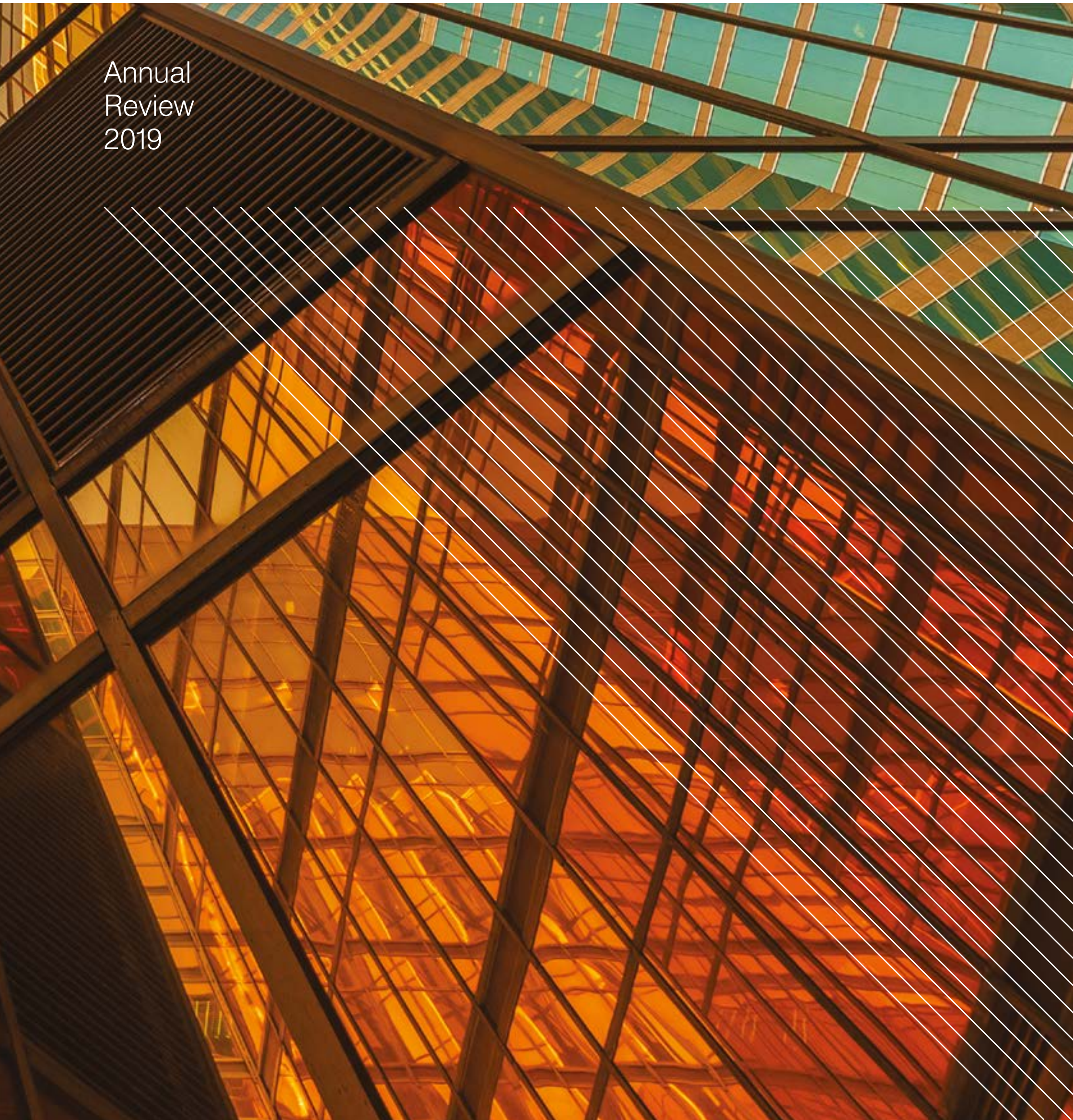
AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

Annual Review 2019



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20 Holdings of Securities

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24 Company Particulars

25 Shareholder Meetings

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

Year in Summary

Profit for the Year

$406.4m

Up 45.6% from 2018

Total Shareholder Return

9.2% Including franking*

Share price plus dividend

Fully Franked Dividend

14¢ Final

32¢ Total

24 cents total in 2018

Management Expense Ratio

0.13%

0.14% in 2018

Total Portfolio Return

11.4% Including franking*

S&P/ASX 200 Accumulation Index including franking* 13.4%

Total Portfolio

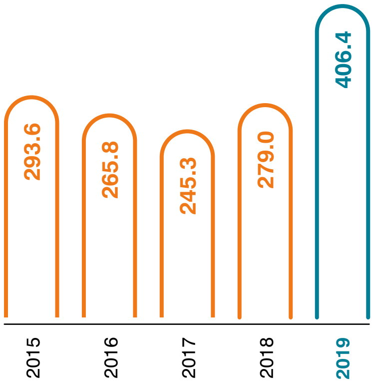
$7.8b

Including cash at 30 June
$7.4 billion in 2018

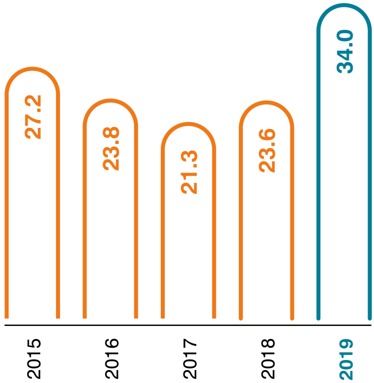
* Assumes a shareholder can take full advantage of the franking credits.

5 Year Summary

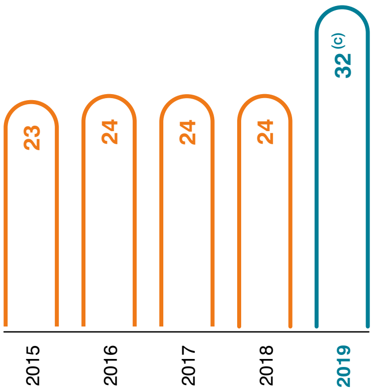
Net Profit After Tax ($ Million)



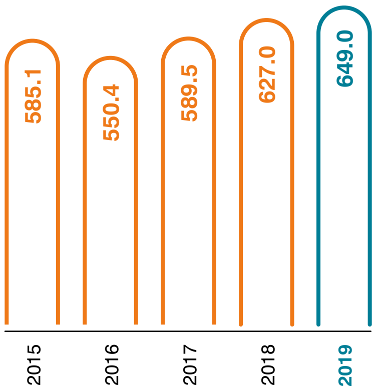
Net Profit Per Share (Cents)



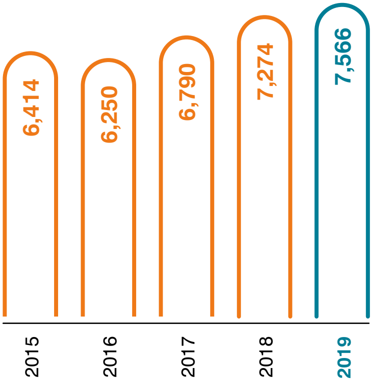
Dividends Per Share (Cents)[b]



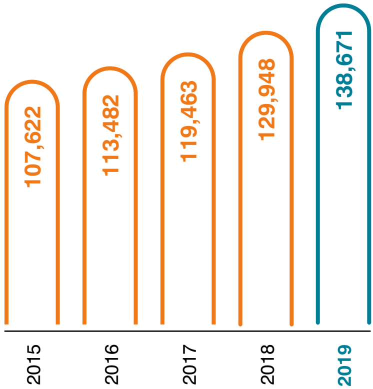
Net Asset Backing Per Share (Cents)[d]



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: 2019: 7.14 cents, 2018: 2.86 cents, 2017: nil, 2016: 2.1 cents, 2015: 7.1 cents.

