

# AUSTRALIAN FOUNDATION INVESTMENT COMPANY

ABN. 56 004 147 120.

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## APPENDIX 4D STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

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### CONTENTS

- Results for announcement to the market
- Media release
- Appendix 4D Accounts
- Independent Auditors' Review Report

*This half-year report is presented under listing rule 4.2A and should be read in conjunction with the Group's 2016 Annual Report.*

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the half-year ended 31 December 2016 with the previous corresponding period being the half-year ended 31 December 2015. The results have been reviewed by the Company's auditors.

### Results for announcement to the market

- Revenue from operating activities was \$135.5 million, down \$21.1 million or 13.5% from the previous corresponding period. This excludes capital gains on investments.
- Profit after tax attributable to members was \$118.0 million (down 18.9% on the previous corresponding period's \$145.5 million).
- The interim dividend is 10 cents per share, fully franked, the same as last year. It will be paid on 24 February 2017 to ordinary shareholders on the register on 8 February 2017 and the shares are expected to commence trading on an ex-dividend basis on 7 February 2017. There is no conduit foreign income component of the dividend.
- A Dividend Reinvestment Plan (DRP) and Dividend Substitution Share Plan (DSSP) are available, the price for which will be set at a **nil discount** to the Volume Weighted Average Price of the Company's shares traded on the ASX and Chi-X automated trading systems over the five trading days from when the shares trade ex-dividend. The last date for the receipt of an election notice for participation in the DRP & DSSP is 5.00 pm (Melbourne time) on 9 February 2017.
- The final dividend for the 2016 financial year was 14 cents per share (fully franked), and it was paid to shareholders on 30 August 2016.
- Net tangible assets per share before any provision for deferred tax on the unrealised gains on the long-term investment portfolio as at 31 December 2016 were \$5.83, up from \$5.63 at the end of the previous corresponding period (both before allowing for interim dividends).
- The interest payment on the 6.25% Convertible Notes issued in December 2011 will be \$3.0993 per \$100 Note, payable on 28 February 2017 to note holders on the register on 20 February 2017. The notes are expected to commence trading on an ex-interest basis on 17 February 2017. The last date for the receipt of Exit Notices for the final conversion of Notes into ordinary shares is 13 February 2017. Noteholders should be aware that any Notes not converted will be redeemed for \$100 per Note on 28 February 2017.

## **Improved markets but uncertainty lies ahead**

### **Half Year Report to 31 December 2016**

#### **Key Themes –**

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- **AFIC is an investor in a diversified portfolio of Australian equities seeking to deliver attractive income and capital growth over the medium to long term.**
  - **From the time of the US election there has been a marked change in sentiment as investors anticipated improved economic growth and interest rates started rising.**
  - **As a result, global investors have been moving out of fixed interest markets and into equities.**
  - **In response to the improved outlook for global growth, resource and financial stocks have benefited particularly from this shift to equities.**
  - **Equity markets in our view appear fully valued.**
  - **Uncertainty arising from the new administration in the US and ongoing geopolitical issues is likely to increase volatility in markets.**
  - **AFIC will look for long term value out of this volatility.**
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#### **Result Summary –**

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- **Half Year Profit of \$118.3 million, down from \$145.6 million in the corresponding period last year.**
    - **Investment income declined \$21.1 million primarily as a result of the significant cut in dividends across a broad range of large companies.**
    - **Trading income was down \$9.7 million, as the gains generated in the prior corresponding period were not repeated this half year.**
  - **Earnings per share of 10.4 cents.**
  - **Interim Dividend maintained at 10 cents per share fully franked.**
  - **Management expense ratio of 0.13%.**
  - **Six month portfolio return was 8.6%; including franking it was 9.7%.**
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## Portfolio Performance

The Australian market in recent months has risen strongly with investors looking to a more positive outlook for global growth with rising commodity prices and higher interest rates. As a result, there was a recovery in resource and banking sectors, both of which had been previously out of favour for some time. This rebound pushed the resources index up 23.2% and banks increased 19.4% over the six month period.