(c) Includes 8 cents fully franked special dividend paid with the interim dividend.

(d) 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

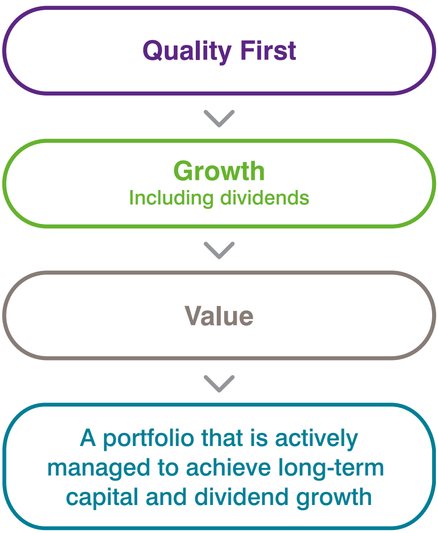
The investment philosophy is built on taking a medium to long-term view on companies in a diversified portfolio with an emphasis on identifying quality companies that are likely to sustainably grow their earnings and dividends over this time frame.

Quality in this context is an outcome of our assessment of the board and management as well as some key financial metrics. These include, 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 2019 this was 0.13 per cent, or 13 cents for each $100 invested.

Review of Operations and Activities

Profit and Dividend

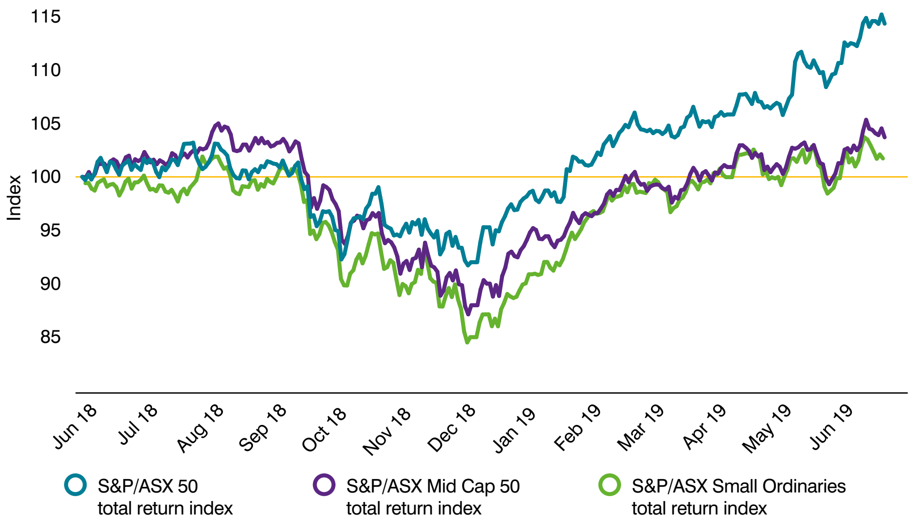
Full year profit was $406.4 million, up 45.6 per cent from $279.0 million in the corresponding period last year. A number of one-off factors increased investment income by 43.2 per cent to $433.0 million. This included participation in the Rio Tinto and BHP off-market share buy-backs, receipt of special dividends and the recognition of a dividend resulting from the Coles demerger from Wesfarmers.

The trading portfolio recorded a loss of $4.7 million compared with a gain of $0.3 million in the corresponding period last year. This was primarily due to call option positions. A significant number of in-the-money call option positions were bought back and moved into the current financial year at higher exercise prices to capture more of the potential capital upside of the underlying holdings. This will move some income from option activity into the current financial year.

Earnings per share were 34.0 cents, up from 23.6 cents. The final dividend was maintained at 14 cents per share fully franked. A special dividend of 8 cents per share fully franked was paid along with the interim dividend of 10 cents per share fully franked in February 2019. Total fully franked dividends applicable for the year, including the special, are 32 cents per share compared with 24 cents per share last year.

Five 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

Figure 1: Performance of Different Sectors of the Market by Company Size



gain on this portion of the dividend, known as an 'LIC capital gain', is therefore 7.14 cents. This enables some shareholders to claim a tax deduction in their tax return.

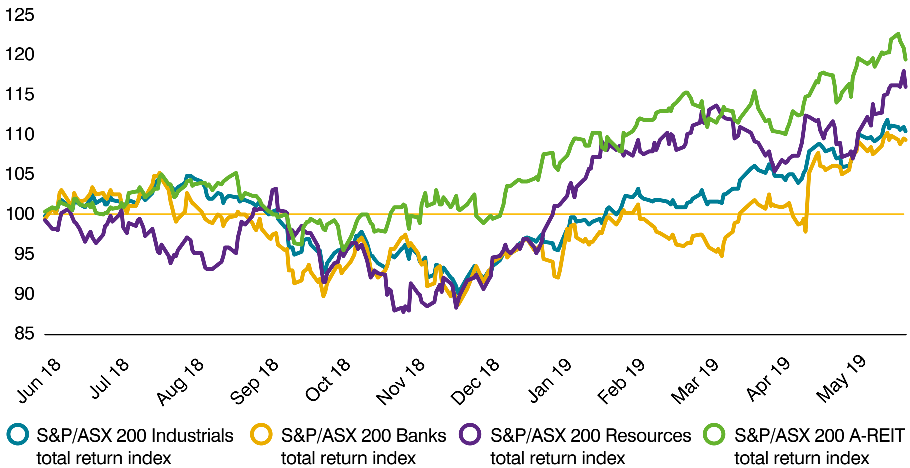
Market and Portfolio Performance

The Australian share market produced another strong year of returns as interest rates continued to decline. Many large companies enjoyed strong support as investors searched for yield from the large resource companies as well as businesses such as the ASX, Commonwealth Bank and Telstra. Real estate trusts and infrastructure companies were also very strong in response to the fall in bond yields. Selected perceived high growth stocks: Afterpay Touch, The a2 Milk Company, Appen and Xero (the only one of these stocks in the AFIC portfolio) continued to rally. These companies have seen a remarkable appreciation in their respective share prices following a strong lift in their already high valuations.

This produced a market which had a very mixed profile for returns, with the Mid-Cap 50 Accumulation Index up 3.7 per cent and the Small Ordinaries Accumulation Index up 1.9 per cent over the year to 30 June 2019. The Fifty Leaders Accumulation Index was up 14.2 per cent over the corresponding period.

Over the year to 30 June 2019, the S&P/ASX 200 Accumulation Index, including the benefit of franking, increased 13.4 per cent.

Figure 2: Performance of Key Sectors of the Market



AFIC's portfolio return over this period, including the benefit of franking, was up 11.4 per cent.

Companies in the portfolio that contributed strongly to relative returns through the 12-month period were BHP, Commonwealth Bank, Transurban, Telstra, Brambles and CSL. In contrast, companies such as CYBG (Clydesdale Bank) and Challenger, both of which were sold during the second half of the financial year, significantly underperformed. In addition, AFIC does not own gold stocks in the portfolio, which have been very strong recently in response to global uncertainties. Participation in the BHP and Rio Tinto off-market buy-backs, which had the advantage of generating significant franking credits for the Company, also provided some headwind to performance as holdings were sold at a 14 per cent discount to the market. The share prices of these companies have continued to appreciate since the buy-backs because of high iron ore prices following supply disruptions out of Brazil.

The long-term performance of the portfolio, which is more aligned with the Company's investment time frames, was 11.5 per cent per annum for the 10 years to 30 June 2019. This is broadly in line with the Index return over the same period of 11.7 per cent. Both figures include the benefit of franking. AFIC's performance numbers are after costs.

Figure 4 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 2019. It also includes the benefits of franking credits for both.

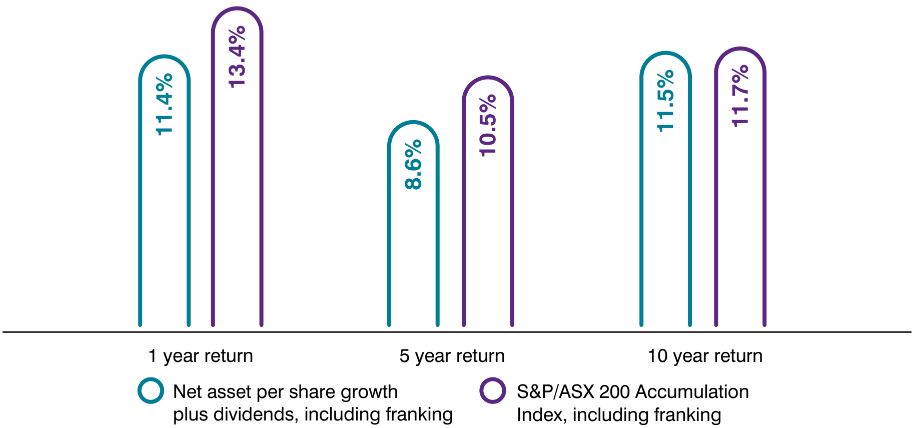
Positioning the Portfolio

With the market reaching close to all-time highs and against the backdrop of an economy vulnerable to slowing trade and subdued consumer sentiment, the focus of adjustments to the portfolio was to ensure quality companies, with strong industry positions, formed the core of the portfolio moving forward. As a result, the number of holdings in the investment portfolio was reduced from 91 to 76 over the year.

The more significant purchases for the year included addition to holdings in National Australia Bank, because of the attractive dividend yield on offer at the time of purchase, Reliance Worldwide, James Hardie Industries, Transurban Group (via participation in its rights issue to fund the WestConnex purchase), Adelaide Brighton and ARB Corporation. There were also additions during periods of share price weakness to our holdings in Macquarie Group and CSL, as both these companies have strong industry positions and quality international franchises.

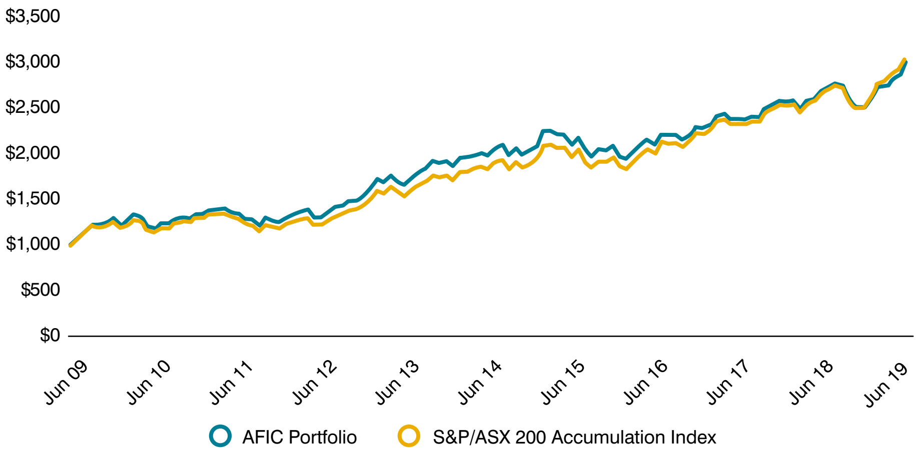
The new holding in Coles Group arose because of its demerger from Wesfarmers. The only new company actively added to the portfolio during the year was a New Zealand listed company, Freightways. Freightways, which has operations in New Zealand and Australia, engages in the provision of express package and business mail services; and information management services. The company was founded in 1964 and is headquartered in Auckland, New Zealand.

Figure 3: Portfolio Performance – Per Annum Returns to 30 June 2019



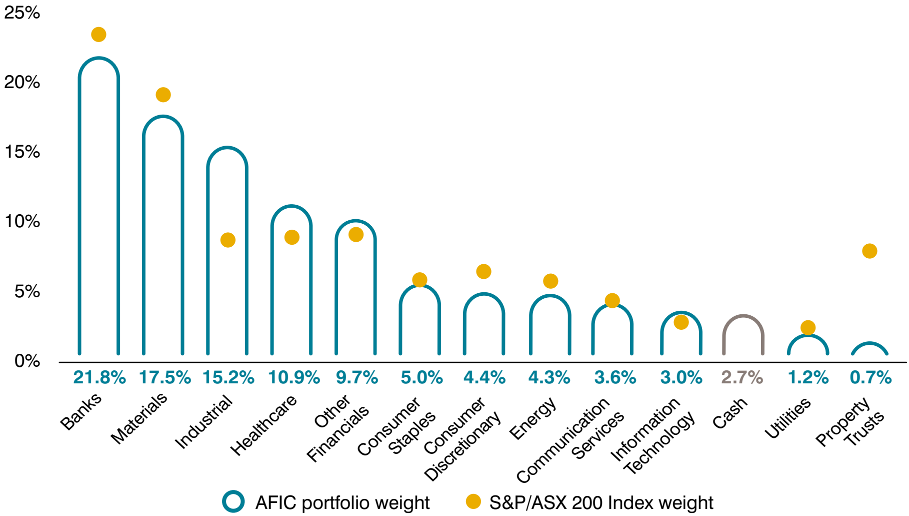
* Assumes an investor can take full advantage of the franking credits. AFIC's portfolio return is also calculated after management fees, income tax and capital gains tax on realised sales of investments. It should be noted that Index returns for the market do not include management expenses or tax.

Figure 4: Growth in Investment of $1,000 (Including Benefit of Franking) – 10 Years to 30 June 2019



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 5: AFIC Investment by Sector Versus the S&P/ASX 200 Index as at 30 June 2019



Major sales arose because of participation in the Rio Tinto off-market share buy-back and the decision to remove some holdings from the portfolio. There was also a reduction in the holding in AGL Energy as the energy industry continues to face further structural adjustment in the future.