AFIC's portfolio was up 8.6% for the 6 months to 31 December 2016 compared with S&P/ASX 200 Accumulation Index which increased 10.6%. AFIC traditionally only invests in the large resource companies such as BHP Billiton and Rio Tinto. The portfolio was not exposed to the significant rise in the more cyclical mid-sized resource companies which increased by approximately 40.2% over the period.

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

The longer term performance of the portfolio, which is more in line with the Company's investment timeframes, was 7.2% per annum for the 10 years to 31 December 2016 versus the Index return of 6.1% per annum (these returns include the full benefit of franking). AFIC's performance numbers are after expenses and tax paid.

## Portfolio Adjustments

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

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

## Profit and Dividend

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

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

## Going Forward

The strength in the US market following the presidential election has also helped drive an increase in the broad Australian equity index to just over 5700 by the end of the calendar year. At current market levels it is difficult to find outstanding value. We will continue to look for quality companies that can provide good long term growth, including dividends, but will only do this at appropriate prices where reasonable value is on offer. In this context we will be looking to any possible market pullback, which may arise from further interest rate rises in the US over the course of the year or heightened geopolitical tensions, as a way of adding to holdings at more reasonable prices.

## Please direct any enquiries to:

Ross Barker  
Managing Director  
(03) 9225 2101

Geoff Driver  
General Manager  
(03) 9225 2102

23 January 2017

## MAJOR TRANSACTIONS IN THE INVESTMENT PORTFOLIO

### Acquisitions (above \$10 million)

Cost  
(\$'000)

Link Administration Services	20,754
Carsales.com	18,537
CSL	14,917
Isentia Group	12,065
Vocus Communications (includes participation in 1 for 8.9 Rights Issue at \$7.55 per share)	11,831
Cochlear	11,551

### Disposals (above \$10 million)

Proceeds  
(\$'000)

Asciano# (takeover by Brookfield and Qube)	16,280
Santos#	12,385
APA Group	12,107

# complete disposal from the portfolio

### New Companies Added to the Investment Portfolio

Link Administration Holdings	AMA Group
Carsales.com	Altium
Isentia Group	

## TOP 25 INVESTMENTS AS AT 31 DECEMBER 2016

*Includes investments held in both the Investment and Trading Portfolios*

Valued at closing prices at 30 December 2016

		Total Value \$ million	% of the portfolio
1	Commonwealth Bank of Australia	651.0	9.6%
2	Westpac Banking Corporation	506.8	7.5%
3	BHP Billiton	350.6	5.2%
4	* National Australia Bank	306.0	4.5%
5	Wesfarmers	283.3	4.2%
6	Telstra Corporation	267.5	4.0%
7	* Australia and New Zealand Banking Group	263.4	3.9%
8	Rio Tinto	218.7	3.2%
9	Transurban Group	189.2	2.8%
10	Ancor	183.9	2.7%
11	* CSL	178.5	2.6%
12	* Brambles	155.7	2.3%
13	Woolworths	122.1	1.8%
14	Oil Search	118.2	1.7%
15	AGL Energy	112.0	1.7%
16	Woodside Petroleum	102.3	1.5%
17	AMP	101.3	1.5%
18	QBE Insurance Group	97.8	1.4%
19	Ramsay Health Care	96.6	1.4%
20	* Incitec Pivot	80.2	1.2%
21	Qube Holdings	77.5	1.1%
22	* Treasury Wine Estates	73.4	1.1%
23	Healthscope	68.7	1.0%
24	* James Hardie Industries	68.1	1.0%
25	* Macquarie Group	60.5	0.9%
		<b>4,733.3</b>	
	<b>As % of Total Portfolio Value (excludes Cash)</b>	<b>70.1%</b>	