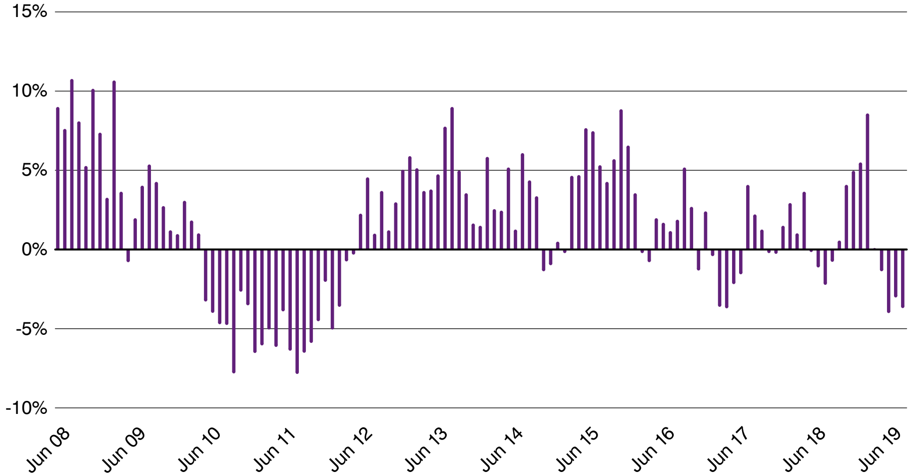
Figure 5 highlights the profile of AFIC's portfolio by the various sectors of the market at the end of the financial year and how it differs from the Index.

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.

Share Price Return

The share price return, including reinvestment of dividends and franking credits, over the 12 months to 30 June 2019 was 9.2 per cent, which is below the portfolio return for the year. This was because the share price was trading at a discount of 3.7 per cent to the net asset backing (before tax on unrealised gains) at the end of June 2019, whereas one year ago, at 30 June 2018 the discount was 1.7 per cent (Figure 6). The current discount is the reason the Dividend Reinvestment Plan does not have a discount in place for the final dividend.

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



Source: FactSet

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.

Outlook

The Australian equity market is facing an interesting dilemma. Very low interest rates are reinforcing the move by many investors to buy equities at a time when the Reserve Bank of Australia is concerned about the outlook for the economy. If the economy does weaken, then this is likely to have implications for the earnings outlook for a number of companies. We believe, against this backdrop, a focus on owning quality companies, with strong industry positions, is essential. AFIC is typically close to fully invested, however we have some cash available to add to selected holdings should there be any short-term disappointments during the upcoming reporting season that produces resulting share price weakness.

Figure 7 on page 12 shows market valuations, as represented by the price earnings ratio of the S&P/ASX 200 Index, is currently trading well above its average in the present low interest rate environment.

Review of Operations and Activities continued

Dividend Imputation

The Company notes that the refundability of franking credits under the dividend imputation system, which was subject to debate over the course of the year, continues without change to the benefit of shareholders.

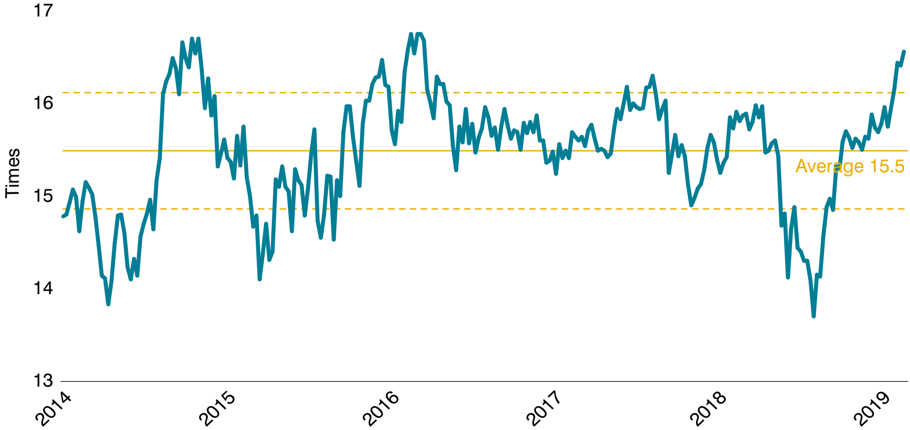
Directorship Matters

As previously advised to shareholders in the Half-Yearly Review, Mr Terry Campbell retired as Chairman of the Company at the conclusion of the 2018 Annual General.

Mr John Paterson was elected as Chairman by the Board with effect from the conclusion of the Annual General Meeting in 2018. Mr Paterson has been a Director of the Company since 2005 and prior to that served as an Alternate Director 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.

The Board wishes to record its sincere appreciation to Mr Campbell for his invaluable contribution to the Board deliberations over the last 34 years. Mr Campbell had been a Director since 1984, Deputy Chairman since October 2008 and Chairman since October 2013. His very broad industry experience at the highest levels of the Australian corporate world has been of outstanding value to the Board, Executives and shareholders of the Company.

Figure 7: Valuation of the Market – Price Earnings Ratio of the S&P ASX 200 Index



Source: FactSet

Investment Income Increased

43.2%

“The return of the market over the year was characterised by a pronounced divergence of performance across sectors and companies.”

Ms Jacqueline Hey retired as a Director on 18 January 2019. Ms Hey had been a Director of the Company since July 2013. She was a member of the Company's Investment Committee and Nomination Committee.

Ms Hey was a valuable contributor to Board and Executive discussions, reflecting her deep knowledge and experience gained in her long career in the telecommunications technology sector and the subsequent exposure she had to a wide range of industries.

The Board will miss her involvement in its deliberations and wishes to record its gratitude to Ms Hey for her valued service to shareholders. We wish her well for the future.

Ms Rebecca Dee-Bradbury was appointed as a Non-Executive Director of the Company, on 6 May 2019. Ms Dee-Bradbury was previously Chief Executive Officer/President of Developed Markets (Asia Pacific and ANZ) for Mondelez from 2010 to 2014. Before joining Mondelez Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other Senior Executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers.

Ms Dee-Bradbury is a Non-Executive Director of BlueScope Steel Limited and Grain Corp Limited), and was previously a Nonexecutive Director of Tower Limited (NZ) until her resignation in 2016.
Ms Dee-Bradbury is also a Director of Energy Australia Holdings following her appointment in April 2017. Ms Dee-Bradbury is an inaugural member of the Business Advisory Board at Monash Business School. She brings to the Board significant experience in strategic brand marketing, business integration and transformation, customer relationship management and innovation.

We are delighted to welcome Rebecca to the Board. Her broad knowledge of business, including the fast-moving consumer goods (FMCG) sector in Australia and internationally, will be of great assistance to the Board.

Australian Resources Index Up

16%

Top 25 Investments

As at 30 June 2019

Includes investments held in both the investment and trading portfolios.