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

## PORTFOLIO PERFORMANCE TO 31 DECEMBER 2016

PERFORMANCE MEASURES TO 31 DECEMBER 2016	6 MONTHS	1 YEAR	5 YEARS %PA	10 YEARS %PA
<i>AFIC PORTFOLIO RETURN - NET ASSET BACKING INCLUDING DIVIDENDS REINVESTED*</i>	8.6%	8.2%	10.8%	5.3%
S&P/ASX 200 ACCUMULATION INDEX	10.6%	11.8%	11.9%	4.5%

<b>NET ASSET BACKING GROSS RETURN INCLUDING DIVIDENDS REINVESTED*</b>	<b>9.7%</b>	<b>10.2%</b>	<b>12.8%</b>	<b>7.2%</b>
<b>S&amp;P/ASX 200 GROSS ACCUMULATION INDEX*</b>	11.4%	13.4%	13.6%	6.1%

\*Incorporates the benefit of franking credits for those who can fully utilise them.

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



**AUSTRALIAN  
FOUNDATION  
INVESTMENT  
COMPANY  
LIMITED**

ABN 56 004 147 120

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**HALF-YEAR REPORT  
31 DECEMBER 2016**

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## COMPANY PARTICULARS

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### Australian Foundation Investment Company Limited (“AFIC”)

ABN 56 004 147 120

AFIC is a Listed Investment Company. As such it is an investor in equities and similar securities on the stock market primarily in Australia.

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

**Company Secretaries:** Matthew J. Rowe  
Andrew J.B. Porter

**Auditor:** PricewaterhouseCoopers, Chartered Accountants

**Country of incorporation:** Australia

**Registered office:** Level 21  
101 Collins Street  
Melbourne, Victoria 3000

**Contact Details:** Mail Address: Level 21, 101 Collins St., Melbourne, Victoria 3000  
Telephone : (03) 9650 9911  
Facsimile: (03) 9650 9100  
Email: [invest@afi.com.au](mailto:invest@afi.com.au)  
Internet address: [www.afi.com.au](http://www.afi.com.au)

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

Telephone: 1800 780 784 (toll free)

**Share Registrar:** Computershare Investor Services Limited  
Mail Address: GPO Box 2975, Melbourne, Victoria 3001  
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria 3067  
AFIC Shareholder enquiry lines : 1300 662 270 (Aus)  
0800 333 501 (NZ)  
+613 9415 4373 (from overseas)  
Facsimile: (03) 9473 2500  
Internet: [www.investorcentre.com/contact](http://www.investorcentre.com/contact)

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

**Securities Exchange Codes:** AFI Ordinary shares (ASX and NZX)  
AFIG 6.25% 2017 Convertible Notes (ASX)- Mature 28 February 2017

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# DIRECTORS' REPORT

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The Directors present their report in relation to the half-year to 31 December 2016 on the consolidated entity ("the Group") consisting of Australian Foundation Investment Company Limited ("the Company" and "AFIC") and its subsidiary, Australian Investment Company Services Limited ("AICS").

## Directors

The following persons were Directors of the Company during the half-year and up to the date of this report:

T.A. Campbell AO (appointed September 1984)  
R.E. Barker (appointed September 2001)  
J.C. Hey (appointed July 2013)  
G.R. Liebelt (appointed June 2012)  
J. Paterson (appointed June 2005)  
D.A. Peever (appointed November 2013)  
C.M. Walter AM (appointed August 2002)  
P.J. Williams (appointed February 2010)

## Review of the Group's operations and results

### Overview

The Company maintains a diversified portfolio of equity and similar securities, predominantly in entities listed on the Australian Securities Exchange. There has been no change in the nature of the Company's activities during the period. Its primary objectives are to pay dividends which, over time, will grow at a faster rate than inflation, and to generate attractive total returns in terms of growth in net asset backing plus dividends.

### Profit Performance and Dividend

Profit for the half-year was \$118.3 million, down 19% from the previous corresponding period.

The net profit per share for the six months to 31 December 2016 was 10.4 cents per share with an interim dividend declared of 10 cents per share fully-franked, the same as last year.