Valued at Closing Prices at 28 June 2019

		Total Value $ Million	% of the Portfolio
1	Commonwealth Bank of Australia	654.0	8.6
2	BHP*	554.8	7.3
3	Westpac Banking Corporation	440.9	5.8
4	CSL	440.3	5.8
5	National Australia Bank*	341.0	4.5
6	Transurban Group	333.1	4.4
7	Australia and New Zealand Banking Group*	258.7	3.4
8	Macquarie Group	246.1	3.3
9	Wesfarmers	243.1	3.2
10	Amcor	202.8	2.7
11	Rio Tinto	201.9	2.7
12	Woolworths Group	188.3	2.5
13	Woodside Petroleum*	157.8	2.1
14	Brambles	156.3	2.1
15	Telstra Corporation	154.7	2.0
16	Sydney Airport	144.1	1.9
17	Oil Search*	127.3	1.7
18	Mainfreight	125.0	1.7
19	Ramsay Health Care	114.5	1.5
20	James Hardie Industries	113.4	1.5
21	Qube Holdings	106.3	1.4
22	Sonic Healthcare	100.4	1.3
23	Coles Group*	97.2	1.3
24	Seek	90.3	1.2
25	Treasury Wine Estates	81.3	1.1
Total		5,673.7	

As a percentage of total portfolio value (excludes cash)	75.0%

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

Income Statement

For the Year Ended 30 June 2019

	2019 $'000	2018 $'000
Dividends and distributions	433,009	302,389
Revenue from deposits and bank bills	3,615	1,409
Other revenue	-	22
Net gains/(losses) on trading portfolio (including unrealised gains or losses)	(4,686)	264
Total income	**431,938**	304,084
Finance costs	(826)	(848)
Administration expenses (net of recoveries)	(9,583)	(9,852)
Profit before income tax	**421,529**	293,384
Income tax	(15,156)	(14,377)
Net profit	**406,373**	279,007

	Cents	Cents
Net profit per share	34.00	23.57

Balance Sheet

As at 30 June 2019

	2019 $'000	2018 $'000
Current assets		
Cash	206,429	99,183
Receivables	40,128	77,234
Total current assets	**246,557**	**176,417**
Non-current assets		
Investment portfolio	7,572,640	7,280,706
Deferred tax assets	-	1,257
Total non-current assets	**7,572,640**	**7,281,963**
Total assets	**7,819,197**	**7,458,380**
Current liabilities		
Payables	932	712
Tax payable	17,052	8,245
Borrowings – bank debt	-	100
Trading portfolio	7,033	6,757
Provisions	4,114	4,385
Total current liabilities	**29,131**	**20,199**
Non-current liabilities		
Provisions	1,471	1,394
Deferred tax liabilities	100	-
Deferred tax liabilities – investment portfolio	1,163,749	1,097,527
Total non-current liabilities	**1,165,320**	**1,098,921**
Total liabilities	**1,194,451**	**1,119,120**
Net assets	**6,624,746**	**6,339,260**
Shareholders' equity		
Share capital	2,888,186	2,811,771
Revaluation reserve	2,561,314	2,422,568
Realised capital gains reserve	462,257	448,892
General reserve	23,637	23,637
Retained profits	689,352	632,392
Total shareholders' equity (including minority interests)	**6,624,746**	**6,339,260**

Summarised Statement of Changes in Equity

For the Year Ended 30 June 2019

	2019 $'000	2018 $'000
Total equity at the beginning of the year	**6,339,260**	5,965,503
Dividends paid	(372,670)	(278,054)
Shares issued – Dividend Reinvestment Plan	76,556	55,601
Other Share Capital Adjustments	(141)	(136)
Total transactions with shareholders	**(296,255)**	(222,589)
Profit for the year	406,373	279,007
Revaluation of investment portfolio	261,984	454,180
Provision for tax on revaluation	(86,616)	(136,841)
Revaluation of investment portfolio (after tax)	175,368	317,339
Total comprehensive income for the year	**581,741**	596,346
Realised gains/(losses) on securities sold	57,016	24,385
Tax expense on realised gains on securities sold	(20,394)	(6,405)
Net realised gains/(losses) on securities sold	36,622	17,980
Transfer from revaluation reserve to realised gains reserve	(36,622)	(17,980)
Total equity at the end of the year	**6,624,746**	6,339,260

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

Holdings of Securities

At 30 June 2019

Individual investments for the combined investment and trading portfolios as at 30 June 2019 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Net asset backing is advised to the Australian Securities Exchange each month and is recorded on the toll free telephone service at 1800 780 784 and posted to AFIC's website afi.com.au.

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

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2018 '000	**Number Held 2019 '000**	**Market Value 2019 $'000**
ABC	Adelaide Brighton	1,720	7,262	29,338
AGL	AGL Energy	4,305	1,370	27,414
AIA	Auckland International Airport	1,770	1,770	16,496
ALQ	ALS	8,500	7,542	55,359
AMC	Amcor	12,527	12,527	202,816
AMP	AMP	12,910	9,645	20,447
ANN	Ansell	1,284	1,284	34,472
ANZ*	Australia and New Zealand Banking Group	8,488	9,188	258,746
APA*	APA Group	4,040	6,540	70,031
APE	AP Eagers	1,404	1,157	11,335
ARB	ARB Corporation	1,198	3,081	56,069
ASX	ASX	709	709	58,374
AUB	AUB Group	729	2,026	21,150
AWC*	Alumina	15,048	20,923	47,650
BHP*	BHP	14,091	13,482	554,828
BKW	Brickworks	1,503	1,854	30,195
BLD	Boral	9,660	4,008	20,523
BXB	Brambles	12,139	12,139	156,346
CAR	Carsales.com	3,177	4,191	56,704
CBA	Commonwealth Bank of Australia	7,900	7,900	653,962
COH*	Cochlear	137	147	30,111
COL*	Coles Group	0	7,293	97,245
CPU	Computershare	4,660	4,660	75,539

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2018 '000	**Number Held 2019 '000**	**Market Value 2019 $'000**
CSL	CSL	1,943	2,048	440,280
CWY	Cleanaway Waste Management	7,736	11,276	26,273
DJW	Djerriwarrh Investments	7,505	7,505	25,893
DLX	DuluxGroup	3,029	3,029	28,229
DUI	Diversified United Investment	12,030	12,030	52,452
EQT	EQT Holdings	1,303	1,322	39,120
EVT	Event Hospitality and Entertainment	1,030	1,030	12,878
FLT	Flight Centre Travel Group	193	193	8,038
FNP	Freedom Foods Group	6,011	5,162	26,223
FPH	Fisher & Paykel Healthcare Corporation	4,400	3,800	56,354
FRE	Freightways	0	1,020	8,242
GMG	Goodman Group	1,000	2,800	42,084
IAG*	Insurance Australia Group	4,976	5,457	44,950
ILU	Iluka Resources	2,367	1,667	17,954
IRE	IRESS	4,024	5,000	69,650
IVC	InvoCare	1,325	1,325	21,187
JHX	James Hardie Industries	4,050	6,065	113,416
LIC	Lifestyle Communities	5,470	5,228	34,662
LNK	Link Administration Holdings	3,200	3,200	16,000
MFT	Mainfreight	2,990	3,209	124,985
MIR	Mirrabooka Investments	8,728	8,728	21,209
MLT	Milton Corporation	10,841	10,841	51,063
MPL	Medibank Private	2,000	2,000	6,980
MQG	Macquarie Group	1,680	1,963	246,118
NAB*	National Australia Bank	9,342	12,885	341,023
NXT	NEXTDC	4,180	4,325	28,069
ORA	Orora Limited	11,670	6,165	19,975
ORG	Origin Energy	6,500	6,500	47,515
ORI	Orica	2,712	1,970	39,932
OSH*	Oil Search	16,483	18,033	127,309
PPT	Perpetual	1,061	621	26,232
QUB	Qube Holdings	34,962	34,962	106,284