The portfolio return for the 6 months (measured by change in net asset backing per share plus dividends reinvested) was 8.6% compared to the return of the S&P/ASX 200 Accumulation Index for the same period which was 10.6%. AFIC's portfolio return is calculated after management fees, income tax and capital gains tax on realised sales of investments and does not reflect the value of franking credits or LIC credits attached to the dividends. Index returns for the market do not include the impact of management expenses and tax on their performance.

During the half-year 7.2 million shares were issued under the DRP, DSSP and the conversion of Convertible Notes, resulting in an additional \$37.6 million of capital (after costs).

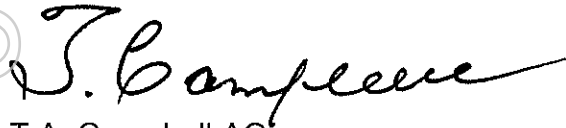
### **Auditors' independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

## **Rounding of amounts to nearest thousand dollars**

The Group is of a kind referred to in the ASIC Corporations' (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the directors' report and financial report. Unless specifically stated otherwise, amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Instrument.

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



T.A. Campbell AO  
Chairman  
Melbourne  
23 January 2017



## Auditor's Independence Declaration

As lead auditor for the review of Australian Foundation Investment Company for the half-year ended 31 December 2016, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Charles Christie', is written over a light grey grid background.

Charles Christie  
Partner  
PricewaterhouseCoopers

Melbourne  
23 January 2017

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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# CONSOLIDATED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Half-year 2016 \$'000	Half-year 2015 \$'000
Dividends and distributions		132,043	153,065
Revenue from deposits and bank bills		928	1,170
Other revenue		2,523	2,327
<b>Total revenue</b>		<b>135,494</b>	<b>156,562</b>
Net gains/(losses) on trading portfolio and non-equity investments		(363)	9,384
<b>Income from operating activities</b>	<b>3</b>	<b>135,131</b>	<b>165,946</b>
Finance & related costs		(6,597)	(6,961)
Administration expenses		(6,502)	(7,327)
<b>Profit before income tax expense</b>		<b>122,032</b>	<b>151,658</b>
Income tax expense		(3,745)	(6,018)
<b>Profit for the half-year</b>		<b>118,287</b>	<b>145,640</b>
<b>Profit is attributable to :</b>			
Equity holders (members) of Australian Foundation Investment Company Ltd		118,023	145,534
Minority Interest		264	106
		<b>118,287</b>	<b>145,640</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	<b>9</b>	10.40	13.23
Diluted earnings per share	<b>9</b>	10.45	13.17

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half-Year to 31 December 2016			Half-Year to 31 December 2015		
	Revenue \$'000	Capital \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
<b>Net Profit for the half-year</b>	<b>118,287</b>	<b>-</b>	<b>118,287</b>	<b>145,686</b>	<b>(46)</b>	<b>145,640</b>
<b>Other Comprehensive Income</b>						
<i>Items that will not be recycled through the Income Statement</i>						
Gains/(losses) for the period on equity securities in the investment portfolio	-	418,915	<b>418,915</b>	-	(214,784)	<b>(214,784)</b>
Deferred tax on above	-	(130,335)	<b>(130,335)</b>	-	62,580	<b>62,580</b>
<b>Total other comprehensive income <sup>1</sup></b>	<b>-</b>	<b>288,580</b>	<b>288,580</b>	<b>-</b>	<b>(152,204)</b>	<b>(152,204)</b>
<b>Total comprehensive income <sup>2</sup></b>	<b>118,287</b>	<b>288,580</b>	<b>406,867</b>	<b>145,686</b>	<b>(152,250)</b>	<b>(6,564)</b>

<sup>1</sup> Net capital income not accounted for through the Income Statement

<sup>2</sup> This is the company's Net Return for the half-year, which includes the Net Profit plus the net realised and unrealised gains or losses on the Company's investment portfolio.

	Half-Year to 31 December 2016			Half-Year to 31 December 2015		
	Revenue \$'000	Capital \$'000	Total \$'000	Revenue \$'000	Capital \$'000	Total \$'000
<b>Total Comprehensive Income is attributable to:</b>						
Equity holders of Australian Foundation Investment Company Ltd	118,023	288,580	<b>406,603</b>	145,580	(152,250)	<b>(6,670)</b>
Minority Interest	264	-	<b>264</b>	106	-	<b>106</b>
	<b>118,287</b>	<b>288,580</b>	<b>406,867</b>	<b>145,686</b>	<b>(152,250)</b>	<b>(6,564)</b>

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

## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

		31 Dec 2016 \$'000	30 June 2016 \$'000
	Note		
<b>Current assets</b>			
Cash		70,397	155,903
Receivables		9,159	45,358
<b>Total current assets</b>		<b>79,556</b>	<b>201,261</b>
<b>Non-current assets</b>			
Investment portfolio		6,757,058	6,250,233
Deferred tax assets		1,770	1,034
<b>Total non-current assets</b>		<b>6,758,828</b>	<b>6,251,267</b>
<b>Total assets</b>		<b>6,838,384</b>	<b>6,452,528</b>
<b>Current liabilities</b>			
Payables		4,863	20,932
Tax payable		7,817	14,393
Convertible notes	5	185,344	190,057
Trading portfolio	4	2,735	226
Provisions		3,110	3,636
<b>Total current liabilities</b>		<b>203,869</b>	<b>229,244</b>
<b>Non-current liabilities</b>			
Provisions		979	1,796
Deferred tax liabilities - investment portfolio	6	936,415	812,947
<b>Total non-current liabilities</b>		<b>937,394</b>	<b>814,743</b>
<b>Total liabilities</b>		<b>1,141,263</b>	<b>1,043,987</b>
<b>Net Assets</b>		<b>5,697,121</b>	<b>5,408,541</b>
<b>Shareholders' equity</b>			
Share Capital	7	2,559,006	2,521,441
Revaluation Reserve		2,056,416	1,767,628
Realised Capital Gains Reserve		440,687	457,593
General Reserve		23,637	23,637
Retained Profits		615,963	637,094
<b>Parent Entity Interest</b>		<b>5,695,709</b>	<b>5,407,393</b>
Minority Interest		1,412	1,148
<b>Total equity</b>		<b>5,697,121</b>	<b>5,408,541</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Attributable to members of Australian Foundation Investment Company  
Ltd

Half-Year to 31 December 2016	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
<b>Total equity at the beginning of the half-year</b>		<b>2,521,441</b>	<b>1,767,628</b>	<b>457,593</b>	<b>23,637</b>	<b>637,094</b>	<b>5,407,393</b>	<b>1,148</b>	<b>5,408,541</b>
Dividends paid	8	-	-	(16,698)	-	(139,154)	(155,852)	-	(155,852)
Shares issued - Dividend Reinvestment Plan	7	32,493	-	-	-	-	32,493	-	32,493
- Convertible Note Conversion	7	5,133	-	-	-	-	5,133	-	5,133
Other Share Capital Adjustments	7	(61)	-	-	-	-	(61)	-	(61)
<b>Total transactions with shareholders</b>		<b>37,565</b>	<b>-</b>	<b>(16,698)</b>	<b>-</b>	<b>(139,154)</b>	<b>(118,287)</b>	<b>-</b>	<b>(118,287)</b>
Profit for the half-year		-	-	-	-	118,023	118,023	264	118,287
<i>Other Comprehensive Income for the half-year</i>									
Net gains for the period on equity securities in the investment portfolio		-	288,580	-	-	-	288,580	-	288,580
<b>Other Comprehensive Income for the half-year</b>		<b>-</b>	<b>288,580</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>288,580</b>	<b>-</b>	<b>288,580</b>
Transfer to Realised Capital Gains Reserve of net cumulative losses on investments sold		-	208	(208)	-	-	-	-	-
<b>Total equity at the end of the half-year</b>		<b>2,559,006</b>	<b>2,056,416</b>	<b>440,687</b>	<b>23,637</b>	<b>615,963</b>	<b>5,695,709</b>	<b>1,412</b>	<b>5,697,121</b>