Holdings of Securities continued

At 30 June 2019

Code	Ordinary Shares, Trust Units or Stapled Securities	Number Held 2018 '000	Number Held 2019 '000	Market Value 2019 $'000
REA	REA Group	384	384	36,876
REH	Reece Australia	3,621	5,950	58,072
RHC	Ramsay Health Care	1,415	1,585	114,500
RIO	Rio Tinto	3,457	1,946	201,867
RMD	ResMed	3,935	3,935	67,564
RWC	Reliance Worldwide Corporation	8,600	16,902	59,495
S32*	South32	15,241	16,741	53,196
SCG	Scentre Group	15,650	14,450	55,488
SEK	Seek	3,595	4,270	90,345
SHL	Sonic Healthcare	3,342	3,704	100,384
SUN*	Suncorp Group	4,390	4,840	65,135
SYD	Sydney Airport	15,000	17,924	144,111
TCL	Transurban Group	19,822	22,599	333,116
TLS	Telstra Corporation	44,000	40,175	154,674
TPM	TPG Telecom	6,500	3,000	19,320
TWE	Treasury Wine Estates	5,459	5,450	81,314
WBC	Westpac Banking Corporation	15,545	15,545	440,856
WES	Wesfarmers	6,723	6,723	243,086
WOW	Woolworths	5,732	5,667	188,305
WPL*	Woodside Petroleum	3,648	4,360	157,792
XRO	Xero	741	741	44,386
Total				**7,565,607**

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

Major Transactions in the Investment Portfolio

Acquisitions	Cost ($'000)
National Australia Bank*	88,952
Coles Group (including demerger from Wesfarmers)	81,215
Reliance Worldwide	38,706
James Hardie Industries	37,665
Transurban Group (10 for 57 share issue at $10.80 per share)	37,557
Adelaide Brighton	35,208
Qantas Airways*(subsequently sold)	34,841
Macquarie Group	34,522
ARB Corporation	33,204
CSL	31,077

* Subject to call options during the period.

Disposals	Proceeds ($'000)
Rio Tinto (participation in off-market share buy-back)	105,737
AGL Energy	62,442
Challenger#	49,856
Qantas Airways#	47,197
Washington H. Soul Pattinson#	47,092
CYBG (Clydesdale Bank)#	43,676
QBE Insurance Group#	42,603

Complete disposal from the portfolio.

Company Particulars

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

Directors
John Paterson, Chairman
Robert M Freeman, Managing Director
Ross E Barker
Rebecca Dee-Bradbury
Graeme R Liebelt
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

Annual General Meeting

Time	10.00am
Date	Tuesday 8 October 2019
Venue	ZINC Federation Square
Location	Corner of Swanston Street and Flinders Street Melbourne

Adelaide Shareholder Meeting

Time	10.00am
Date	Monday 14 October 2019
Venue	Adelaide Convention Centre
Location	Panorama Rooms, North Terrace Adelaide

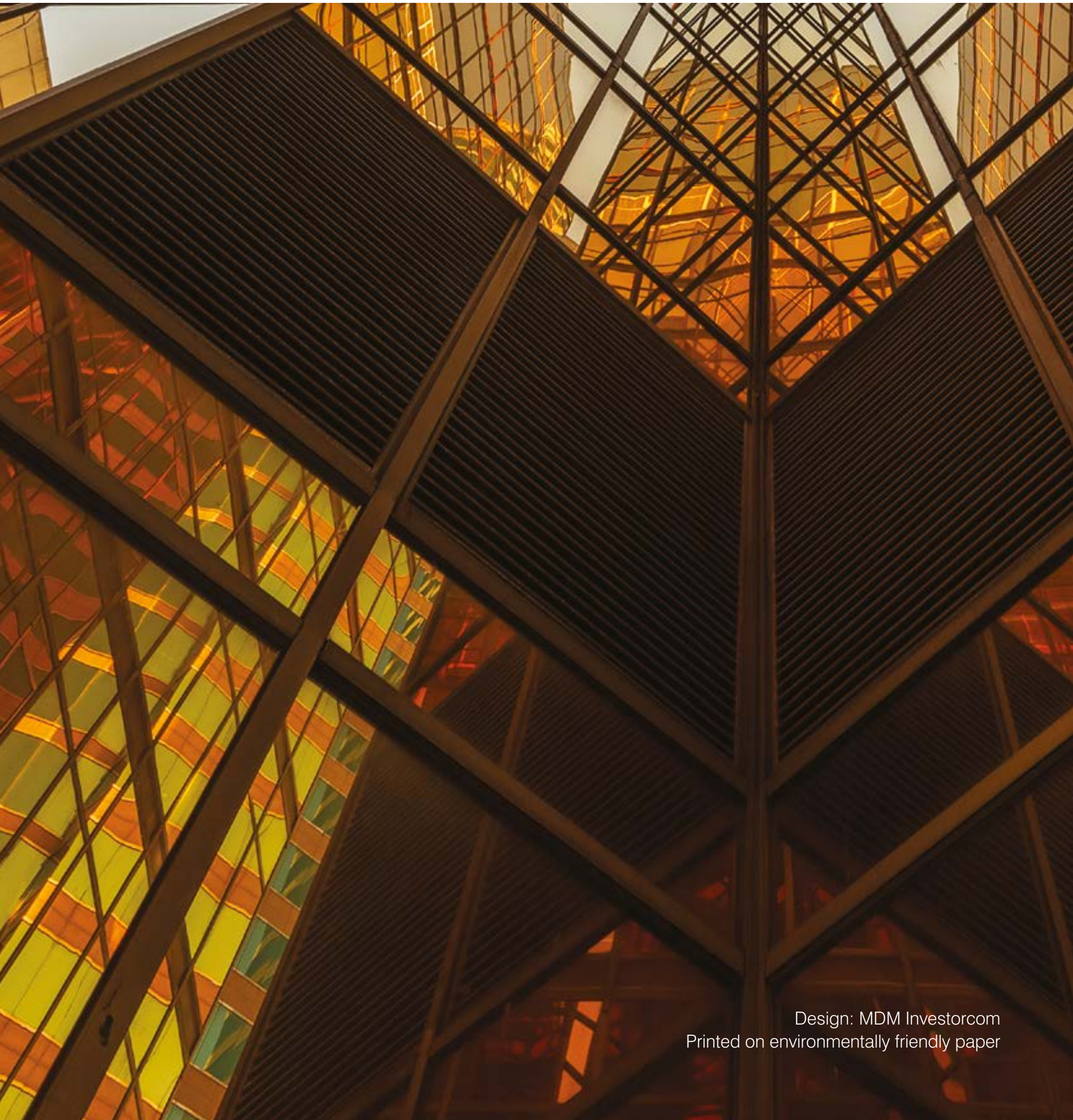
Sydney Shareholder Meeting

Time	10.00am
Date	Friday 18 October 2019
Venue	Wesley Conference Centre
Location	220 Pitt Street Sydney

Brisbane Shareholder Meeting

Time	10.00am
Date	Monday 28 October 2019
Venue	Hilton Hotel
Location	190 Elizabeth Street Brisbane

The Annual Report for 2019 is available on AFIC's website afi.com.au or by contacting the Company on (03) 9650 9911.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AUSTRALIAN FOUNDATION INVESTMENT COMPANY

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Investment Company Limited
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invest@afi.com.au
afi.com.au

SAMPLE ADDRESS
SAMPLE ADDRESS
TOWN/CITY
STATE, POSTCODE

Dear Shareholder

2019 Annual General Meeting

The Notice of AGM and Proxy Form are enclosed for your consideration.