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DEC. 2016 (CONT)

Attributable to members of Australian Foundation Investment Company Ltd

Half-Year to 31 December 2015	Note	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains \$'000	General Reserve \$'000	Retained Profits \$'000	Total Parent Entity \$'000	Minority Interest \$'000	Total \$'000
Total equity at the beginning of the half-year		2,301,232	2,152,455	391,773	23,637	576,382	5,445,479	965	5,446,444
Dividends paid		-	-	(53,704)	-	(96,668)	(150,372)	-	(150,372)
Shares issued - Dividend Reinvestment Plan		31,670	-	-	-	-	31,670	-	31,670
- Convertible Note Conversion		9,551	-	-	-	-	9,551	-	9,551
- Share Purchase Plan		153,340	-	-	-	-	153,340	-	153,340
Other Share Capital Adjustments		(444)	-	-	-	-	(444)	-	(444)
<b>Total transactions with shareholders</b>		<b>194,117</b>	<b>-</b>	<b>(53,704)</b>	<b>-</b>	<b>(96,668)</b>	<b>43,745</b>	<b>-</b>	<b>43,745</b>
Profit for the half-year		-	(46)	-	-	145,580	145,534	106	145,640
<i>Other Comprehensive Income for the half-year</i>									
Net losses for the period on equity securities in the investment portfolio		-	(152,204)	-	-	-	(152,204)	-	(152,204)
<b>Other Comprehensive Income for the half-year</b>		<b>-</b>	<b>(152,204)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(152,204)</b>	<b>-</b>	<b>(152,204)</b>
Transfer to Realised Capital Gains Reserve of net cumulative gains on investments sold		-	(67,190)	67,190	-	-	-	-	-
<b>Total equity at the end of the half-year</b>		<b>2,495,349</b>	<b>1,933,015</b>	<b>405,259</b>	<b>23,637</b>	<b>625,294</b>	<b>5,482,554</b>	<b>1,071</b>	<b>5,483,625</b>

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

## CONSOLIDATED CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half-year 2016 \$'000 INFLOWS/ (OUTFLOWS)	Half-year 2015 \$'000 INFLOWS/ (OUTFLOWS)
<b>Cash flows from operating activities</b>		
Sales from trading portfolio	20,119	103,152
Purchases for trading portfolio	(13,810)	(65,871)
Interest received	924	1,481
Dividends and distributions received	163,702	158,047
	<u>170,935</u>	<u>196,809</u>
Other receipts	2,521	2,330
Administration expenses	(7,982)	(8,153)
Finance costs paid	(6,349)	(6,769)
Taxes paid	(9,797)	(11,192)
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>149,328</u></b>	<b><u>173,025</u></b>
<b>Cash flows from investing activities</b>		
Sales from investment portfolio	103,555	251,953
Purchases for investment portfolio	(207,522)	(445,787)
Taxes paid on capital gains	(7,635)	(20,821)
<b>Net cash inflow/(outflow) from investing activities</b>	<b><u>(111,602)</u></b>	<b><u>(214,655)</u></b>
<b>Cash flows from financing activities</b>		
Shares issued under Share Purchase Plan	-	153,281
Share issue costs	(61)	(391)
Dividends paid	(123,171)	(118,443)
<b>Net cash inflow/(outflow) from financing activities</b>	<b><u>(123,232)</u></b>	<b><u>34,447</u></b>
Net increase/(decrease) in cash held	(85,506)	(7,183)
Cash at the beginning of the half-year	155,903	163,840
<b>Cash at the end of the half-year</b>	<b><u>70,397</u></b>	<b><u>156,657</u></b>

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

## 1. Basis of preparation of half-year financial report

This general purpose half-year financial report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. This report should be read in conjunction with the 2016 Annual Report and public announcements made by the Group during the half-year, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

In the interests of transparency in its reporting, the Group uses the phrase "market value" in place of the AASB terminology "fair value for actively traded securities."

## 2. Financial reporting by segments

The Group consists of a Listed Investment Company and a subsidiary which provides administration services to it and to other Listed Investment Companies in Australia. It has no reportable business or geographic segments.

### (a) Segment information provided to the Board

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

The relevant amounts as at 31 December 2016 and 31 December 2015 were as follows:

	2016	2015
	\$	\$
<b>Net tangible asset backing per share</b>		
Before Tax	5.83	5.63
After Tax	5.01	4.87

### (b) Other segment information

#### Segment Revenue

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

The Company is domiciled in Australia and the Group's dividend and distribution income is predominantly from entities which maintain a listing in Australia. The Group has a diversified portfolio of investments, with only the Group's investment in Commonwealth Bank : 13.0% and Westpac Bank : 10.8% comprising more than 10% of the Group's income (including trading portfolio) for the half-year ending 31 December 2016 (2015 : Commonwealth Bank : 12.3%, Westpac Bank 11.9%).

<b>3. Income from operating activities</b>	<b>Half-year 2016 \$'000</b>	<b>Half-year 2015 \$'000</b>
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Income from operating activities is comprised of the following:

Dividends & distributions		
• securities held in investment portfolio	131,934	152,842
• securities held in trading portfolio	109	99
	<u>132,043</u>	<u>152,941</u>
Interest income		
• securities held in investment portfolio	-	124
• deposits and income from bank bills	928	1,170
	<u>928</u>	<u>1,294</u>
Net gains/(losses) and write downs		
• net gains from trading portfolio sales	655	9,286
• unrealised gains/(losses) in trading portfolio	(1,018)	163
• gains/(losses) on non-equity investments	-	(65)
	<u>(363)</u>	<u>9,384</u>
Administration fees received from other Listed Investment Companies	2,256	2,185
Expenses recovered from other Listed Investment Companies	133	7
Other expenses recovered	51	52
Other income	83	83
	<u>135,131</u>	<u>165,946</u>

**4. Current liabilities – trading portfolio**

The Company enters into option contracts in the trading portfolio for the purpose of enhancing returns, offsetting risk or providing opportunities to acquire or sell securities at advantageous prices.

As at balance date there were call options outstanding which, if they were all exercised, would require the Company to deliver securities to the value of \$102.4 million (30 June 2016: \$78.0 million).

As at balance date the Company had outstanding put options which at the option of the purchaser may have required the Company to buy \$24.5 million worth of securities prior to the respective expiry dates if they were all exercised (30 June 2016 :\$1.2 million ).

## 5. Current liabilities – convertible notes

	31 December 2016 \$'000	30 June 2016 \$'000
Current unsecured – convertible notes at amortised cost	185,344	190,057

There were 1,853,436 convertible notes outstanding at 31 December 2016 each with a face value of \$100 which were issued on 19 December 2011 (30 June 2016: 1,904,768). These notes carry an interest entitlement of 6.25 per cent per annum. They may be converted at the option of the holder into ordinary shares based on a conversion price of \$5.0864 per share on 28 February or 31 August each year until 28 February 2017. Notes not converted will be redeemed at their face value on 28 February 2017. At 31 December 2016, the face value of the convertible notes was \$185.3 million (30 June 2016 : \$190.5 million). Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustees Ltd. As per the 2016 Annual Report, at issuance the residual value of the equity component of the convertible notes was calculated as nil. The Group has sufficient assets and access to existing debt facilities to meet any repayment obligations under the terms of the Trust Deed.

## 6. Deferred tax liabilities – investment portfolio

In accordance with AASB 112 *Income Taxes*, deferred tax liabilities have been recognised for Capital Gains Tax on the unrealised gain in the investment portfolio at current tax rates (30%) totalling \$936.4 million (30 June 2016 : \$812.9 million). As the Directors do not intend to dispose of the portfolio, this tax liability may not be crystallised at this amount.