Shareholders are encouraged to vote. The Company encourages all shareholders who submit proxies to direct their proxy how to vote on each item of business by clearly marking the relevant box in respect of each item on the proxy form. The business of the meeting will be conducted by a poll.

An external nominee, Mr Stephen Mayne, has submitted himself for election as a Director of the Company. Your directors met with him and unanimously consider that it is not in the best interests of the Company and its shareholders that Mr Mayne be elected as a Director and recommend that shareholders vote against his election.

We look forward to welcoming shareholders to the AGM on 8 October 2019. We have also included a Question Form and we invite shareholders to send us any questions about the Company in advance.

Yours sincerely

John Paterson
Chairman

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AUSTRALIAN
FOUNDATION
INVESTMENT
COMPANY

Notice of Annual General Meeting 2019

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 Flinders Street and Swanston Street, Melbourne, Victoria 3000 at 10.00am (AEDT) on Tuesday 8 October 2019.

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 6 October 2019.

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 2019.

(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 2019 be adopted."

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

3. Non-Executive Directors' Fee Cap

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

"That the maximum aggregate remuneration which may be paid to the non-executive Directors of the Company for their services for each financial year, commencing on 1 July 2019 be increased from $1,000,000 which was approved by shareholders in 2007 to $1,250,000 per annum for the purposes of Rule 47 of the Company's Constitution and ASX Listing Rule 10.17."

4. and 5. Election and Re-Election of Board-Endorsed Directors

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

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

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

6. Election of External Non-Board Endorsed Director Candidate

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

"That Stephen Mayne, an external candidate nominating himself as a Director in accordance with Rule 45 of the Constitution, being eligible is elected as a Director of the Company."

By Order of the Board

Matthew Rowe
Company Secretary
28 August 2019

EXPLANATORY NOTES

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 6 October 2019.

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 2019. 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 2019 Annual Report can view or download it from the Company's website at:

afi.com.au/our-company#Companyreports

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 2019 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 may 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 Annual General 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 Annual General 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.

3. Non-Executive Directors' Fee Cap

Board recommendation and undirected proxies: Given the interest in this matter of each non-executive director, the Board as a whole makes no recommendation on Item 3. The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of Item 3**.

It is proposed that the maximum aggregate non-executive Directors' fees be increased by $250,000 from the present level of $1,000,000 to $1,250,000 per annum. Non-executive Directors' fees exclude those fees paid to the Managing Director. The maximum aggregate level of Directors' fees were last increased in 2007.

Voting Exclusions on Item 3

Pursuant to ASX Listing Rule 14.11, the Company will disregard any votes cast in favour of Item 3 by all the Directors and any of their associates. However, the Company need not disregard a vote if:

- if it is cast by a person as proxy for a person entitled to vote in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

In addition, pursuant to section 250BD(1) of the *Corporations Act 2001*, a person appointed as a proxy must not vote, on the basis of that appointment, on Item 3, if the person is a member of the Company's key management personnel, or is a closely related party of such a member, and the proxy appointment does not specify the way the proxy is to vote on Item 3. This exclusion does not apply if the person appointed as proxy is the Chairman of the meeting and the appointment expressly authorises them to exercise the proxy on Item 3.

4. and 5. Election and Re-election of Board Endorsed 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 4 and 5**. The Chairman of the meeting intends to vote undirected proxies **in FAVOUR of Items 4 and 5**.

Rebecca Dee-Bradbury was appointed to the Board on 6 May 2019 and so is required to seek election by shareholders at this AGM. Peter Williams was re-elected as a Director by shareholders at the 2016 AGM. As such he is required to seek re-election by shareholders at this AGM. Their biographical details are set out below:

Rebecca Dee-Bradbury
BBus, GAICD.
Independent Non-Executive Director

Ms Dee-Bradbury was previously Chief Executive Officer/President of Developed Markets (Asia Pacific and ANZ) for Mondelez from 2010 to 2014. Before joining Mondelez Ms Dee-Bradbury was Group CEO of the global Barbeques Galore group, and has held other senior executive roles in organisations including Maxxium, Burger King Corporation and Lion Nathan/Pepsi Cola Bottlers. Ms Dee-Bradbury is a Non-Executive Director of BlueScope Steel Limited (appointed April 2014) and Grain Corp Limited (appointed September 2014), and was previously a Non-Executive Director of Tower Limited (NZ) until her resignation in 2016. Ms Dee-Bradbury is also a Director of EnergyAustralia Holdings Ltd following her appointment in April 2017. Ms Dee-Bradbury is an inaugural member of the Business Advisory Board at Monash Business School and a member of Chief Executive Women and of the WomanCorporateDirectors Foundation, and a former member of the Federal Government's Asian Century Strategic Advisory Board.

Peter J Williams
Dip.All, MAICD, FAIM.
Independent Non-Executive Director.

Chairman of the Audit Committee. Member of the Investment Committee and Nomination Committee.

Chairman of the Company's subsidiary, Australian Investment Company Services Limited (AICS).

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

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

6. Election of External Non-Board Endorsed Director Candidate

Board recommendation and undirected proxies: The Board recommends that shareholders **vote AGAINST Item 6**. The Chairman of the meeting intends to vote undirected proxies **AGAINST Item 6**.

The following statement has been provided by Mr Mayne with his nomination. **These details have not been verified or substantiated by the Company and any comments made by Mr Mayne are not endorsed by the Company**. The Board unanimously believes that it is not in the best interests of the Company and its shareholders that Mr Mayne be elected as a Director.

Biographical details provided by Mr Mayne:

Stephen Mayne
50, BCom (Melb), GAICD.

Stephen is a Walkley Award winning business journalist, shareholder advocate and former local government councillor, who served 4 years at City of Melbourne where he chaired the Finance and Governance committee. He has served two stints on the Australian Shareholders' Association board and also held the position of ASA Policy and Engagement coordinator in 2012–14, which involved being a public spokesman on behalf of retail investors.

Stephen is Australia's best known shareholder advocate having asked questions at more than 500 AGMs and commented on thousands of occasions in media and public forums about the financial and governance arrangements of ASX listed companies owned by AFIC.

He has questioned, interviewed or met with hundreds of public company chairs, directors and senior executives over the past 30 years. Stephen owns the world's biggest small share portfolio (almost 500 stocks worth less than $25,000) which gives him unique investor insights and has enabled him to participate in almost 300 capital raisings over the past decade, acquiring knowledge which would add value to the AFIC board.