## 7. Shareholders' equity – share capital

Movements in Share Capital of the Company during the half-year were as follows:

Date	Details	Notes	Number of shares '000	Issue price \$	Paid-up Capital \$'000
01/07/2016	Opening Balance		1,130,305		2,521,441
30/08/2016	Dividend Reinvestment Plan	i	5,823	5.58	32,493
30/08/2016	Dividend Substitution Share Plan	ii	428	n/a	-
31/08/2016	Convertible Note conversion	iii	1,009	5.09	5,133
Various	Unvested LTIP Share cancellation		(29)	n/a	(122)
Various	Other Share Capital adjustments		-		61
31/12/2016	Balance		<u>1,137,536</u>		<u>2,559,006</u>

i The Company has a Dividend Reinvestment Plan under which some shareholders elected to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares was based on the average selling price of shares traded on the Australian Securities Exchange & Chi-X automated trading systems in the five days from the day the shares begin trading on an ex-dividend basis.

ii The Company has a Dividend Substitution Share Plan under which some shareholders elected to forego all or part of their dividend payment and receive shares instead. Pricing of the new DSSP shares was done on the same basis as the DRP.

iii During the period, 51,332 6.25% February 2017 convertible notes were converted into ordinary shares.

- iv The Company introduced an on-market Buy-Back Programme in December 2000. This plan remains active. No shares were bought back during the period.

<b>8. Dividends</b>	<b>Half-year 2016 \$'000</b>	<b>Half-year 2015 \$'000</b>
Dividends (fully franked) paid during the period (excluding DSSP shares)	155,852 (14 cents per share)	150,372 (14 cents per share)
<b>Dividends not recognised at period end</b>		
Since the end of the half-year the Directors have declared an interim dividend of 10 cents per share fully franked. The aggregate amount of the proposed interim dividend expected to be paid on 24 February 2017, but not recognised as a liability at the end of the half-year is	113,754	
<b>9. Earnings per Share</b>	<b>Half-year 2016</b>	<b>Half-year 2015</b>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used as the denominator	1,135,136,382	1,100,344,692
	<b>\$'000</b>	<b>\$'000</b>
Profit after tax for the half-year attributable to members of the Company	118,023	145,534
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	10.40	13.23
<b>Diluted*</b>		
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares attributable to members of the Company	1,135,136,382	1,100,344,692
Weighted maximum number of potential shares as a result of possible conversion	36,779,110	39,813,839
	<hr/> 1,171,915,492	<hr/> 1,140,158,531
	<b>\$'000</b>	<b>\$'000</b>
Profit after tax for the half-year attributable to members of the Company	118,023	145,534
Interest & fees on convertible notes (after tax)	4,396	4,568
Adjusted profit after tax attributable to members of the Company	<hr/> 122,419	<hr/> 150,102
	<b>Cents</b>	<b>Cents</b>
Diluted earnings per share	10.45	13.17

\*The calculation of diluted earnings per share for the half-year ended 31 December 2016 adjusts the profit or the net operating result attributable to ordinary equity holders and the weighted average number of shares on issue for the effect of the convertible notes on issue at 31 December 2016.

#### **10. Events subsequent to balance date**

Since 31 December 2016 to the date of this report there has been no event specific to the Company of which the Directors are aware which has had a material effect on the Group or its financial position.

#### **11. Contingencies**

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

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## DIRECTORS' DECLARATION

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In the Directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 23 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, as represented by the results of the operations, changes in equity and cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



T.A. Campbell AO  
Chairman  
Melbourne  
23 January 2017





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

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Australian Foundation Investment Company Limited, which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for Australian Foundation Investment Company Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Foundation Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

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

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*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Foundation Investment Company Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Charles Christie', written in a cursive style.

Charles Christie  
Partner

Melbourne  
23 January 2017

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