Stephen worked for The Alliance for Gambling Reform for two years until July 2019, an experience which aligns with AFIC's commendable policy to avoid investing in gambling stocks. He is currently freelance writing for Crikey, a business he founded in 2000, Alan Kohler's Eureka Report under the investSMART brand and also publishes his own website, MayneReport.

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 6 October 2019**. 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;
     - 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.

Questions from Shareholders

Shareholders who are unable to attend the meeting or who prefer to register questions in advance are invited to use the question form included with their proxy form or via email agm@mirra.com.au. The deadline for receipt of questions to be considered at the AGM is 26 September 2019. During the course of the meeting, the Chairman will endeavour to address the themes most frequently raised in the submitted question forms. Please note that individual responses will not be sent to shareholders.

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)

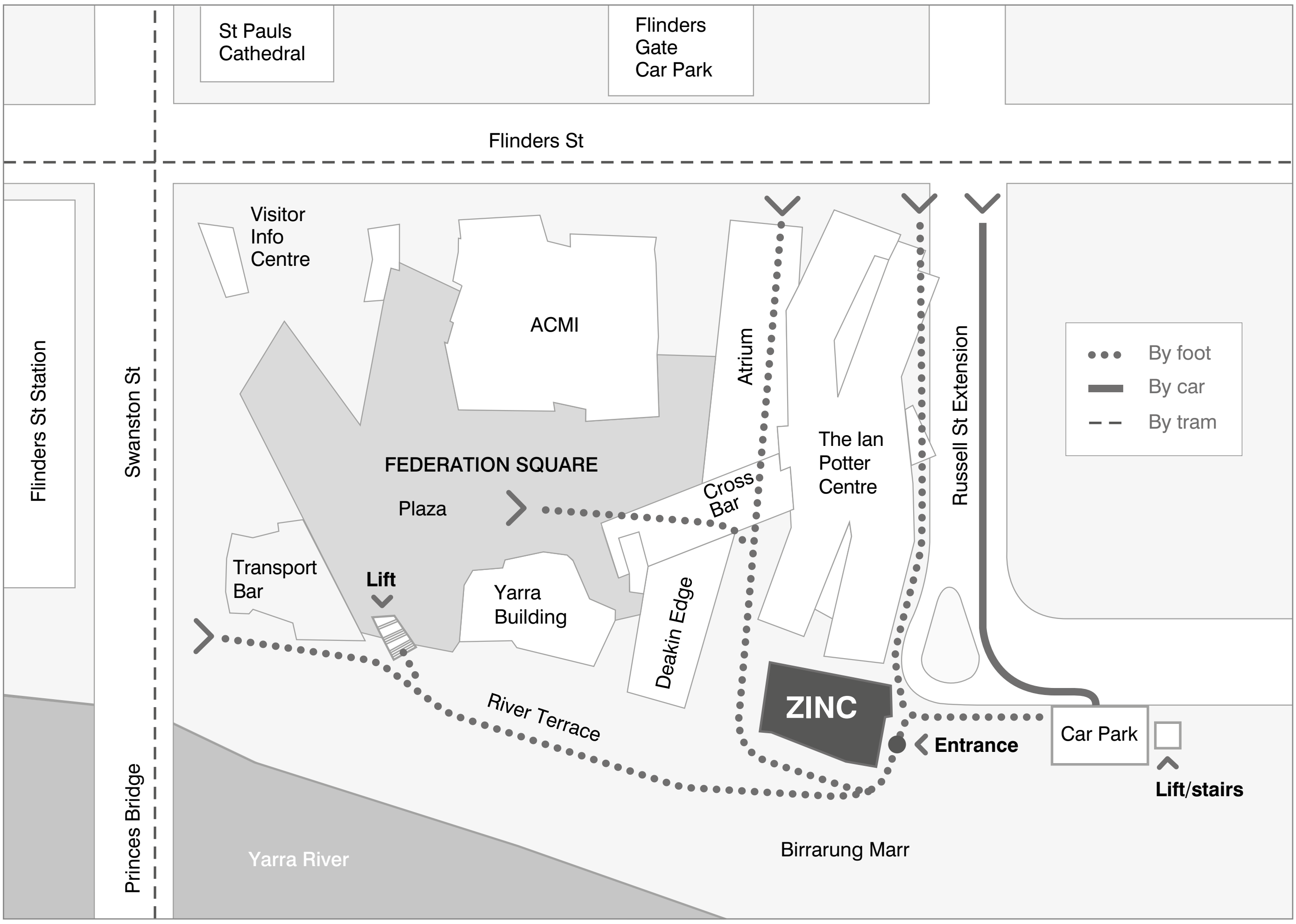
Facsimile
1800 783 447 (within Australia)
+61 3 9473 2555 (outside Australia)

Internet
investorcentre.com/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 Flinders Street and Swanston Street, Melbourne, Victoria 3000 at 10.00am (AEDT) on Tuesday 8 October 2019.



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

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Appoint your proxy and view the Annual Report online

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

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

Control Number: 999999

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential. Please dispose of this form carefully if you appoint your proxy online.

For your proxy form to be effective it must be received by 10.00am (AEDT) on Sunday 6 October 2019

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 6 October 2019, 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 X 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 at Federation Square, Corner of Flinders and Swanston Street, Melbourne, Victoria at 10.00am (AEDT) on Tuesday 8 October 2019** 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 items 2 to 5 and against item 6, 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 items 2 and 3 even though items 2 and 3 are connected directly or indirectly with the remuneration of a member of key management personnel of Australian Foundation Investment Company Limited and its consolidated group, which includes the Chairman of the meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority

Board recommendations and undirected proxies: To fully inform shareholders in exercising their right to vote, the Board recommends that shareholders vote in the manner set out beside each item of business.

Board recommendations			For	Against	Abstain
For	Item 2	Adoption of Remuneration Report			
	Item 3	Non -Executive Directors' Fee Cap			
For	Item 4	Election of Director – Ms Rebecca Dee-Bradbury			
For	Item 5	Re-election of Director – Mr Peter Williams			
Against	Item 6	Election of Director – Mr Stephen Mayne			

SIGN Signature of Shareholder(s) *This section must be completed.*

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________ Contact Daytime Telephone ____________ Date __ / __ / __

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Computershare

All correspondence to:
AFI Share Registrar
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001
Australia

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Questions from Shareholders

The Annual General Meeting (AGM) of Australian Foundation Investment Company Limited will be held at ZINC at Federation Square, Corner of Flinders and Swanston Street, Melbourne, Victoria at 10.00am (AEDT) on Tuesday 8 October 2019. Shareholders who are unable to attend the meeting, or who prefer to register questions in advance, are invited to submit any questions they have by completing and returning this form.

Please return your completed question form to our Share Registrar, Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, or by facsimile to 1800 783 447 (outside Australia +61 3 9473 2555) by Tuesday 24 September 2019. The envelope provided for the return of your proxy form may also be used for this purpose.

You may also submit written questions to the auditor if the questions are relevant to the content of the auditor's report or the conduct of the audit of the financial statements to be considered at the AGM.

We will endeavour, during the course of the AGM, to address the themes most frequently raised in the submitted question forms. Please note that individual responses will not be sent to shareholders.

Question(s): **Please mark ☒ if it is a question directed to the auditor**

1 ☐

2 ☐

3 ☐

4 ☐

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